



# ANNUAL REPORT

SBERBANK CZ, A.S.

'16

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## 2. SBERBANK CZ, A.S. PROFILE

Corporate name	<b>Sberbank CZ, a.s.</b>
Company identification number	25083325
Tax identification number	CZ25083325
Registered office	U Trezorky 921/2, Jinonice, 158 00 Prague 5, Czech Republic
Legal form	Joint-stock company
Registration	Incorporated in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 4353
Date of incorporation	31 October 1996
Subject of enterprise	Banking transactions and financial services of all kinds in accordance with Sections 1(1)a), 1(1)b) and 1(3)a) – o) of Act No. 21/1992 Coll., on Banks, as amended, which are listed in the banking licence issued under the above Act.
Bank code	6800
BIC/SWIFT	VBOECZ2XXX
Data box identifier	f94gyc6
Phone	+420 800 133 444
Fax	+420 221 969 951
E-mail	mail@sberbankcz.cz
Website	www.sberbank.cz
Banking supervisory authority	Czech National Bank
Law	Czech Republic



### 3. INTRODUCTION BY THE MANAGEMENT BOARD



Ladies and gentlemen,  
Dear clients, partners and shareholders,

In 2016, we successfully completed the fourth financial year under the brand of Sberbank in the Czech market.

After the previous two years, aimed at attracting new clients, expanding its branch network and launching new attractive products, the bank placed emphasis on loan growth, increasing the quality and diversification of the credit portfolio, the stabilisation of deposits, strengthening relationships with clients through a range of other products and services, as well as increasing the efficiency of internal processes and systems.

Despite strong competition on the banking market, low interest rates and pressure on interest income, the bank managed to improve its year-on-year financial results. In 2016, Sberbank CZ, a.s. achieved profit after tax of CZK 272 million, mainly thanks to record sales of consumer and mortgage loans, reducing the cost of financing resources, low risk costs and strict control of operating costs.

The number of active clients of Sberbank CZ, a.s. increased by 8% to 108,000 last year, and the bank registered growth in all segments.

Liabilities to clients decreased slightly on a year-to-year basis from CZK 61.54 billion to CZK 59.05 billion, and the bank thus managed to achieve an optimal ratio of loans to deposits.

The total volume of client loans increased by 9.5% from CZK 50.78 billion to CZK 55.61 billion, mainly thanks to record sales of consumer and mortgage loans and a successful sale of loans in the corporate banking segment.

Thanks to prudent risk management, the bank maintained a low share of non-performing loans (NPL) last year, which was 5.74% towards the end of 2016. The quality of the portfolio is increasing in the long term in all customer segments.

The total capital adequacy ratio reached the level of 16.55% at the end of the year. The bank has sufficient capital for further growth.

In the past year, the bank maintained high liquidity stability and continues to meet the values prescribed by regulations on the basis of the LCR (The Liquidity coverage ratio) indicator.

In February 2016, there was a change in the composition of the Management Board. Jindřich Horníček became a new member of the Management Board responsible for risk management; he has dedicated his whole career to risk management and has worked at the bank since 2002. He began his career at Sberbank, a.s. as Credit Risk Manager, later held managerial posts in risk management, and in the end the entire credit risk management came under his leadership. The previous member of the Management Board responsible for risk management, Martin Muránský, left Sberbank, a.s. at the end of 2015.

We value the awards that confirm our willingness and responsibility to customers and society. In September 2016, Sberbank, a.s. finished second in Hospodářské noviny's prestigious competition of Best Bank 2016 in the category of Most Client-Friendly Bank. The bank also won the award for Financial Product 2016 in the competition of the renowned financial portal Finparáda.cz. In January 2017, the product FÉR spoření PLUS (FAIR Savings PLUS) was declared the best savings account. In March 2016, Sberbank CZ, a.s. became the first bank in the Czech Republic to earn the label of the independent Czech programme Monitoring/Reducing CO<sub>2</sub> supporting voluntary climate protection measures in the private sector. These awards, respected by experts and the public alike, are the best confirmation that we have met our strategy as a fair and friendly bank.

At the end of the year, the bank launched several major transformation projects to increase the competitiveness of its products and services and generate future returns. Along with the support by the shareholder and with a sufficient amount of capital and liquidity, we have reason to have an optimistic outlook for business activities and profitability of the bank in the coming years.

We thank all our clients and trading partners for their trust and successful cooperation in the past year, and look forward to its continuation.

Vladimír Šolc  
Chairman of the Management Board



### **MANAGEMENT BOARD SBERBANK CZ**

from left: Jiří Antoš , Miroslav Lukáč, Vladimír Šolc, Karel Soukeník, Jindřich Horníček

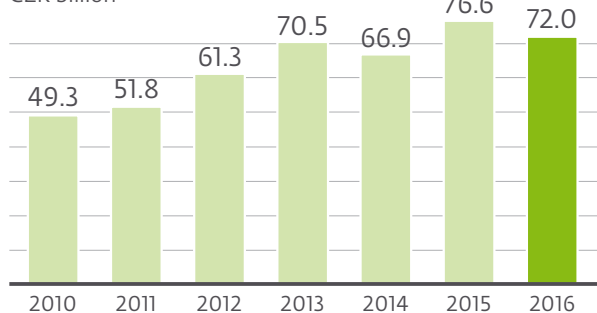
## 4. KEY FIGURES IN SUMMARY

CZK million	2016	2015	2014	2013	2012	2011	2010
Total assets	71,965	76,609	66,860	70,472	61,312	51,790	49,334
Capital adequacy	16.55%	17.49%	16.18%	15.77%	11.78%	13.22%	14.20%
Liabilities to clients in total	59,049	61,537	50,417	57,408	48,135	36,816	34,779
Receivables from clients	55,613	50,781	54,147	51,421	45,944	41,611	39,147
<b>Income on financial transactions before provisions and allowances</b>	<b>2,028</b>	<b>1,888</b>	<b>2,133</b>	<b>1,830</b>	<b>1,699</b>	<b>1,678</b>	<b>1,595</b>
Operating expenses	1,398	1,379	1,274	1,088	930	890	847
Profit on ordinary activities before tax	336	37	481	286	270	443	345
Profit for the year	272	23	383	230	209	346	271
Number of clients	108,310	100,116	76,137	59,246	53,608	55,529	56,572
Number of employees*	851	846	825	719	668	637	622
Number of points of sale	28	29	26	22	24	24	45
NPL (non-performing loans)	5.74%	5.19%	5.95%	7.94%	8.16%	10.31%	11.32%

\* including employees on maternity leave

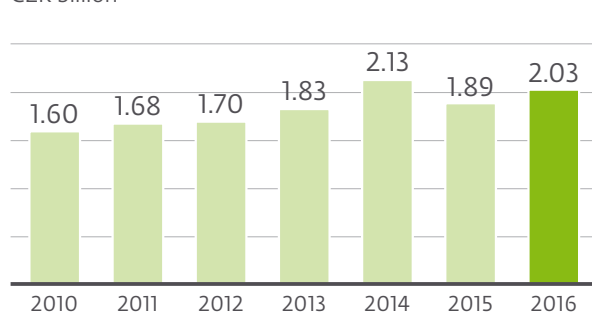
### TOTAL ASSETS

CZK billion



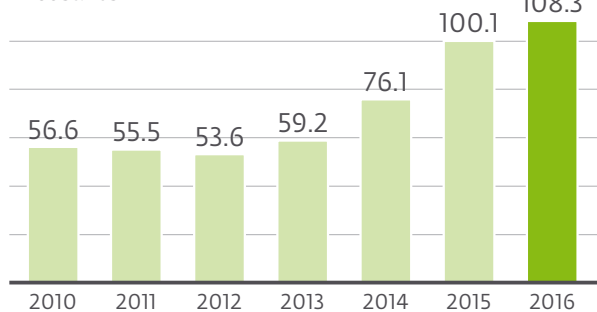
### INCOME ON FINANCIAL TRANSACTIONS

CZK billion



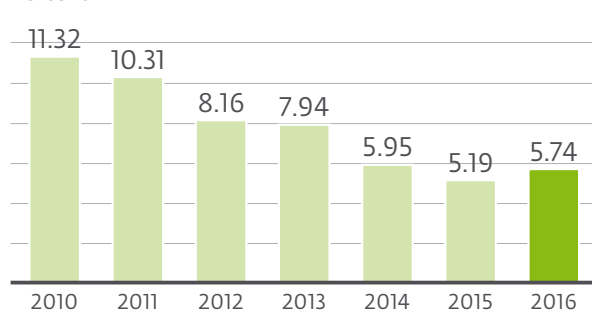
### NUMBER OF CLIENTS

Thousands



### NPL DEVELOPMENT

Percent



## 5. MOST IMPORTANT EVENTS OF THE YEAR

### In February...

The Supervisory Board of Sberbank CZ, a.s. elected Jindřich Horníček a new member of the Management Board of Sberbank CZ, a.s. for a two-year term of office effective from 1 February 2016.

Sberbank CZ, a.s. changed headquarters, moving from Pankrác to the new premises of Waltrovka on the site of the former Walter factory, famous for the manufacture of automobiles and aircraft engines. The new premises of Sberbank CZ, a.s. are very environmentally friendly and fully fit into the company's environmental activities.

A new product, "savings account with a notice period", was launched; with this product, the clients' deposits earn higher interest compared to an ordinary savings account.

### In March...

On 3–4 March 2016, regular elections to the Administrative Board of the Sberbank CZ Endowment Fund were held, and 5 regular and 2 alternate members of the Administrative Board of the Sberbank CZ Endowment Fund with a two-year term of office were elected from among employees.

### In April...

On 1 April 2016, at a meeting of the Supervisory Board of the Sberbank CZ Endowment Fund, Frank Guthen was dismissed from his position as a member of the Supervisory Board of the Sberbank CZ Endowment Fund, and Jindřich Horníček was elected a member of the Supervisory Board of the Sberbank CZ Endowment Fund in his place.

The annual report and financial statements for 2015 were prepared, subsequently approved by the sole shareholder of Sberbank CZ, a.s., published on the bank's website and submitted to the Czech National Bank.

On 28 April 2016, at a regular meeting of the Supervisory Board of Sberbank CZ, a.s., the budget for 2016 was approved, among other things.

### In May...

Due to increased client demand, accounts in TRY – Turkish lira, CNY – Chinese yuan and RON – Romanian new leu can be used since May.

### In June...

Effective 30 June 2016, Axel Helmut Hummel resigned from his position as a member of the Supervisory Board of Sberbank CZ, a.s. and from his position as a member of the Audit Committee of Sberbank CZ, a.s.

### In September...

On 26 September 2016, at a meeting of the Administrative Board of the Sberbank CZ, a.s. Endowment Fund, a decision was made on the distribution of contributions from the Fund.

### In October...

The Management Board of Sberbank CZ, a.s., with the consent of the Supervisory Board of Sberbank CZ, a.s., decided to close the branch in Brno at Purkyňova 35 E, Eden, 612 00 Brno.

Effective 31 October 2016, Sergey Malyshev resigned from his position as a member of the Supervisory Board of Sberbank CZ, a.s.

### In November...

On 2 November 2016, the sole shareholder of Sberbank CZ, a.s. appointed Arndt Röchling a member of the Supervisory Board of Sberbank CZ, a.s.

### In December...

On 6 December 2016, at a regular meeting of the Supervisory Board of Sberbank CZ, a.s., a new concept of the activities of the Supervisory Board of Sberbank CZ, a.s. was approved, among other things.

On 8 December 2016, the sole shareholder decided, in the form of a notarial deed, to amend the Articles of Association of Sberbank CZ, a.s. (reducing the number of members of the Supervisory Board of Sberbank CZ, a.s. from seven to five, and determining a four-year term of office for members of the Supervisory Board of Sberbank CZ, a.s.).

On 12 December 2016, at a meeting of the Administrative Board of the Sberbank CZ Endowment Fund, a decision was made on the distribution of contributions from the Fund.

The sole shareholder of Sberbank CZ, a.s. decided to extend the term of office of Management Board member Vladimír Šolc until 31 December 2019 and the term of office of Management Board member Karel Soukeník until 31 December 2019.



## 6. SBERBANK GROUP



### 6.1. Sberbank Europe

Sberbank Europe AG, headquartered in Vienna, Austria, is a banking group that is 100% owned by Sberbank of Russia, the largest bank in Russia. Sberbank of Russia is servicing more than 70% of the Russian population. The European subsidiary Sberbank Europe is present in nine European markets: Austria, Germany, Bosnia and Herzegovina (Sarajevo and Banja Luka), Croatia, Czech Republic, Hungary, Slovenia, Serbia, and Ukraine. In Germany, Sberbank Direct serves retail clients, offering online basic banking products. In Austria, Sberbank Europe serves corporate clients with business focus on CEE markets, Russia and CIS. Sberbank Europe Group has over 670,000 customers, operates 232 branches, and employs nearly 4,300 employees across Europe. The total assets of Sberbank Europe amount to EUR 12.7bn (as of December 2016)<sup>1</sup>.

### 6.2. Information on Relationships

Sberbank Europe AG is an entity directly controlling Sberbank CZ, a.s., and is part of the Group. Sberbank of Russia is an entity directly controlling Sberbank Europe AG and indirectly controlling Sberbank CZ, a.s., and is part of the Group. The structure of the Group, including the organisational chart, is described in the Report on Relationships (see p. 136).

Management is conducted mainly through decisions of the sole shareholder exercising the powers of the General Meeting (e.g. through an amendment to the Articles of Association) and through members in the bodies of Sberbank CZ, a.s., i.e. the Supervisory Board and the Audit Committee (e.g. the Supervisory Board appoints and dismisses members of the Management Board of Sberbank CZ, a.s.).

Sberbank CZ, a.s. is not dependent on any other company in the Group.

<sup>1</sup> <https://www.sberbank.at/sberbank-europe-ag/about-us>

Sberbank CZ, a.s. complies with and is governed by Act No. 90/2012 Coll. on business corporations (the "Business Corporations Act"). The Business Corporations Act stipulates that anyone who, using their influence in a business corporation, significantly and decisively affects the actions of that business corporation to its detriment, is obliged to provide compensation for the damage, unless they prove that they can reasonably have assumed that they acted in an informed manner and in the defensible interest of the entity affected. The measures to ensure that the controlling entity does not abuse the control arise from the Business Corporations Act. They include in particular the duty of the Management Board to prepare a report on relationships between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for the past fiscal period, and the duty of the controlling entity to compensate the controlled entity for any damage incurred. The Report on Relationships for 2016 is presented in the chapter entitled Report on Relationships (see p. 136).

### 6.3. Sberbank Europe's business model

Sberbank Europe's business model evolves around four pillars:

- **Profitability:** Following a successful business year 2016 and the exit from the Slovak market, Sberbank Europe will focus on further boosting its performance by optimizing the segment and product mix as well as maximizing the return on capital.
- **Self-funded:** Sberbank Europe is placing an additional self-funding focus on its Balkan markets and maintaining it in the Czech Republic, Austria, and Germany, while optimizing its funding mix.
- **Modern:** Sberbank Europe aims to build its competitive advantage based on innovation, not size. The banking group is fostering digital projects in all its key markets and leveraging knowledge of its parent company Sberbank of Russia. In order to increase its customer base while addressing the needs of existing and potential customers, Sberbank Europe wants to fully utilize partnerships across the region as one of the main innovation driver.
- **Light:** Sberbank Europe continues to ensure cost-efficient operations by stringently managing its expenses.

## 7. GOVERNING BODIES

### 7.1. Management Board

#### Chairman of the Management Board

**Vladimír ŠOLC**  
Chief Executive Officer



Member of the Management Board since: 1 August 2013  
Chairman of the Management Board since: 12 August 2013  
Banking experience: 18 years  
Management experience: 15 years

Vladimír Šolc was born in Canada on 16 September 1971, and studied economics at the Rochester Institute of Technology. He has extensive experience in the field of economics, banking and management of corporate and financial institutions. In 1995–2000 he worked as Assistant Vice President of COMMERZBANK AG. In 2000–2006 he worked for CREDIT SUISSE (for the first two years as Vice-President in Prague and for the subsequent four years as Director in London). In 2006–2009 he held the post of Chief Executive Officer (CEO) at DEUTSCHE BANK AG in Prague. From 2011 until August 2013, he was a partner of DELOITTE ADVISORY. Since August 2013 he has held the office of Chief Executive Officer (CEO) and member of the Management Board of Sberbank CZ, a.s.

He is not a member of the bodies of any other companies.

#### Members of the Management Board

**Jiří ANTOŠ**  
Chief Retail Banking Officer



Member of the Management Board since: 11 July 2013  
Banking experience: 18 years  
Management experience: 18 years

Jiří Antoš was born in Roudnice nad Labem on 7 September 1972. He studied economics at the Banking Institute College in Prague. In 1993–1994 he worked for Mignon, a.s. as a broker. In 1994–1998 he worked as Region Retail Sales Manager at Agrobanka, a.s. In 1998–2004, he worked at GE Capital Bank, a.s. in various positions. In 1998–2000 he held the post of Quality Manager, in 2000–2001 Senior Quality Manager, and in 2001–2004 Head of the Retail Sales Support Department. In 2004–2006 he worked in Bratislava for Poštová Banka, a.s. as Retail Sales Director. In 2006–2011 he was a partner and CEO of the consulting firm CapacityPro, s.r.o. In 2011–2012 he worked in Vienna at Raiffeisen Bank International as Head of Sales, Service & Distribution. In 2013 he became Head of Sales and Distribution at Sberbank Europe AG in Vienna. Since 2013 he has been a member of the Management Board of Sberbank CZ, a.s. responsible for retail banking and marketing.

He is the chairman of the Supervisory Board of the Sberbank CZ Endowment Fund; he is not a member of the bodies of any other companies.

**Jindřich HORNÍČEK**  
Chief Risk Officer



Member of the Management Board since: 1 February 2016  
Banking experience: 15 years  
Management experience: 10 years

Jindřich Horníček was born in Brno on 18 August 1977 and studied economics at Masaryk University. In 2000–2001 he worked at Kasolvenzia Morava s.r.o., where he managed problematic receivables. Since 2002 he has worked for Sberbank CZ, a.s. (formerly Volksbank CZ, a.s.) in various positions. In 2001–2002 he was Relationship Manager for the business unit. In 2002–2007 he held the post of Risk Manager. In 2007–2009 he headed the SME Credit Risk Department. In 2009–2010 he headed the SME and Retail Credit Risk Department. In 2010–2012 he was Head of the Credit Risk Division, and from 2012 until February 2016 Head of the Underwriting Division. In February 2016 he became a member of the Management Board of Sberbank CZ, a.s. responsible for risk management.

He is a member of the Supervisory Board of the Sberbank CZ Endowment Fund; he is not a member of the bodies of any other companies.

**Miroslav LUKÁČ**  
**Chief Corporate Banking Officer**



Member of the Management Board since:  
 1 November 2014

Banking experience: 21 years  
 Management experience: 16 years

Miroslav Lukáč was born in Prešov, Slovakia on 14 November 1970 and studied economics at the University of Bratislava. He has extensive experience in corporate and investment banking. In 1996–1998 he worked at ČSOB as a specialist in syndicated and structured financing. In 1998–2001 he worked at Citibank in Prague as Senior Relationship Manager. In 2001–2005 he held the post of Director of the Corporate Financing Department at Citibank in Prague. In 2006–2008 he held the post of Director of the Corporate Financing Department at Citibank in Moscow. In 2009–2011 he served as a member of the Management Committee at Citibank in Prague and at the same time worked at the bank as Director of the Corporate and Investment Banking Division for the Czech Republic and Slovakia. In 2012–2013 he was Senior Restructuring Officer at BCR as part of Erste Group in Romania. In 2013–2014 he worked for the European Bank for Reconstruction and Development (EBRD) in Moscow as director of the branch in the Central Federal District of the Russian Federation. Since 2014 he has been a member of the Management Board of Sberbank CZ, a.s. responsible for corporate banking and global markets.

He is not a member of the bodies of any other companies.

**Karel SOUKENÍK**  
**Chief Financial & Operation Officer**



Member of the Management Board since:  
 1 October 2013

Banking experience: 12 years  
 Management experience: 12 years

Karel Soukeník was born in Plzeň on 11 August 1973. He graduated from the Faculty of Mathematics and Physics at Charles University in Prague, and completed his postgraduate studies in the field of economics at Charles University in Prague (CERGE-EI) and the State University of New York. In 2001–2004 he worked as Management Consultant for McKinsey & Company. In 2005–2007 he worked at Citibank as Head of GCB Controlling, Head of Business MIS. In 2007–2008 he held the post of Integration Manager, and in 2008–2013 the post of Chief Financial Officer at Raiffeisenbank, a.s. Since 2013 he has been a member of the Management Board of Sberbank CZ, a.s. responsible for organisation & IT, financial management, banking operations, economic management, ALM & Treasury.

He is a member of the Supervisory Board of the Sberbank CZ Endowment Fund and a member of the Supervisory Board of the CERGE-EI Foundation; he is not a member of the bodies of any other companies.

## Committees Established by the Management Board

### Assets and Liabilities Management Committee

Committee members with voting rights are all members of the Management Board of Sberbank CZ, a.s., Head of OE 026 ALM/Treasury, Head of OE 074 Market & Operational Risk.

### Credit Committee

Committee members with voting rights are all members of the Management Board of Sberbank CZ, a.s., Head of OE 036 Underwriting Division.

### Non-Performing Loan Management Committee

Committee members with voting rights are all members of the Management Board of Sberbank CZ, a.s., Head of OE 037 Workout & Restructuring, Head of OE 073 Credit Risk.

#### Vladimír ŠOLC

Chief Executive Officer

#### Jiří ANTOŠ

Chief Retail Officer

#### Jindřich HORNÍČEK

Chief Risk Officer

#### Miroslav LUKÁČ

Chief Corporate Officer

#### Karel SOUKENÍK

Chief Financial & Operation Officer

#### Pavel SÜSSER

Head of OE 026 ALM/Treasury

#### Zdeněk DANIEL

Head of OE 074 Market & Operational Risk

#### Vladimír ŠOLC

Chief Executive Officer

#### Jiří ANTOŠ

Chief Retail Officer

#### Jindřich HORNÍČEK

Chief Risk Officer

#### Miroslav LUKÁČ

Chief Corporate Officer

#### Karel SOUKENÍK

Chief Financial & Operation Officer

#### Dmitry KHARIN

Head of OE 036 Underwriting Division

#### Vladimír ŠOLC

Chief Executive Officer

#### Jiří ANTOŠ

Chief Retail Officer

#### Jindřich HORNÍČEK

Chief Risk Officer

#### Miroslav LUKÁČ

Chief Corporate Officer

#### Karel SOUKENÍK

Chief Financial & Operation Officer

#### Jiřina MEVALDOVÁ

Head of OE 037 Workout & Restructuring

#### Martin VAKOČ

Head of OE 073 Credit Risk

### Retail Committee

Committee members with voting rights are the member of the Management Board of Sberbank CZ, a.s. responsible for Retail, Head of OE 058 Segments & Marketing, Head of OE 155 Retail Products, Head of OE 090 Distribution, Head of OE 056 Digital Banking, OE 057 Partnership and Bancassurance, Head of OE 120 Controlling.

#### **Jiří ANTOŠ**

Chief Retail Officer

#### **Ondřej HAVLÍK**

Head of OE 058 Segments & Marketing

#### **Roman KNAUS**

Head of OE 155 Retail Products

#### **Jan KOTARA**

Head of OE 090 Distribution

#### **Ladislav SEIFRT**

Head of OE 056 Digital banking

#### **Jiří PENSIMUS**

Head of OE 120 Controlling

### Risk Committee

Committee members with voting rights are all members of the Management Board of Sberbank CZ, a.s., Head of OE 070 Integrated Risk Management, Head of OE 073 Credit Risk.

#### **Vladimír ŠOLC**

Chief Executive Officer

#### **Jiří ANTOŠ**

Chief Retail Officer

#### **Jindřich HORNÍČEK**

Chief Risk Officer

#### **Miroslav LUKÁČ**

Chief Corporate Officer

#### **Karel SOUKENÍK**

Chief Financial & Operation Officer

#### **Tomáš HANZLÍK**

Head of OE 070 Integrated Risk Management

#### **Martin VAKOČ**

Head of OE 073 Credit Risk

### Steering Committee

Committee members with voting rights are all members of the Management Board of Sberbank CZ, a.s., Head of OE 015 IT, Head of OE 150 Organisation.

#### **Vladimír ŠOLC**

Chief Executive Officer

#### **Jiří ANTOŠ**

Chief Retail Officer

#### **Jindřich HORNÍČEK**

Chief Risk Officer

#### **Miroslav LUKÁČ**

Chief Corporate Officer

#### **Karel SOUKENÍK**

Chief Financial & Operation Officer

#### **Aleš KUBÍK**

Head of OE 015 IT

#### **Pavčina KOŽOUŠKOVÁ**

Head of OE 150 Organisation

## 7.2. Supervisory Board

### Deputy chairman of the Supervisory Board

#### Arndt RÖCHLING



Member of the Supervisory Board since: 2 November 2016  
Deputy chairman of the Supervisory Board since: 16 November 2016  
Banking experience: 14 years  
Management experience: 10 years

Arndt Röchling was born in the Federal Republic of Germany on 20 October 1967. He graduated from the University of Passau, majoring in Business Management with a focus on banking, finance, organisation and human resources. He wrote and defended his doctoral thesis at the University of Frankfurt an der Oder. In 2003–2007 he worked in various positions at Raiffeisen Zentralbank Austria AG. In 2007–2009 he headed the Financial Controlling Department at Raiffeisenbank Russia. In 2009–2015 he was a member of the Management Board of Raiffeisenbank Russia responsible for CFO. In 2015–2016 he was a member of the Management Board of Deutsche Bank in Russia, and since 2016 he has been a member of the Management Board of Sberbank Europe AG in Vienna responsible for CFO.

#### Membership in the bodies of other companies:

He is a member of the Management Board of Sberbank Europe AG in Vienna, the chairman of the Audit Committee at Sberbank Srbija a.d. Beograd in Serbia, the chairman of the Supervisory Board at Sberbank Srbija a.d. Beograd in Serbia, the chairman of the Supervisory Board at Sberbank a.d. Banja Luka in Bosnia and Herzegovina and a member of the Supervisory Board at Sberbank Magyarorszá Zrt. in Hungary.

### Members of the Supervisory Board

#### Dusko KANTAR



Member of the Supervisory Board since: 18 November 2015  
Banking experience: 12 years  
Management experience: 7 years

Dusko Kantar was born in the Federal Republic of Germany on 17 June 1976. He studied economics at the University of Munich. In 2005–2014 he worked at Hypo Alpe-Adria Bank International AG on various management positions. In 2005–2010 he headed the Account Manager Group Corporate Serbia & Montenegro Department. In 2011–2014 he headed the Credit Management Financial Institutions & Public Finance Department. Since 2014 he has worked at Sberbank Europe AG (Head of Financial Markets Underwriting until 2015 and Head of the Corporate Credit Risk Management Department since 2015).

#### Membership in the bodies of other companies:

He was a member of the Supervisory Board at Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina (until December 2016).

#### Elena VIKLOVA



Member of the Supervisory Board since: 1 January 2016  
Banking experience: 10 years  
Management experience: 8 years

Elena Viklova was born in Moscow on 1 March 1985. She studied economics at the State University of Moscow. Since 2007 she has worked at Sberbank of Russia in various positions. In 2007–2008 she held the post of Relationship Manager. In 2008–2012 she headed the Foreign Network Development Department, in 2012–2014 headed the International Business Development Department and since 2014 has held the post of Managing Director.

#### Membership in the bodies of other companies:

She is a member of the Supervisory Board of Sberbank Europe AG in Vienna, a member of the Supervisory Board of Sberbank banka d.d. in Slovenia, the chairman of the Audit Committee of Sberbank Banka d.d. in Slovenia, a member of the Supervisory Board of Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina, a member of the Supervisory Board of Sberbank Srbija a.d. Beograd in Serbia and the deputy chairman of the Supervisory Board of Sberbank Magyarorszá Zrt. in Hungary.

### Reinhard KAUFMANN



Member of the Supervisory Board since:  
14 June 2013  
Banking experience: 14 years  
Management experience: 12 years

Reinhard Kaufmann was born in Austria on 22 May 1971. He graduated from the Technical University of Vienna and the University of Vienna. In 1997–2000 he headed the Cost Controlling Department at Raiffeisenlandesbank Niederösterreich-Wien AG. In 2005–2012 he headed the Controlling Department at Volksbank International AG. In 2012–2015 he headed the Group Controlling Department at Sberbank Europe AG. In 2015 he became the Head of the Accounting/Reporting/Tax Department at Sberbank Europe AG.

#### Membership in the bodies of other companies:

He is the chairman of the Audit Committee at Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina and the chairman of the Audit Committee at Sberbank a.d. Banja Luka in Bosnia and Herzegovina.

### Members of the Supervisory Board whose membership ended in 2016

#### Axel Helmut HUMMEL

Date of membership termination:  
30 June 2016  
Date of termination of the office of the chairman of the Supervisory Board:  
30 June 2016

#### Igor STREHL

Date of membership termination:  
16 November 2016  
Date of termination of the office of the deputy chairman of the Supervisory Board: 30 June 2016  
Date of termination of the office of the chairman of the Supervisory Board:  
16 November 2016

#### Sergey MALYSHEV

Date of membership termination:  
31 October 2016

**The Supervisory Board of Sberbank CZ, a.s. has not established any committees.**

## 7.3. Audit Committee

### Chairman of the Audit Committee

#### Arndt RÖCHLING



Member of the Audit Committee since:  
1 July 2016  
Chairman of the Audit Committee since:  
4 July 2016  
Banking experience: 14 years  
Management experience: 10 years

Arndt Röchling was born in the Federal Republic of Germany on 20 October 1967. He graduated from the University of Passau, majoring in Business Management with a focus on banking, finance, organisation and human resources. He wrote and defended his doctoral thesis at the University of Frankfurt an der Oder. In 2003–2007 he worked in various positions at Raiffeisen Zentralbank Austria AG. In 2007–2009 he headed the Financial Controlling Department at Raiffeisenbank Russia. In 2009–2015 he was a member of the Management Board of Raiffeisenbank Russia responsible for CFO. In 2015–2016 he was a member of the Management Board of Deutsche Bank in Russia, and since 2016 he has been a member of the Management Board of Sberbank Europe AG in Vienna responsible for CFO.

#### Membership in the bodies of other companies:

He is a member of the Management Board of Sberbank Europe AG in Vienna, the chairman of the Audit Committee at Sberbank Srbija a.d. Beograd in Serbia, the chairman of the Supervisory Board at Sberbank Srbija a.d. Beograd in Serbia, the chairman of the Supervisory Board at Sberbank a.d. Banja Luka in Bosnia and Herzegovina and a member of the Supervisory Board at Sberbank Magyarország Zrt. in Hungary.

### Members of the Audit Committee

#### Reinhard KAUFMANN



Member of the Audit Committee since:  
18 April 2014  
Banking experience: 14 years  
Management experience: 12 years

Reinhard Kaufmann was born in Austria on 22 May 1971. He graduated from the Technical University of Vienna and the University of Vienna. In 1997–2000 he headed the Cost Controlling Department at Raiffeisenlandesbank Niederösterreich-Wien AG. In 2005–2012 he headed the Controlling Department at Volksbank International AG. In 2012–2015 he headed the Group Controlling Department at Sberbank Europe AG. In 2015 he became the Head of the Accounting/Reporting/Tax Department at Sberbank Europe AG.

#### Membership in the bodies of other companies:

He is the chairman of the Audit Committee at Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina and the chairman of the Audit Committee at Sberbank a.d. Banja Luka in Bosnia and Herzegovina.

### Members of the Audit Committee whose membership ended in 2016

#### Axel Helmut HUMMEL

Date of membership termination:  
30 June 2016  
Date of termination of the office of the chairman of the Audit Committee:  
30 June 2016

#### Igor STREHL

Date of membership termination:  
16 November 2016

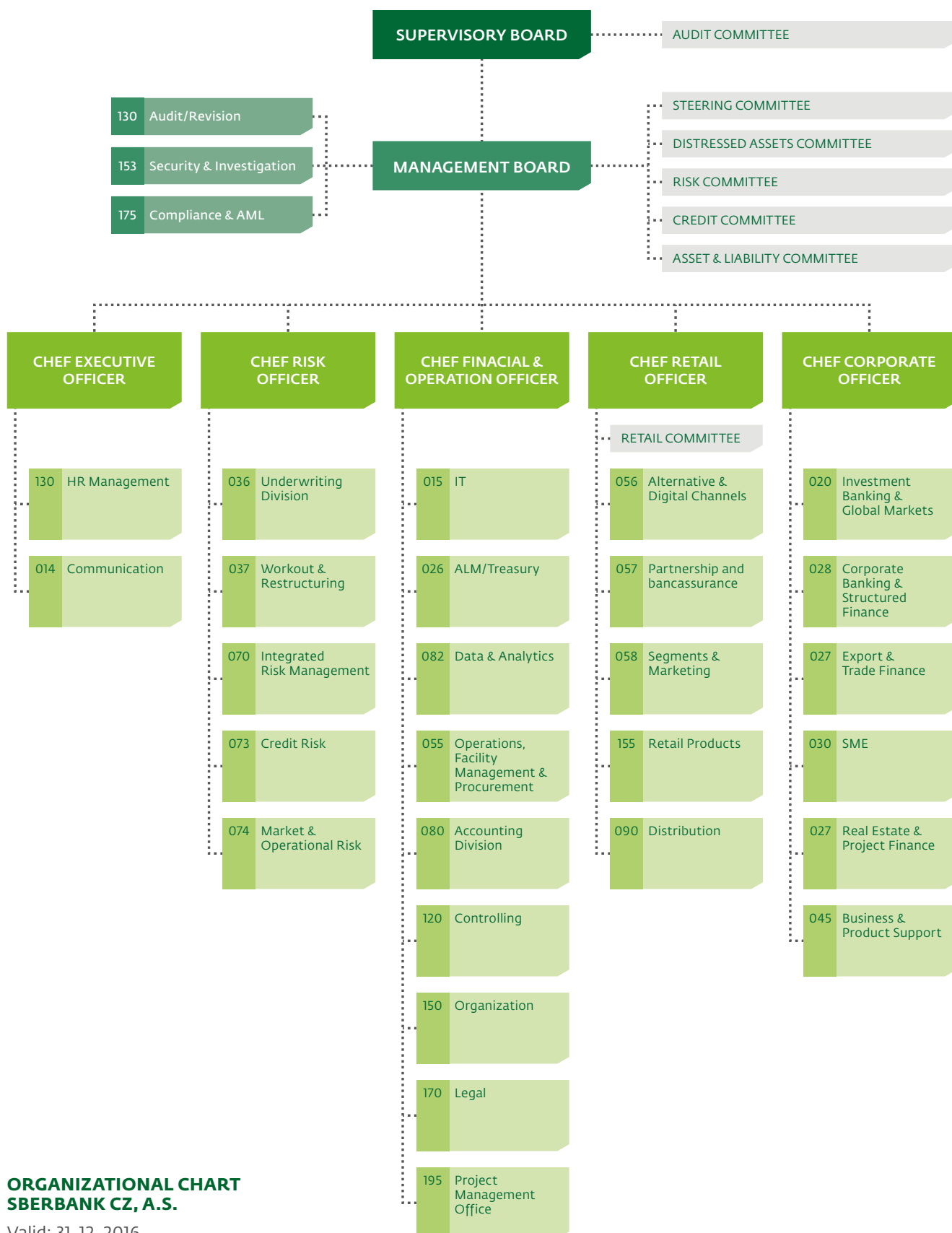
## 7.4. Sole Shareholder

### Sberbank Europe AG

Registration number: FN 161285i

Sberbank Europe AG is the sole shareholder of Sberbank CZ, a.s. It is based in Vienna at: Schwarzenbergplatz 3, 1010 Vienna, Republic of Austria

## 8. ORGANISATION CHART



**ORGANIZATIONAL CHART  
SBERBANK CZ, A.S.**

Valid: 31. 12. 2016

## 9. ECONOMIC CONDITIONS



In 2016, the Czech economy continued with relatively slow but still solid growth at a rate of more than two-percent, thanks in particular to growth in household spending, though slightly inhibited by weaker investment.

Domestic demand should remain the driver of growth in the Czech economy in 2017. After two years of harmless development in consumer prices, the end of last year saw an acceleration in inflation, which will probably continue this year; however, the expected termination of the Czech National Bank's intervention scheme has the potential of reducing import prices.

Last year also witnessed record-breaking improvement in the public finance balance in the Czech Republic, and a budget surplus can also be expected in 2017. Although the record-breaking real growth in the gross domestic product of more than four percent achieved in 2015 was not repeated last year, last year's more than two-percent growth can still be described as very solid.

The main contribution to economic expansion was growth in private consumption supported by very favourable developments in the labour market, both in terms of the employment rate and related developments in average real wages.

The reduction in investment activities is due to the beginning of a new programming period for the drawing of EU funds, which was particularly palpable in the case of public investment in 2016. Nevertheless, the fact that private investment continued growing at a pace only slightly slower than in 2015 is encouraging.

Given the role played by technology imports in the case of investment, the relatively moderate development of investment activity constituted a positive contribution to improving the foreign trade balance.

The average year-on-year growth in consumer prices almost doubled in 2016 compared to the previous year, and the year-on-year dynamics of inflation reached the two-percent inflation target of the Czech National Bank at the end of the year.

It is not surprising that in addition to changes in regulated prices, the statistical effect of a lower comparative base in the case of prices of energy and agricultural commodities contributed to the acceleration of consumer price growth.

The increasingly tight situation on the labour market also contributed to the intensification of cost inflationary pressures. The appreciation of the Czech crown exchange rate, which is expected after the announced end of the intervention scheme of the Czech National Bank, might help reduce inflation in 2017.

The unemployment rate decreased to four percent in the Czech Republic in 2016, and given the continued solid growth of the economy, pressure on a further decrease remains.

However, demographic constraints and the record-breaking decline in the unemployment rate create a natural limit for further employment growth. This translates into faster growth in average real wages that can be expected in the near future.

## 10. REPORT OF THE MANAGEMENT BOARD

### 10.1 Introduction

#### 10.1.1. Meeting the Objectives in 2016

In 2016, Sberbank CZ, a.s. successfully continued to develop its business activities in all target customer segments – retail, SME, and corporate banking. In all segments, the Bank focused on the efficient management of income and expenses and the maintenance and development of relationships with clients through the use of other products and services. After two years of branch expansion of Sberbank CZ, the bank focused on its further modernisation according to high internal standards and in some cases moving selected branches into new premises that are more accessible and pleasant for clients.

In retail banking, the Bank had a record-breaking year. We achieved significant growth in the volume of loans provided by 21% from CZK 20.4 billion in 2015 to CZK 24.7 billion in 2016, especially in mortgage and consumer loans. Significant sales successes were achieved by the online eShop, which contributed around 20% to the sales of consumer loans and savings accounts.

The record-breaking retail banking results were also awarded within the Group Sberbank Europe: in December 2016 we were declared by the shareholder as "The Best Retail Bank in Sberbank Europe".

The year 2016 was full of important events for the corporate banking division. After a decrease in assets in 2015 due to the volume of refinancing, the stabilisation of the portfolio and the kick-starting of growth became a priority. This was achieved and, since the beginning of 2016, our portfolio and revenues have grown continuously.

SME banking was successful in 2016 particularly in attracting new deposits, including through the accumulation of working balances on the current accounts of newly acquired clients. The income from deposits and the income from customer hedging transactions was the main reason for exceeding the plan of income of the SME division in 2016.

In addition to business activities, the Bank focused on the development of internal processes and systems, particularly in the area of credit risk management and liquidity risk management. The Bank is heavily focused on the elimination and remedy of deficiencies identified during the inspection by the Czech National Bank in 2015. In the course of 2016, the Czech National Bank conducted administrative proceedings with Sberbank CZ, a.s. during

which the Bank adopted a number of appropriate measures to remedy the vast majority of the identified findings. Based on them, the Czech National Bank terminated the administrative proceedings in September 2016. Subsequently, in mid-February 2017, the Czech National Bank stated that all the measures suggest that a remedy has been ensured, which resulted in the full termination of restrictions imposed on the Bank during the proceedings. For the Bank, the continuous improvement of processes in credit and risk management for healthy growth in the future remains one of the priorities.

#### 10.1.2 Expected bank development and financial position of the Bank in 2017

At the beginning of 2017, Sberbank CZ, a.s. has sufficient capital and liquidity for its further development this year as well as adequate reserves to cover any unforeseen and undesirable market developments. The Bank will continue to develop its business activities. Loan provision criteria have been set up to enable the satisfactory performance of the Bank even in the case of an economic downturn, despite the fact that a positive macroeconomic forecast with GDP growth of over 2%, an inflation rate close to the goal of ČNB and a very low unemployment rate provide an optimistic outlook.

The financing of Sberbank CZ, a.s. is secured through the broad and stable volume of client deposits. The placement of free liquidity is regulated by strict limits and mainly concerns operations with the Czech National Bank. Sberbank CZ, a.s. has primarily placed its assets in the Czech Republic and its performance is thus linked to that of the Czech economy. In the case of development in the Czech economy less favourable than that projected in early 2017, the business model of the Bank has been set up to remain profitable.

Given the anticipated further decrease in market interest rates during the year and an increase in income from fees, the effective management of interest income and expenses, among other measures, will be crucial for 2017.

Sberbank CZ expects intense competition to continue in all customer segments, which will, naturally, have an impact on the services and products it provides. Sberbank CZ, a.s. will seek to offer its clients a higher added value so as to maintain its fee and commission income. With regard to the conditions foreseen at the beginning of 2017, Bank management expects Sberbank CZ, a.s. to continue to generate profit sufficient for the further development of the Bank in 2017.



It must be noted from the quarterly reporting perspective that profitability development in the first quarter of 2017 will be affected by charging reserves for the annual contribution to the bank crisis fund and the annual deposit guarantee scheme similarly as in 2016, whereas these expenses will be zero in the other quarters.

## 10.2 Awards received in 2016

In 2016, Sberbank CZ, a.s. again continued the positive evaluation of products, services and social responsibilities from previous years.

In September 2016, Sberbank CZ, a.s. finished second in Hospodářské noviny's prestigious competition of Best Bank 2016 in the **Most Client-Friendly Bank** category. It is the only bank in this category to remain among the top three positions throughout its existence on the Czech market; Sberbank CZ, a.s. finished on the podium for the fourth time in a row. Hospodářské noviny's **Best Bank 2017** awards are given to banks that are able to offer clients the best products and services, communicate with them in a professional manner, are available to their clients and also show good economic results. In the category of Most Client-Friendly Bank, banking institutions are rated from the perspective of clients.



The Bank received other awards in the **Financial Product in 2016** competition sponsored by the renowned financial portal Finparáda.cz. The product FÉR spoření PLUS (FAIR savings PLUS) was declared in January 2017 as the best savings account of 2016. The savings accounts offered by Sberbank CZ, a.s. have finished on the podium in this competition in the last three years. **Three best products in each category are always announced in a competition in which all the financial products of the selected types that are offered in the Czech Republic by banks, insurance companies, and pension and investment companies are automatically entered.**



In **March 2016**, Sberbank CZ, a.s. became the first bank in the country to receive a certificate from the independent Czech programme **SLEDUJEME/ SNIŽUJEME CO<sub>2</sub> (WE MONITOR/REDUCE CO<sub>2</sub> EMISSIONS)**. The acquired certificate proves involvement in the Czech programme supporting voluntary climate protection measures in the business sector. The requirement for obtaining this certificate in the first phase is monitoring, whereas in the next phase businesses must reduce greenhouse gas emissions related to their activities. The programme SLEDUJEME/ SNIŽUJEME CO<sub>2</sub> supporting climate protection is the only one of its kind in the Czech Republic. It is open to businesses, public institutions, municipalities and other entities. The programme runs under the auspices of the Ministry of the Environment.



We greatly appreciate all the awards and certificates received, as they are proof of our responsibility towards our clients and society as a whole.

### 10.3.1 Retail banking

The retail banking unit of Sberbank CZ, a.s. completed another record-breaking year. Retail banking is gradually becoming a key segment for Sberbank CZ, a.s. in the Czech Republic. The Bank was also acknowledged for its record results in the Sberbank Europe group. Sberbank CZ, a.s. won the "The Best Retail Bank" award.

Despite the fierce competitive environment, the Bank increased the number of clients and was successful in the sale of key retail products (consumer loans, loan consolidation, savings accounts and mortgage loans). Further development of the eShop, the online channel that accounts for one-fifth of retail sales, contributed to the record results. The Bank has successfully developed cooperation with external sales networks that broker banking products, in particular consumer loans, loan consolidation, mortgage loans and business loans. In 2016, we began to dramatically increase the use of direct marketing aimed at our own clients, who used the advantageous offers of consumer loans the most.

From the perspective of business results, the Retail segment saw significant growth in the volume of provided loans by 21% (from CZK 20.4 billion in 2015 to CZK 24.7 billion in 2016). The sales of mainly mortgages and consumer loans significantly increased. The increase in the number of clients resulted in another shareholder's award for Sberbank CZ, a.s., namely the silver medal in the individual countries of the group.

Even more than the increase in the number of clients, we were pleased with the positive development in the portfolio structure. The Bank continued in its business strategy aimed at affluent clients; their share in the portfolio in 2016 continued to grow, as did their use of bank products. According to regular feedback, our clients were also more satisfied with us.

For the greater convenience of our clients, we continued in the relocation of several branches to more frequented and accessible sites, including interior modifications according to high internal standards. In 2016, the changes especially affected the Znojmo, Plzeň, and Brno-Eden branches. At the end of 2016, Sberbank CZ, a.s. had 28 branches. Other new clients have also been gained by more intensive activities in the "Bank@Work" program designed for employees of partner companies.

The eShop, the Bank's digital sales channel, greatly contributed, as usual, to the record results: for example, it accounts for 20% of sales of consumer loans, loan consolidation and savings accounts. Clients from the whole Czech Republic thus have easy and convenient access to our services without having to go to a branch.

Sberbank CZ, a.s. continued to adapt its products to make them more attractive for private individuals as well as for the Micro segment. For example, in February 2016 the Bank also made the rates on consumer loans and consolidation more advantageous and improved their parameters, including the introduction of new client benefits – the guaranteed best rate for the entire duration of the loan. The product FÉR půjčka (FAIR loan) again significantly increased its market share and also due to those changes it retained its place on the podium in the public survey on the Finparáda.cz server.

The mortgage products under the name FÉR hypotéka (FAIR mortgage loan) had their strongest sales year ever, with new mortgage loans exceeding the value of CZK 5.5 billion. The sustained growth is brought especially by a simpler and faster process for providing mortgage loans and an attractive price offer.

As regards deposit products, the savings accounts of Sberbank CZ, a.s. again became the most attractive on the market. The FÉR savings account retained one of the highest interest rates on the market and was chosen the Best Financial Product of the Year in its category for the second time in a row in the survey on Finparáda.cz. The Bank also offers investments in mutual funds. Clients seeking conservative investments can choose among government and corporate bonds from all over the world.

The Bank's clients are also increasingly making use of additional services in the form of Bankopojištění products: Payment protection insurance for consumer and mortgage loans, travel insurance, and card and personal item insurance. All of these products are offered by Sberbank CZ, a.s. in cooperation with BNP Paribas Cardif pojišťovna a.s. as the insurance provider. We continue to cooperate with Generali pojišťovna in the area of property insurance.

### 10.3.2 SME banking

SME clients traditionally represent one of the key segments of the Bank. Loans granted to SME clients account for 29% of the Bank's credit business, which also includes the Corporate, SME, and Retail segments. SME Banking spans three specific subsegments: traditional corporate SME banking with five regional teams, a dedicated team for real estate projects (Real Estate), and a dedicated team for the public sector.

The SME division offers clients a wide range of banking services and products, starting with the payment system, through deposit products, various forms of financing, including financing for foreign trade, up to the hedging of currency and interest rate risks.

SME banking was successful in 2016 in attracting new deposits in the form of savings accounts, savings accounts with a notice period, including through the accumulation of working balances on the current accounts of newly acquired clients. The income from deposits and the income from customer hedging transactions was the main reason for exceeding the plan of income of the SME division in 2016.

In 2016, a strategy was newly formulated for the SME segment and its implementation commenced. The new strategy is based on the quality of bankers in the business network, simplified internal processes and resulting simplified client service, fair prices for services, long-term relationships with clients and an active approach to prospective clients.

The first steps in the implementation of strategic changes included a leaner management structure, decisions on the capacity strengthening of the sales network and personnel changes seeking an increase in the quality of management and business work. Steps were also initiated to streamline the loan process – the backbone of the business process. From the client's perspective, these changes will translate into a significant acceleration of decision-making on the conditions for the availability of loan products.

These and many other major or minor changes, measures, and innovations in SME banking, combined with the favourable macroeconomic situation and more limited but persistent business opportunities of clients and target clients of Sberbank CZ, a.s. towards Eastern Europe create conditions for the fulfilment of significant growth objectives and the achievement of the high ambitions of SME banking in 2017.

### 10.3.3 Corporate Banking

In 2016, the corporate banking division continued operating three business segments: large enterprises and corporations with an annual turnover of over CZK 1.2 billion, non-bank financial institutions and major public sector entities. Our advisors and product specialists provide solutions customised for the needs of large companies, particularly in the area of financing, financial risk management and transaction banking.

The year 2016 was full of important events for the corporate banking division. After a decrease in assets in 2015 due to corporate refinancing, the stabilisation of the portfolio and the kick-starting of growth have become our priority. This was achieved and, since the beginning of 2016, our portfolio and revenues have grown continuously. On average, each of our six sales employees administered assets worth around CZK 1.8 billion and was also responsible for acquiring new clients. We contributed over CZK 250 million to the Bank's revenue, of which most is represented by profit from standard activities.

We achieved this result especially by concluding several major transactions during the year with companies such as EPH, KKCG, GEFCO, etc., with a significant contribution from the Structured Financing organisational unit. We also managed to diversify income by increasing the share of non-interest revenue in the client portfolio, particularly in the provision of currency and interest rate risks. Measures to increase the number of new active clients were partially successful. Despite this significant growth,

the risk profile of the portfolio did not deteriorate, which is one of our key performance indicators. With the exception of a few changes on the sales team, the staff has become stable.

The conditions on the financial markets in 2016 had a largely negative impact on our activities, especially the continued decline in interest rates and declining risk premiums on loans due to the fiercely competitive environment. On the other hand, economic growth and related investment activity in the corporate sector had a positive impact. In the first half of the year, insolvency events occurred with several major corporate companies on the market; however, the Bank did not have greater exposure in any of these companies and such events therefore had no negative impact on our portfolio.

The corporate banking strategy continues to be building a diversified portfolio that will better withstand changes and fluctuations in individual clients. An emphasis will be put on providing additional products and services to existing and new clients so that we can further improve the share of non-interest income. The purpose of this strategy is to improve the business impact of client relationships while reducing the associated risks. Risk and its minimisation will remain a key parameter in our thinking and approach to new business opportunities.

### 10.3.4 Export & Trade Finance

In 2016, the volume of transactions in Export & Trade Finance (ETF) reached CZK 1.7 billion, including issued bank guarantees, the financing of receivables from export documentary letters of credit, supplier loans, and pre-export financing with insurance taken out with EGAP. ETF activity was affected by the difficult geopolitical situation and the ensuing sanctions against the Russian Federation and, in particular, in the first half of 2016 by EGAP's limited capacity to insure loans to the Russian Federation, Azerbaijan and territories included in risk category 7, e.g. to Belarus. Therefore, we focused on Trade Finance products, which are not subject to the given limitations, in particular the financing of letters of credit with deferred payment, supply and pre-export loans with EGAP insurance and financing contracts issued in the form of bank guarantees.

The marketing activities in 2016 focused both on operations within the Bank (e.g. a business breakfast for clients aimed at products of Export & Trade Finance and Global Markets), but also on organising joint seminars with EGAP for training Relationship Managers in the field of export financing with EGAP insurance.

### 10.3.5 Global Markets

#### GLOBAL MARKETS TRADING

In the course of 2016, the Global Markets organisational unit of Sberbank CZ, a.s. continued to establish business cooperation with banking counter-parties on the financial markets. Global Markets concluded master agreements for trading on the financial markets with selected banking counter-parties, which allowed a further expansion of the product offer for the clients of our Bank. Cooperation with Sberbank CIB Russia also continued in 2016, especially in transactions in Russian rubles (RUB), allowing Sberbank CZ, a.s. to consolidate its position as the leading service provider in RUB. Within the group of Sberbank Europe, we have continued to intensify cooperation both on the money market and the derivative market.

The activity of Global Markets grew in both areas of its main focus, namely in the area of the effective management of short-term liquidity of the Bank and in the area of providing the products of Global Markets to corporate and institutional clients. Most trading activities grew on a year-to-year basis in terms of trading volumes, the number of active clients making use of the services of the organisational unit, as well as the number of concluded transactions and profitability.

#### GLOBAL MARKETS SALES

In 2016, the majority of foreign exchange transactions consisted of spot exchange transactions, and only a small number were realised through hedging products such as forward foreign exchange transactions and currency options. Global Markets significantly reduced interest expenses within its authority in the valuation of deposit products for clients in 2016. Throughout 2016, the number of foreign exchange and deposit transactions in Russian rubles continued to grow, which only confirmed the strong position of Sberbank CZ, a.s. on the market of products with the RUB component.

The volume of products hedging interest rate risks in 2016 increased significantly, while clients participated in the continuing low level of interest rates, primarily in Czech crowns.

As far as securities are concerned, clients primarily favoured safe investments with guaranteed interest income. In 2016, the Bank continued in the standard offer of bonds and mutual funds.

### 10.3.6 IT

In 2016, IT contributed to the success of the Bank by implementing key banking projects. The project with the largest impact on the Bank's activities was the SEPA project, the aim of which is enabling clients to carry out foreign payments in the SEPA format and the implementation of domestic and foreign payments in accordance with European Union directives. We continued to implement the project of payment cards and the MCP project, whose aim is to implement new mobile and internet banking. The Bank continued to centralise the data warehouse and migrate reporting to a new platform. We have successfully completed the project of changes in IT systems in accordance with the amendment to the Consumer Loans Act, effective 1 December 2016. IT underwent a major reorganisation that focused on creating the foundations of competency centres for the delivery of projects in the area of digital banking and cards, in the creation of middle class and M24, as well as in the management of applications. The number of specialists in the IT unit grew by 40%, thereby strengthening internal competencies in key IT areas and increasing substitutability. After migrating from the ARZ centre in Austria to a secondary data centre in Brno, we continued to consolidate data centres and have started migrating Oracle technology to a cluster solution with HA accessibility. In 2016, we implemented the acquisition of a new disk array as part of service provided by the supplier, which allows flexible and rapid increases in disk capacity without re-purchasing (capacity as a service) in the form of a private cloud. In order to improve work efficiency and process standardisation, we introduced the process of managing testing environments and a new methodology for IT project management, as well as a new directive for application testing. At the same time, we put into pilot operation the JIRA system, which will be used to control application changes in production with a gradual transition to release management.

### 10.3.7 Digital Banking

As in previous years, 2016 was marked by growth in online product sales. The key eShop service recorded nearly 450,000 visits from clients and record sales of loans with a volume growth of 35% on a year-to-year basis.

The year 2016 saw some key decisions adopted on how to accelerate the future development of online sales and services, which we consider to be crucial for the further growth of Sberbank CZ, a.s. on the Czech market. There was a major reorganisation and strengthening of the Digital Banking team, which will be responsible for

development and innovation in all forms of digital channels and services for end customers, as well as for the further development of online sales. The portfolio of projects in the field of online sales and services was restructured, and relevant suppliers were revised. A key project at the end of 2016 and for the year 2017 is the development of new internet and mobile banking.

### 10.3.8 Human Resources Management

Sberbank CZ, a.s. sees human capital management as a key part of the strategic management of the Bank. Employees represent the greatest potential in building long-term relationships with our clients to achieve business objectives and create a well-functioning foundation for all the activities of the Bank. In 2016, we focused primarily on the completion of the effective organisational structure of the Bank and the stabilisation of core teams (especially project managers and IT). Another priority was the retention of employees, the use of new methods of recruiting, improving access to training and development for all employees and support for social life within the Bank and occupational health and safety.

Sberbank CZ, a.s. responded to the changing situation on the labour market associated with a decreasing unemployment rate and increasing staff turnover across the market and even within the Bank. We started to make greater use of new recruitment methods and developed tools for the better management of staff turnover and retention. In the middle of the year, we organised open days for university students and graduates, during which we focused on presenting work at the Bank and career opportunities.

At the beginning of 2016, Sberbank CZ, a.s. implemented a new group system to evaluate and manage performance that reflects the values and competencies valid throughout the Europe Sberbank group. The Bank managed to take full advantage of this system both in terms of performance evaluation and as part of remuneration, career growth and planning succession or nomination of colleagues for international projects and development activities. In addition to the evaluation of set objectives, the Bank focused on evaluating and working with the skills and potential of employees, which enabled us to manage and plan the education and career growth of employees in a better manner.

In the area of education and development of employees, Sberbank CZ, a.s. focused on the efficient collection of information on the strategic and operational training

needs of individual organisational units. As a result, the Learning Labs project was created with in-house courses in management skills, soft skills, banking and computer skills (especially Excel and SQL). In this project, we combine training performed by external trainers and internal training provided by our internal staff. In 2016, we also integrated all information on the various forms of education into a single electronic application in which our employees have access to offered in-house and e-learning courses.

Sberbank CZ, a.s. supports its employees in the area of mental and physical health, and that is why we introduced a number of innovations in employee benefits and employee care in the past year. The employee benefits and employee health care aspects are described in the Social responsibility – social and employment issues chapter (see page 045).

### 10.3.9 Marketing

In 2016, the Bank's marketing activities focused on two main areas: supporting sales of key products (consumer loans, mortgage loans, business loans, and savings accounts) and raising awareness of the Sberbank brand and its preference among end customers.

The Bank supported growth throughout the year, especially in the area of loans. We launched a total of four strong product campaigns. The main channels remained mass media, especially television and online media. In the second half of the year, Sberbank CZ, a.s. introduced a new local creative concept. With its help, we aim to introduce Sberbank CZ, a.s. as a direct and fair bank that knows that "money matters" and, therefore, seeks to satisfy its clients by providing simple and modern banking products and services. The record sales figures and the increasing satisfaction of our clients indicate that we are successful.

Significant support, including print and outdoor advertising, was also deployed during the year in the modification and relocation of selected branches of Sberbank CZ, a.s. to more convenient and accessible sites. We believe that the convenience of our clients will thus continue to increase.

The advertising campaigns and marketing activities met the set objectives and Sberbank brand awareness has continued to grow on a year-to-year basis. The Bank also expects strong marketing support and further improvement of brand and product awareness in 2017.

### 10.3.10 Communication

Throughout the year, the Communication organisational unit informed employees, clients, media and the general public on all of the Bank's key activities, such as the introduction of a new product line, the Bank's financial performance, meeting objectives and the implementation of key projects. It conducted open and interactive communication across all major communication groups, mainly thanks to the active participation of members of the Management Board and senior management in internal and external communications.

The Bank communicated with the public primarily through the media. When working with editors, we put emphasis on the speed and clarity of the information provided. The Bank informed clients and the public regularly through its website and Facebook profile.

In internal communications, we put emphasis on the regular personal communication of employees with the Management Board. The regular Town Hall meetings are organised for the presentation of financial results, the fulfilment of objectives and Bank projects. The Management Board regularly visits regional teams and Bank branches to hear opinions and obtain feedback from employees at so-called skip-level meetings and other informal events.

Another important part of the strategy of internal communication is deepening the corporate culture focused on the customers, collaboration and leadership. For example, we supported corporate culture and employee engagement by the selection and evaluation of the best employees and teams of the year.

As part of its event management and sponsorship activities, the Bank organised and supported dozens of important business, cultural, social, charitable, and sports events.

In 2016, social responsibility was also an important part of the activities of the Communication organisational unit and of the entire Bank. Motivated employees had the opportunity to nominate their applications for aid through the Endowment Fund of Sberbank CZ, engage in volunteer activities and support several non-profit organisations. The Bank increasingly involved its clients and friends in the CSR activities. More information about the CSR activities can be found in the chapter on social responsibility.

### 10.3.11 Comment on IFRS Financial Results

In accordance with the International Financial Reporting Standards (IFRS), Sberbank CZ, a.s. posted net profit of CZK 272 million for 2016, which represents significant growth over 2015. This is the result of two main factors. The first is an increase in "Net interest income" by CZK 130 million. The second is a decrease in the "Other operating expenses" by CZK 111 million. In 2015, the Bank recorded a one-time charge for damages resulting from a lost court case in 2006 amounting to CZK 130 million. No such extraordinary expense in 2016 occurred and, therefore, there was a decrease in this item of expenses. The sum of these two items of the profit contributed to profit growth by CZK 241 million.

#### STATEMENT OF COMPREHENSIVE INCOME

**"Net interest income"** grew by CZK 130 million on a year-to-year basis, which represents an increase of 9.2%. While the "Interest income and similar income" decreased slightly by 2.6%, the Bank achieved savings in "Interest expenses and similar expenses". Their volume decreased by almost one-third on a year-to-year basis, specifically by 32.3%. A decrease in interest expenses was achieved by reducing the interest rates on the deposits received from clients.

**"Net income from fees and commissions"** decreased by more than 15% on a year-to-year basis. The Bank showed a decrease in fee income in multiple areas<sup>2</sup>. The volume of fees collected in 2016 and associated with loans was partially negatively affected by extraordinary, one-time fees in 2015 that did not repeat in 2016. A decrease in the fees from foreign payment transactions relates to the lower transactional activity of our clients and the departure of a significant client. This fact is also negatively affected by the development of fees (margins) of FX transactions in a foreign currency on the spot market.

**"Net trading income"** more than doubled on a year-to-year basis to CZK 99 million. The cause of the increase is growth in trades with currency swaps.

**"Net income from financial investments"** in 2016 in the amount of CZK 25 million is composed of proceeds from the sale of government bonds sold by the Bank from a portfolio of assets.

<sup>2</sup> Note No. 5 of the "Statement of Comprehensive Income" in the annual financial statements.

**"Impairment losses on loans"** in 2016 decreased by almost 32% on a year-to-year basis. The trend that began in 2015 thus continued, while the decrease on a year-to-year basis was approximately 4%. This decrease was caused by a high-quality loan portfolio, the successful settlement of outstanding loans and, ultimately, the favourable macroeconomic situation.

**"Net reserves created"** in 2016 had the character of a net creation of CZK 26 million and represents mainly the creation of reserves for the off-balance sheet assets. The year 2015, when the Bank reported a net reversal, was influenced by a one-off reversal of reserves for employee benefits, which were cancelled.

**"Administrative expenses"** in 2016 were kept virtually at the same level as in the previous year. An increase in "staff costs" was offset by savings in "Other administrative expenses" and a decrease in "Depreciation of property, equipment and intangible assets". The result is an overall increase of 1.4% on a year-to-year basis.

**"Other operating expenses"** decreased on a year-to-year basis by 52.4% in 2016. As mentioned in the introduction of the commentary on financial results, the Bank was affected in 2015 by a major extra expense that did not repeat in 2016. This was the payment of damages resulting from a court case lost in 2006 based on the judgment of the Court of Appeals amounting to CZK 130 million.

**"Income tax"** increased on a year-to-year basis, which is associated with an increase in profit before tax. Deferred tax and estimation of tax due was not affected by any significant facts that would cause the effective tax rate (approximately 19%) to deviate significantly from the nominal rate.

## STATEMENT OF FINANCIAL POSITION

Total assets decreased by approximately 6% to CZK 72 billion on a year-to-year basis. The decrease is due to reduced "Payables to banks" and "Payables from debt securities issued".

## ASSETS

**"Cash"** and **"Loans and advances to banks"** decreased by approximately one-third. This decrease is partly reflected in the growth of "Loans and credit to clients" on the asset side and partly in a decrease in payables on the liabilities side of the balance sheet. The Bank continues to hold a strong liquidity position. The share of highly liquid assets<sup>3</sup> in the total assets as of the end of 2016 amounts to 21% as compared to 31% at the end of 2015.

**"Loans and credit to clients"** grew by 9.5% on a year-to-year basis and, by the end of 2016, amounted to CZK 55.6 billion. The volume of loans increased mostly due to the products of the Retail Banking segment<sup>4</sup>. The volume of mortgage loans increased by 28.5% and the volume of consumer loans grew by nearly 40%.

At the end of 2016, the Bank sold all government bonds held in the portfolio of securities. This is the reason for a decrease in the item **"Investment securities – realisable"** in the "Statement of Financial Standing". The Bank assessed the current situation on the financial market and decided to sell the bonds in order to realise the income. A decrease in the portfolio of investment securities classified as "loans and receivables" was caused by the due repayment of one of the bond issues in this portfolio.

**"Intangible assets"** increased significantly, by 76%, on a year-to-year basis. The increase is mainly related to project investments in information technology, which were in the state of acquisition as of the date of the annual financial statements. The most important projects include new multichannel electronic banking and a new process for issuing payment cards and processing card transactions.

The development of other Bank assets is connected with normal operation. There were no significant events that could have a significant impact on the movement of these items.

## LIABILITIES

A decrease in **"Payables to banks"** by almost 47% relates to the proper and early repayment of interbank loans. The early repayment was due to the optimisation of the liquidity standing of banks in the selected long-term liabilities.

**"Payables to clients"**, which constitute the main source of funding of the Bank's assets, remained as of the end of 2016 virtually identical to the level as of the end of the previous year, despite the fact that during 2016 there was a significant decrease in the interest rates which

<sup>3</sup> Quickly liquid assets are the sum of lines "Cash and deposits at central banks" and "Receivables from banks" and "Investment securities – realisable" in the "Statement of Financial Standing" presented in the annual financial statements.

<sup>4</sup> Note No. 13 to the "Statement of Financial Standing" presented in the annual financial statements.

the Bank paid to clients from their deposits. Also, the structure of deposits by client segments<sup>5</sup> has not undergone significant changes on a year-to-year basis.

**“Payables from debt securities issued”** decreased on a year-to-year basis by almost 44%. The cause is the due repayment of two issues of mortgage bonds. The portfolio of issued debt securities consists almost exclusively of recently issued mortgage bonds. The issued deposit bills of exchange, which in the past formed a significant portion of these payables, are now in decline on the Czech market and constitute only a fraction of the total volume.

Other liabilities of the Bank<sup>6</sup> increased by more than 90% to a total of CZK 900 million. For the most part, this item of the balance sheet is formed by temporary and short-term liabilities arising from the continued clearance of domestic and foreign payment transactions and can have considerable volatility.

**“Subordinated liabilities”** shown by the Bank as of the end of 2016 represent the subordinated debt from the parent company Sberbank Europe AG, the sole shareholder of the Bank. This liability, which is part of Tier 2 regulatory capital, has been adopted by the Bank in order to comply with the internally prescribed capital buffer that aims to ensure compliance with regulatory requirements for the total capital adequacy of the Bank under standard market conditions.

## EQUITY

The equity of the Bank as of the end of 2016 amounted to CZK 8.3 billion. The increase compared to 2015 is essentially composed of profit for the accounting period of 2016. There was no increase in the equity by the shareholder in the course of 2016. There was also no dividend payment. Profit from 2015, following the legal allocation to the statutory reserve fund, remained part of equity as “Retained earnings”.

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<sup>5</sup> Note No. 23 to the “Statement of Financial Standing” presented in the annual financial statements.

<sup>6</sup> Other liabilities of the Bank comprise the following items of the “Statement of Financial Standing” presented in the annual financial statements: Income tax payable, Other liabilities, Accrued revenues and expenses, and Reserves.

## 11. PRODUCTS AND SERVICES



### PRODUCTS FOR THE RETAIL SEGMENT

Retail clients can use the entire line of the FAIR (FÉR) products for all their financial needs; this line is characterised by the fact that clients pay no fees, know all the conditions in advance and can quickly and easily check prices. There was a special offer of credit products in 2016.

The FAIR mortgage underwent an overall transformation at the end of the year; in addition to a significant reduction in rates, the bank minimised the requirements for documents submitted by clients – it either stopped requiring them or obtained them on behalf of the client free of charge (for instance the assignment of insurance benefits). The bank also streamlined refinancing, which clients could now reserve up to one year in advance. In the spring, the bank reduced the rates of the most popular fixations to 1.69% p.a.

At the beginning of the year, FAIR loans introduced a new benefit – the guarantee of the best consumer loan. When the client found a better competing offer on the market, Sberbank CZ, a.s. adjusted the client's FAIR loan down to the minimum possible amount of 5.99% APR. The offer lasted until further notice. A clear long-term competitive advantage of the FAIR loan is the fact that the client learns the rate immediately on the basis of the financed amount and maturity. In combination with the new benefit, this made the FAIR loans even more attractive. In the spring, the bank also cut rates, and the FAIR loans started from a rate of 5.99% p.a. The guarantee of the best consumer loan also became a permanent benefit throughout the repayment period. In the summer, the bank reduced the rates for selected amounts and periods of maturity. Moreover, Sberbank CZ, a.s. introduced a new local creative concept, and as the first banking product within the new concept presented the increasingly popular FAIR loan under the motto "Money Matters".

During the year, the bank adjusted the rate on savings accounts, unified the ranges, and generally simplified the offer of savings accounts. The key savings account FAIR Savings PLUS was among the best savings accounts for deposits of up to CZK 300,000 for a long time. Clients who also actively used the FAIR Account ACTIVE (AKTIV), OPTIMAL or BUSINESS (PODNIKATEL) automatically got better rates higher than average interest rates on deposits on the market. FAIR Savings won top prize in the Finparáda Competition in the category of the Best Savings Account 2016. The bank complemented the offer of savings with NN mutual funds to enable clients to optimally distribute their available funds among

traditional savings products and investment products with a potentially higher yield.

The FAIR Account, which offers three variants – MINI, ACTIVE (AKTIV) and OPTIMAL – strengthened its market position mainly through zero fees for active clients, advantageous savings for active users and the option of maintaining accounts in foreign currencies free of charge. The FAIR Account OPTIMAL ranked high in independent comparisons as a current account suitable for affluent clients.

### PRODUCTS FOR ENTREPRENEURS AND SMALL BUSINESSES WITH TURNOVER OF UP TO CZK 25 MILLION

Whereas the offer of current accounts for entrepreneurs and small businesses underwent a major change in 2015, the year 2016 did not bring any changes of such magnitude. Entrepreneurs who use the FAIR Account BUSINESS (PODNIKATEL) will have their accounts free of charge with credited turnover from CZK 15,000 per month. The account contains all essential services for daily financial management, including maintaining accounts in foreign currencies free of charge and maintaining an account for personal use, which is also completely free.

Corporate clients can choose from three types of accounts, MINI, ACTIVE (AKTIV) or OPTIMAL, exactly according to their individual needs, whether they are start-ups or established companies. Clients have access to convenient international payments, and accounts denominated in foreign currencies are free of charge.

In the autumn, the bank introduced an innovation in the field of loans – non-specific and unsecured Corporate FAIR Loan for entrepreneurs and small businesses from 4.44% p.a. Clients only pay the rate; the bank has completely cancelled any other fees. The unsecured loan can be up to CZK 2.5 million. The bank assesses the loans individually and offers financing tailored to the amount and rate that the client requests.

### PRODUCTS FOR SME CLIENTS AND CORPORATIONS WITH AN ANNUAL TURNOVER FROM CZK 1.2 BILLION

In 2016, the product range was expanded by a specific type of savings account – savings account with a notice period allowing a greater appreciation of temporarily available funds. Another innovation was the addition of the Chinese yuan, Turkish lira and Romanian new leu to current account currencies.

The bank offers the Business Current Account to corporate clients for everyday banking. In addition to domestic payments, clients can also use a special Sberbank payment within the international payment system, discounted payments in euros to selected banks in the Sberbank Group and discounted incoming and outgoing rouble payments from/to any bank in Russia.

For the appreciation of available funds, the bank offers a Savings Account for corporate clients (with or without a notice period) and term deposits. For amounts exceeding CZK 25 million, the bank provides clients with individual approaches to appreciating funds through the Global Markets Division.

Sberbank CZ, a.s. demonstrates advantageous conditions and expertise in products and services related to the rouble. In this area, Sberbank CZ, a.s. has secured a strong market position. In the area of risk hedging and the foreign exchange market, Sberbank CZ, a.s. offers a variety of hedging options according to the individual needs of clients.

The bank supports Czech companies that wish to enter foreign markets where Sberbank CZ, a.s. operates in the process of opening accounts. These services operate in cooperation with partner Sberbank branches of Russia, Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Hungary. The bank provides similar support for Switzerland.

Sberbank, a.s. offers various forms of financing to companies – operational financing, investment loans, structured financing, etc. The bank's financing services are based on an individual approach that takes into account the specific requirements of each client. Clients from the corporate sector who focus on investment and property development can take advantage of the special financing Real Estate Department, which has a long tradition at the bank. The bank also offers specialised products in the public and agricultural sectors. An integral part of the bank consists in financing with the support of Českomoravská záruční a rozvojová banka, a.s.

The financing of export and foreign trade is another pillar of the bank's offer. Sberbank CZ, a.s. offers specialised products and services, including the use of the knowledge and base of the Sberbank Group.

Sberbank CZ, a.s. is also developing its services in eCommerce. A new feature in 2016 is the beginning of cooperation between Sberbank CZ, a.s. and Czech Airlines, the flagship carrier of the Czech Republic, namely in the mediation and acceptance of internet credit card payments on the Russian market. Sberbank CZ, a.s. has become a partner of the official website of Czech Airlines and will ensure the acceptance of Visa, Visa Electron, MasterCard and Maestro payment cards in payments for airline tickets in the Russian-language version of the Czech Airlines website.

## 12. RISK MANAGEMENT



### 12.1. Introduction

The bank maintains a prudent and balanced approach to risk management in order to achieve reasonable returns at an acceptable risk level. The applicable regulations and risk strategy of the bank constitute the basis. The bank uses a system of regulatory and internal limits, the amount of and compliance with which are regularly monitored, and in cooperation with its parent company continuously develops advanced risk management tools.

The major general principles of the risk management process are the optimisation of the relationship between risk and the expected return, an effective internal control system, the segregation of duties, the identification and analysis of risks, portfolio diversification and, last but not least, ensuring the accuracy and completeness of data in banking systems. Bank management is regularly informed about the degree of risk taken, and the risk management system is monitored and evaluated.

Within the organisational structure of risk management, the Management Board has the central position; the Management Board determines the risk management strategy, approves the risk appetite of the bank with regard to the medium-term strategy of the bank, approves all key documents in the area of risk management, approves the models for credit risk management, and decides on significant risk positions.

Risk management is ensured by the Risk Management Division, which is managed by a designated member of the Management Board. The departments under the Risk Management Division analyse the bank's risk positions, check compliance with limits, provide information on the identified results and approve risk positions within the established authority.

The following committees form an essential part of the risk management system:

**Risk Committee**, to which the Management Board of the bank has delegated decision-making in the following areas:

- Approving the risk management principles and basic methods, limits, scenario assumptions and any other parameters used in the risk management process, monitoring credit, market and operational risks (including compliance with limits), approving corrective actions when limits are exceeded or adverse development trends occur;

- Defining the principles of internal guidelines on risk management;
- Approving the methodology of the creation; monitoring and updating of models for risk management and approving other models for risk management; and
- Monitoring the adequacy, reliability and effectiveness of internal guidelines, procedures and limits for risk management.

**Assets and Liabilities Management Committee**, which considers the current and prospective interest and currency risks in the investment portfolio for sales, as well as liquidity risks, financing and management of the regulatory economic capital in order to optimise the revenue-risk profile.

**Credit Committee**, which decides on the acceptance of credit risk in relation to individual counterparties, notably by approving the amount of new exposures and regular revisions of the interest rate risk of the existing exposures.

**Non-Performing Loan Management Committee**, which makes decisions in the following areas:

- Approving the principles of management of debt at risk;
- Considering and approving internal guidelines, methodologies and work procedures related to the management of debt at risk;
- Setting principles for increasing the involvement of clients with respect to debt at risk;
- Deciding on how to address major individual claims at risk to the extent of the powers granted to the Committee;
- Setting rules for the management of individually insignificant claims at risk; and
- Monitoring the development of debt at risk and taking corrective measures in the event of undesirable developments, making decisions on granting approval powers for dealing with debt at risk to employees of the Problematic Receivable Unit, the Manager of the Problematic Receivable Unit and the CRO.

The Committee members are members of the Management Board of the bank and executive officers from the respective areas of risk management.

The Risk Management Division consists of the following five units:

- Integrated Risk Management, which is responsible for credit risk management, capital adequacy and portfolio monitoring;
- Market and Operational Risk, which is responsible for managing market risk, operational risk and liquidity risk;
- Credit Risk, which is responsible for setting the credit processes;
- Underwriting, which is responsible for the approval process; and
- Restructuring and Workout, which is responsible for debt recovery.

## 12.2. Capital Adequacy

To determine the capital requirement, the bank uses a standardised approach to credit risk and operational risk. Given that the bank holds a small trading portfolio, there is no capital requirement for market risk. In accordance with regulatory requirements, the bank has sufficient capital to cover risks.

In accordance with the requirements of Pillar II of the Basel Capital Accord known as Basel III, the bank at least once a year evaluates the adequacy of capital with respect to all significant risks (Internal Capital Adequacy Assessment Process).

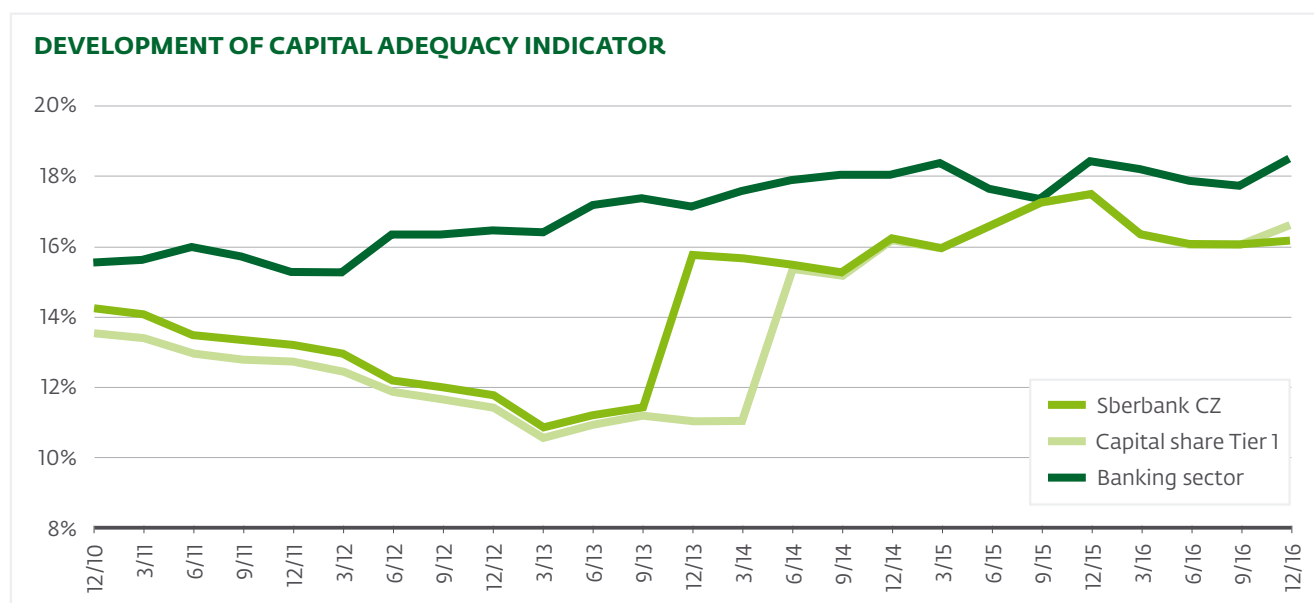
## 12.3. Credit Risk

Providing loan products is one of the main business activities of the bank. This corresponds to the emphasis that is placed on credit risk management. This process includes identifying risks, measuring risk exposure, monitoring limits and adopting measures to reduce credit risk. The process takes place at the level of the individual client as well as at the level of the credit portfolio.

In evaluating the credit quality of the client, the bank focuses mainly on the analysis of the client's financial condition, the ability to repay the provided loan from the client's cash flow and experience with the client.

The credit quality of each client is assessed using an internal rating system corresponding to the type of the client under assessment. Each client is classified into one of 26 grades on the internal rating scale. Each rating grade is assigned a fixed annual probability of default of the client, which is used as one of the parameters of the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probability of default of the client is correct.

Another criterion for assessing a loan proposal is the quality of the collateral. The catalogue of these instruments defines the acceptable types of collateral, the method of determining their fair value, the frequency of revaluation and the responsibilities of each department of the bank.



Data on the banking sector are taken from the indicator of the total capital ratio of banks according to the ARAD Database ([http://www.cnb.cz/cnb/arad\\_zakl\\_ukazatele\\_bs](http://www.cnb.cz/cnb/arad_zakl_ukazatele_bs))

The assessment and approval of loan proposals is independent of the business units. The approval powers are delegated by the Management Board and are divided into several levels. The bank carries out regular monitoring of individual exposures in order to monitor the quality of the credit portfolio. This process increases the likelihood that future client defaults will be recognised early. In this case, the bank has established a system to timely settle problematic receivables, which reduces the probability of incurring losses from providing loans.

The bank complies with all regulatory limits for its investment portfolio.

The bank assesses receivables from clients in terms of a possible decline in their value, especially with regard to the rating downgrade, delays in repayment or any other breach of the original contractual terms by the counterparty.

The bank assesses receivable impairment from two perspectives:

1. Collective depreciation, which is applied to each group of assets based on statistical models and is covered by collective loss provisions, and
2. Individual impairments that are associated with individual loans for which there.

## 12.4. Market Risks

The main instrument for market risk management is a system of limits for individual types of market risks. Compliance with these limits is regularly monitored. The Management Board, members of the Risk Committee and the relevant business units shall be informed immediately of any limit overrun and the related corrective measures taken. Limits are set internally by the parent company or the regulatory provisions of the CNB and are approved by the Risk Committee. Stress testing of market risks is run regularly.

The bank manages the FX risk by closing its FX position through hedging transactions. The FX position in individual currencies is monitored daily and compared with the applicable limits.

Interest rate risk is quantified by simulating the impact of a standardised interest rate shock (shift of the yield curve by 200 percentage points) on the economic value (NPV) of interest-sensitive assets and liabilities of the bank, and controlled by the subsequent impact on the bank capital.

Other instruments to manage interest rate risk include stress testing and short-term impact of changes in interest rates on the net interest income of the bank.

The bank's interest rate position is regularly measured and compared with the applicable limits.

The bank was exposed to the market volatility of securities in the form of the held bond portfolio, which was dominated by Czech government bonds. From a regulatory standpoint, the bank holds a small trading portfolio.

## 12.5. Liquidity Risk

Operational liquidity risk management is carried out daily by monitoring the short-term and long-term liquidity indicators in the main individual currencies as well as in aggregate for all currencies. On the basis of the development of these indicators, the bank continually manages its liquidity position. The bank distinguishes between the contractual maturity of the balance sheet items and the modelled expected maturity.

On a weekly basis, the bank develops stress scenarios of its liquidity position based on data on the existing structure of assets and liabilities and their expected behaviour in model stress situations. A contingency plan has been prepared for the theoretical possibility of extraordinary circumstances threatening the bank's liquidity.

Bank management shall be informed about the development of the bank's liquidity and the measures taken through the Assets and Liabilities Management Committee.

## 12.6. Operational Risk

In accordance with regulatory requirements, the bank has the necessary internal guidelines for operational risk management, including information security, business continuity, outsourcing and internal control system that is set for the individual processes at all organisational levels.

The basic applied methods include the avoidance, reduction, transfer and acceptance of operational risk. The operational risk management process includes risk identification, recording, evaluation and assessment,

including measures to minimise risk, and takes place at the level of actual events as well as hypothetical risks.

To manage and identify operational risk, the bank uses: collecting operational risk events, their classification and subsequent evaluation, Risk Self-Assessment and scenario analysis for risks with a high impact on the bank and a low frequency of occurrence.

On the basis of identified operational risks, the bank takes measures aimed at effectively minimising the probability of occurrence of similar events, and the measures are designed not only depending on the frequency of occurrence and volume of the realised/ projected financial impact but also with regard to the seriousness and cause.

The bank has also drawn up contingency plans for critical situations and the restoration of operations to ensure business continuity to the fullest extent possible, and recovery plans for key IT applications.

## 12.7. Concentration Risk

Sufficient diversification of the underlying credit risk is ensured by a system of limits of concentration risk with respect to groups of connected clients, sectors in which clients operate, and countries. The bank also sets a capital requirement for concentration risk within the Internal Capital Adequacy Assessment Process.

In the area of liquidity, the degree of concentration of client deposits is monitored, regularly compared with the applicable limits, and presented to the bank's management.

## 13. CORPORATE GOVERNANCE



In accordance with Section 9 of the Articles of Association of Sberbank CZ, a.s., the bank's internal structure system is dual. The bodies of the bank are the General Meeting, the Management Board, the Supervisory Board and the Audit Committee. Only private individuals may be members of the Management Board, the Supervisory Board and the Audit Committee. Members of the bodies are obliged to perform their duties with due professional care and diligence and to respect the prohibition of competition to the extent stipulated by law.

### 13.1. General Meeting

The General Meeting of Sberbank CZ, a.s. is the supreme body of Sberbank CZ, a.s.

Sberbank Europe AG is the sole holder of all shares of Sberbank CZ, a.s., and as the sole shareholder of Sberbank CZ, a.s. acts in the capacity of the General Meeting of Sberbank CZ, a.s. Decisions of the sole shareholder must be made in writing and, where required by law, in the form of notarial deeds. The sole shareholder has the right to require that the Management Board of Sberbank CZ, a.s. and the Supervisory Board of Sberbank CZ, a.s. take part in the decision-making process that occurs within the capacity of the General Meeting.

#### **The powers of the General Meeting include in particular making decisions on the following:**

- amending the Articles of Association,
- increase or decrease of registered capital,
- issue of convertible or priority bonds,
- appointing and dismissing members of the Supervisory Board, approving performance agreements with members of the Supervisory Board and their amendments,
- appointing and dismissing members of the Audit Committee, approving performance agreements with members of the Audit Committee and their amendments,
- approving the annual financial statements and making decisions on the distribution of profits or the covering of losses,
- considering the report on the bank's business activities and its assets,
- appointing an auditor to perform the statutory audit,
- submitting applications for the admission of the company's shares for trading on the European regulated market or for the exclusion of shares from trading,
- transferring, leasing or pledging the enterprise, winding up the company with liquidation or transforming the company,
- changing the rights attached to individual classes or types of shares,
- restricting the transferability of registered shares,
- excluding or limiting the pre-emptive right to acquire convertible and priority bonds, and excluding or limiting the pre-emptive right to acquire new shares,
- increasing the registered capital with material non-cash contributions,
- changing the subject of enterprise,
- approving the Supervisory Board's Rules of Procedure,
- approving the Audit Committee's Rules of Procedure.

The General Meeting cannot reserve the right to make decisions on matters that have not been vested in the General Meeting by law or by the Articles of Association.

#### **In 2016, the sole shareholder of Sberbank CZ, a.s. adopted in particular the following major decisions in the capacity of the General Meeting:**

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 9 May 2016**  
Through this decision, the sole shareholder in particular considered and acknowledged the report on the bank's business activities and its assets, acknowledged the Report on Relationships for 2015, approved the annual financial statements for 2015 and decided on the Management Board's proposal for the distribution of profit for 2015.
- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 27 June 2016**  
Through this decision, the sole shareholder in particular appointed Arndt Röchling as a member of the Audit Committee effective 1 July 2016.
- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 2 November 2016**  
Through this decision, the sole shareholder appointed Arndt Röchling as a member of the Supervisory Board and acknowledged the resignation of Sergey Malyshev, a member of the Supervisory Board.
- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 16 November 2016**  
Through this decision, the sole shareholder considered and approved the termination of membership of Igor Strehl on the Audit Committee.

On 8 December 2016, the sole shareholder of Sberbank CZ, a.s. decided, in the form of a notarial deed, to amend the Articles of Association of Sberbank CZ, a.s. The amendment consisted in reducing the number of members of the Supervisory Board from seven to five and newly establishing a four-year term of office for members of the Supervisory Board.

## 13.2. Supervisory Board

The Supervisory Board is a supervisory body that oversees the performance of the Management Board of Sberbank CZ, a.s. and the activities of the company. The Supervisory Board checks whether the Management Board performs its duties in accordance with the law and the Articles of Association, and whether members of the Management Board act in the interests of the company and with due professional care and diligence. Members of the Supervisory Board perform their duties with due professional care and diligence. The Supervisory Board is governed by the principles approved by the General Meeting, unless they are in conflict with the Articles of Association or the law. No one is authorised to give to the Supervisory Board any instructions related to its statutory duty to oversee the activities of the Management Board.

The Supervisory Board consists of five members. Members of the Supervisory Board are elected and dismissed by the General Meeting for a four-year term of office. Members of the Supervisory Board elect the chairman and deputy chairman of the Supervisory Board from among their ranks.

Members of the Supervisory Board of Sberbank CZ, a.s. are listed in the chapter entitled Governing Bodies (see p. 008).

Members of the Supervisory Board are liable to the company for any damage they cause due to a breach of their legal obligations. Members of the Supervisory Board are responsible to the company represented by the shareholder.

No committees of the supervisory body have been established.

The Supervisory Board shall meet at least twice a year. Meetings of the Supervisory Board shall be convened by the chairman or the deputy chairman of the Supervisory Board or their representative. The Supervisory Board

shall have a quorum if more than half of its members are present. Resolutions of the Supervisory Board shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Supervisory Board (in the chairman's absence the vote of the deputy chairman) shall decide. Minutes of every meeting shall be drawn up. The Supervisory Board may also adopt decisions outside of meetings in writing or using technical means (per rollam decisions). Details are laid down in the Supervisory Board's Rules of Procedure, approved by the General Meeting.

### The responsibilities of the Supervisory Board include in particular:

- reviewing the annual financial statements and the proposal of the Management Board for the distribution of profit or covering of loss, and submitting its opinion to the General Meeting,
- informing the General Meeting of the results of the Supervisory Board's supervisory activities,
- electing and dismissing members of the Management Board, approving performance agreements with members of the Management Board and their amendments,
- approving the Management Board's Rules of Procedure,
- approving the allocation of organisational units among members of the Management Board within the company organisational chart,
- checking whether the management and control system is functional and effective, with an evaluation at least once a year,
- regularly discussing the strategic direction of the Bank,
- evaluating the activities of internal audit and compliance,
- expressing its opinion on proposals of the Management Board for the appointment of persons to the positions of risk management, compliance and internal audit, or their dismissal,
- determining the remuneration policy with respect to persons in positions of risk management, compliance and internal audit.

The Supervisory Board grants its prior consent to the Management Board for certain acts as set out in the Articles of Association of Sberbank CZ, a.s. Such acts include the establishment, relocation and closure of a branch and determining the company's annual budget.

## Meetings and per rollam decisions of the Supervisory Board

In 2016, two regular meetings of the Supervisory Board were held, namely on 28 April 2016 and 6 December 2016, at which the Supervisory Board made decisions on matters that fell within its authority. In addition to the aforesaid meetings, the Supervisory Board adopted a number of other per rollam decisions.

Major per rollam decisions adopted by the Supervisory Board in 2016 include:

- **Written decision of the Supervisory Board dated 26 January 2016**  
The Supervisory Board decided to appoint Jindřich Horníček as a member of the Management Board for a two-year term of office effective 1 February 2016.
- **Written decision of the Supervisory Board dated 24 June 2016**  
The Supervisory Board decided to appoint Igor Strehl chairman of the Supervisory Board.
- **Written decision of the Supervisory Board dated 26 September 2016**  
The Supervisory Board decided to re-appoint Jiří Antoš as a member of the Management Board for a term of office until 30 September 2019, effective 1 October 2016.
- **Written decision of the Supervisory Board dated 16 November 2016**  
The Supervisory Board acknowledged the resignation of Igor Strehl from his post as chairman and member of the Supervisory Board as of 16 November 2016, and decided to appoint Arndt Röchling deputy chairman of the Supervisory Board.
- **Written decision of the Supervisory Board dated 22 December 2016**  
The Supervisory Board decided to re-appoint Vladimír Šolc and Karel Soukeník members of the Management Board for a term of office until 31 December 2019, effective 1 January 2017.

## 13.3. Management Board

The Management Board is the governing body of the company responsible for the business management of the company and representing the Bank in all matters. The Management Board is responsible for establishing, maintaining and evaluating the functional and efficient management and control system of the Bank as a whole and in parts. The Management Board exercises the rights of the employer. No one is authorised to give

to the Management Board instructions regarding the Bank's business management, unless so required by law.

The Management Board consists of five members. Members of the Management Board are elected and dismissed by the Supervisory Board for a three-year term of office, unless the relevant performance agreement provides otherwise. Re-election is permissible. Members of the Management Board elect the chairman of the Management Board from among their ranks. During the term of office, the Supervisory Board may dismiss the individual members of the Management Board.

With the exception of the Articles of Association, there are no special rules governing the election and dismissal of members of the Management Board or amendments to the Articles of Association.

Members of the Management Board of Sberbank CZ, a.s. are listed in the chapter entitled Governing Bodies (see p. 008).

Members of the Management Board shall perform their duties with due professional care and diligence, and act in good faith and in the best interests of the Bank and the shareholder. They are experts in managing large corporations with international experience and the capacity for teamwork. Their function requires continuous improvements in the field as well as in the area of corporate governance, a proactive approach to the fulfilment of obligations, the ability to contribute to the development of the corporate strategy and, last but not least, loyalty to the Bank. Members of the Management Board shall adhere to high ethical standards and ensure that the Bank complies with applicable laws. They are personally accountable for any damage they cause to the company due to a breach of legal obligations, and are responsible to the Bank represented by the Supervisory Board and the shareholder.

The Management Board may establish executive committees (for more information, see the subchapter entitled Committees Established by the Management Board on p. 010).

The Management Board shall meet according to the Bank's needs, but at least once a month. Meetings of the Management Board shall be convened by the chairman of the Management Board or the chairman's representative. The Management Board shall have a quorum if more than half of its members are present. Resolutions of the Management Board shall be adopted

by a simple majority. In the case of equal numbers of votes, the chairman of the Management Board shall have the deciding vote. The Management Board may also adopt decisions outside of meetings in writing or using technical means (per rollam decisions). Details are laid down in the Management Board's Rules of Procedure, approved by the Supervisory Board.

### **The responsibilities of the Management Board include in particular:**

- approving and regularly assessing the overall Bank strategy, the organisational structure of the Bank, the human resource management strategy, the risk management strategy, strategy related to capital and capital ratios, the strategy for the development of the information and communication system, the principles of the internal control system and the security policy,
- approving new products and other issues that are of fundamental importance or that have a potential significant impact on the Bank,
- approving the statutes of executive committees,
- approving the strategic and periodic plan of internal audit,
- appointing and dismissing people in key positions in the Bank,
- deciding on actions outside the ordinary course of the Bank's business,
- determining the remuneration policy,
- ensuring proper Bank bookkeeping.

Responsibilities of the individual members of the Management Board are divided according to fields on the organisational chart approved by the Supervisory Board.

The Management Board decides on all company matters that are not reserved by law or the Articles of Association for the General Meeting, the Supervisory Board or the Audit Committee.

There are no special powers of members of the Management Board under the law regulating legal relationships of business corporations.

## **13.4. Committees Established by the Management Board**

The Management Board of Sberbank CZ, a.s. may establish executive committees in accordance with the Articles of Association of Sberbank CZ, a.s. and Decree No. 163/2014 Coll. governing the performance of the activities of banks,

credit unions and investment firms. In accordance with this authority, the Management Board of Sberbank CZ, a.s. has established the executive committees listed below and defined their authority, powers and composition in the bylaws of the respective executive committees. Members of the executive committees are listed in the chapter entitled Governing Bodies (see p. 010).

### **Assets and Liabilities Management Committee**

The Bylaws of the Assets and Liabilities Management Committee were approved by the Management Board of Sberbank CZ, a.s. on 4 March 2013 (in the current version).

The Assets and Liabilities Management Committee is an executive committee whose main task is to manage and evaluate the impacts of the evolution of interest rates, exchange rates, liquidity and financing options. It makes decisions on the rules for managing assets and liabilities, considers the current and prospective interest and currency risks in the investment portfolio, as well as liquidity risks, financing and management of the regulatory capital in order to optimise the revenue-risk profile.

The Assets and Liabilities Management Committee shall meet at least once a month. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OE 026 ALM/Treasury). The Committee shall have a quorum if an absolute majority of the voting members of the Committee and at least three members of the Management Board are present. Resolutions of the Committee shall be adopted by a simple majority. In the case of equal numbers of votes, the matter shall be referred to the Management Board. Minutes of every meeting of the Committee shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Assets and Liabilities Management Committee.

### **Credit Committee**

The Bylaws of the Credit Committee were approved by the Management Board of Sberbank CZ, a.s. on 29 February 2016 effective 1 March 2016 (in the current version).

The Credit Committee is an executive committee that manages credit risk. It makes decisions on transactions that are associated with credit risks that go beyond and exceed the boundaries of the individual delegated authorities within Sberbank CZ, a.s.

The Credit Committee shall meet at least once a week. The Committee shall have a quorum if at least two members of the Management Board, the chairman or deputy chairman of the Credit Committee (or their representative) and Head of OE 036 Underwriting Division (or their representative) are present. Meetings of the Committee shall be chaired by the member of the Management Board responsible for risk management (Chief Risk Officer). Resolutions of the Committee shall be adopted by a simple majority. In the case of equal numbers of votes, the chairman of the Committee shall have the decisive vote. Minutes of every meeting of the Committee shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (*per rollam* decisions). Detailed information shall be set out in the Bylaws of the Credit Committee.

### Non-Performing Loan Management Committee

The Bylaws of the Non-Performing Loan Management Committee were approved by the Management Board of Sberbank CZ, a.s. on 7 November 2016 (in the current version).

The Non-Performing Loan Management Committee is an executive committee that manages and deals with non-performing loans provided by Sberbank CZ, a.s.

The Non-Performing Loan Management Committee shall meet at least once a week. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OE 037 Workout & Restructuring). The Committee shall have a quorum if an absolute majority of the voting members, the member of the Management Board responsible for risk management (Chief Risk Officer) or Head of OE 037 Workout & Restructuring, and one of the following members of the Management Board (Chief Executive Officer or Chief Risk Officer or Chief Financial & Operation Officer) are present. Resolutions of the Committee shall be adopted by a simple majority. In the case of equal numbers of votes, the chairman of the Committee shall have the decisive vote. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (*per rollam* decisions). Detailed information shall be set out in the Bylaws of the Non-Performing Loan Management Committee.

### Retail Committee

The Bylaws of the Retail Committee were approved by the Management Board of Sberbank CZ, a.s. on 29 September 2015 effective 30 September 2015 (in the current version).

The Retail Committee is an executive committee in matters concerning the approval of non-credit products for retail clients of the bank and their changes and credit products for retail clients of the bank and their changes that do not require approval by the Risk Committee; the Retail Committee also supports the management of activities of the member of the Management Board of the bank responsible for Retail.

The Retail Committee shall meet at least once a week. Meetings of the Committee shall be convened by the secretary of the Committee (an employee of Sberbank CZ, a.s. authorised by the member of the Management Board responsible for Retail). The Committee shall have a quorum if an absolute majority of the voting members and the member of the Management Board responsible for Retail are present. Resolutions of the Committee shall be adopted by a simple majority. In the case of equal numbers of votes, the chairman of the Committee (Chief Retail Officer) shall have the decisive vote. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (*per rollam* decisions). Detailed information shall be set out in the Bylaws of the Retail Committee.

### Risk Committee

The Bylaws of the Risk Committee were approved by the Management Board of Sberbank CZ, a.s. on 27 June 2016 effective 1 July 2016 (in the current version).

The Risk Committee is an executive committee that is responsible for risk management at Sberbank CZ, a.s. In particular, it approves the rules of risk management, monitors credit, market and operational risks, and approves corrective measures.

The Risk Committee shall meet at least once a month. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OE 070 Integrated Risk Management). The Committee shall have a quorum if an absolute majority of the voting members, the member of the Management Board responsible for risk management (Chief Risk Officer) or Head of OE 070 Integrated Risk Management and the member of the Management Board responsible for risk management (Chief Risk Officer) or the member of the Management

Board responsible for financial and operational management (Chief Financial & Operation Officer) are present. Resolutions of the Committee shall be adopted by a simple majority. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Risk Committee.

### Steering Committee

The Bylaws of the Steering Committee were approved by the Management Board of Sberbank CZ, a.s. on 28 February 2013 (in the current version).

The Steering Committee is an executive committee that is responsible in particular for prioritising projects with regard to the strategic objectives of the bank's management, evaluating the economic benefits of the project, considering project proposals and formulating their final versions, approving the assignments, changes, termination and cancellation of projects, monitoring their progress and solving problems during the project.

The Steering Committee shall meet at least once every two months. Meetings of the Committee shall be convened by Secretariat 001. Resolutions of the Committee shall be adopted by a simple majority of members present. In the case of equal numbers of votes, the chairman of the Committee (chairman of the Management Board) shall have the decisive vote. Minutes of every meeting shall be drawn up. Detailed information shall be set out in the Bylaws of the Steering Committee.

## 13.5. Audit Committee

The Audit Committee consists of three members. Members of the Audit Committee are appointed and dismissed by the General Meeting; they are appointed for the period until the end of the third General Meeting, which decides on the annual financial statements for the third calendar year, following their appointment; if the General Meeting is not held at the proper time, the term of office shall end on 30 June of the third calendar year following the appointment (the calendar year in which members of the Audit Committee were elected is not included in this period), unless the General Meeting decides otherwise. Members of the Audit Committee elect and dismiss the chairman and deputy chairman of the Audit Committee from among their ranks.

Members of the Audit Committee are listed in the chapter entitled Governing Bodies (see p. 008).

The Audit Committee shall meet at least twice a year. The Audit Committee shall have a quorum if more than half of its members are present. Resolutions of the Audit Committee shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Audit Committee (in the chairman's absence the vote of the deputy chairman) shall be decisive. The Audit Committee may also adopt decisions outside of meetings in writing or using technical means (per rollam decisions). Further information is laid down by the Rules of Procedure of the Audit Committee, approved by the General Meeting.

### The responsibilities of the Audit Committee include in particular:

- monitoring the process of compiling the annual financial statements,
- evaluating the effectiveness of internal controls, internal audit and risk management system,
- monitoring the process of the statutory audit of the annual financial statements,
- assessing the independence of the statutory auditor and audit company,
- recommending an auditor,
- providing the General Meeting with information about the Audit Committee's activities.

The Audit Committee performs other tasks vested in the Audit Committee by the Articles of Association or relevant legal regulations.

### Meetings of the Audit Committee:

In 2016, two regular meetings of the Audit Committee were held, namely on 28 April 2016 and 23 November 2016, at which the Audit Committee made decisions on matters that fell within its authority.

## 13.6. OECD Code of Corporate Governance

Sberbank CZ, a.s. voluntarily complies with the main standards of corporate governance laid down in the **Code of Corporate Governance based on OECD Principles** (2004), the Czech version of which is published on the website of the Ministry of Finance of the Czech Republic.

Sberbank CZ, a.s. respects the principles of corporate governance that best reflect the manner in which the company does business, the company's interests and the company's shareholder. These basic standards of corporate governance are reflected in the Articles of Association and related internal guidelines of the company. A number of recommendations arising from the aforesaid Code are also reflected in Act No. 90/2012 Coll. on business corporations, and other laws of the Czech Republic.

The Bank bodies and their powers are described in the chapter entitled Corporate Governance (see p. 032).

**The main principles of corporate governance to which Sberbank CZ, a.s. adheres include in particular:**

- Protection of shareholders' fundamental rights (especially the right to the transfer of shares, the right to receive timely and regular information on the company from other company bodies, the right to elect and dismiss members of the Supervisory Board, the right to participate in the profits of the company, the right to participate in making decisions on significant changes in the company by amending the Articles of Association);
- Prohibition of abuse of insider information by members of the company bodies and employees (in particular the prohibition of using opportunities for personal gain, conflict of interest, competitive conduct and misusing the company's assets; members of the company bodies are obliged to act with due professional care and diligence);
- Publishing (important information relating to the company and its activities is published on the website of Sberbank CZ, a.s. in Czech and possibly also in English);
- Transparency (especially the statutory auditor's independence and its assessment by the Audit Committee, access to regular, reliable and sufficiently detailed information in the annual and semi-annual reports of the company, information on the ownership structure of the company, preparing the report on relationships, assessing the integrity and professional competence of members of the company bodies, report on the activities of the Management Board);
- Responsibilities of the Management Board and the Supervisory Board (in particular the obligation to act with due professional care and diligence, electing and dismissing members of the Supervisory Board by the General Meeting, electing and dismissing members

of the Management Board by the Supervisory Board, submitting the report on the Management Board's activities to the General Meeting, submitting the report on the Supervisory Board's activities to the General Meeting, monitoring and resolving potential conflicts of interest).

In addition to the aforesaid Code, Sberbank CZ, a.s. voluntarily complies with the following codes that are published at [www.czech-ba.cz](http://www.czech-ba.cz) and [www.akatcr.cz](http://www.akatcr.cz):

- Ethical Code of the Czech Banking Association;
- Ethical Code of the Capital Market Association;
- Code for Loans and Housing (CBA Standard No. 18/2005, the principles of provision of pre-contractual information related to housing loans);
- Bank-Client Code (CBA Standard No. 19/2005, the code of conduct between banks and clients);
- Code of Client Mobility (CBA Standard No. 22/2009, clients' mobility – the process of changing banks);
- Rules for the reimbursement of funds arising from interbank payment transactions (CBA Standard No. 15/2002, as amended in 4/2011);
- CBA standards in the payment system.

The codes and CBA standards are incorporated in the bank's Code of Conduct of Employees and internal work procedures.

## 13.7. Internal Control

Internal control is a process whose participants are the Management Board, officers and all other employees, and which is designed to provide reasonable assurance regarding the achievement of objectives relating to:

- effectiveness and efficiency of operations,
- reliability of financial reports,
- compliance with applicable laws and regulations.

An effective internal control system provides reasonable (not absolute) assurance of security of property, reliability of financial information and compliance with laws and regulations. This concept of reasonable assurance lies in a constant evolution and implementation of internal controls and constitutes a tool of the bank's Management Board to achieve an optimum balance between the risk of business processes and the level of controls necessary to ensure the achievement of the bank's business objectives.

The methodology of the internal control system is based on the internal control principles as recommended by the Committee of Sponsoring Organizations (COSO)

of the Treadway Commission. This approach provides Sberbank CZ, a.s. with a good-quality, clear, practical basis for its own internal control system.

The Management Board provides for the setting of appropriate control principles, procedures and activities supporting the control objectives at all levels, and is responsible for maintaining the functionality and effectiveness of the internal control system.

In the management of key risks within the risk tolerance levels set by the bank's Management Board, each head of an organisational unit identifies appropriate internal controls with respect to the "cost/benefit" indicator. In accordance with the identified risks, the relevant processes and associated risks are subject to checks (controls).

The competent officer prepares a plan of checks and controls that includes an overview of ongoing checks and controls in the unit for each organisational unit. For each check or control, it is stated how its execution is documented. All control activities, including related responsibilities, powers and internal guidelines, can be traced back.

As part of the internal control system, the bank has established the following types of controls:

- operational controls – routine controls of an everyday nature,

- periodic controls – controls with a minimum of a one-week execution interval,
- managerial controls/key control indicators – monitoring the execution of operational or periodic controls by the authorised person,
- extraordinary controls – control investigations – their aim is to discover the objective causes of any negative findings.

The established control mechanisms are periodically reviewed and updated as necessary.

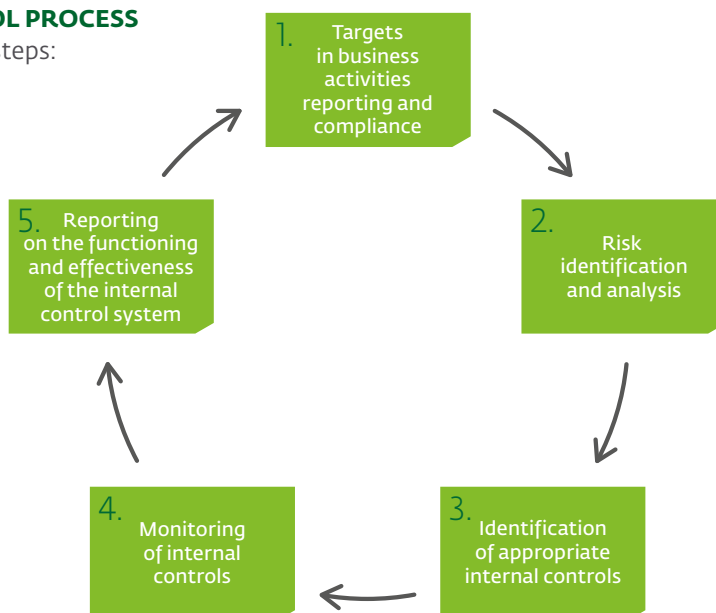
The internal control system is continuously monitored and evaluated. Its functionality and effectiveness is regularly assessed by the Management Board and the Audit Committee. An internal audit independently reviews the bank's activities, including the risk management system and the internal control system.

The process of accounting and financial reporting may be exposed to risks of inaccuracies resulting from human or technical factors. Sberbank CZ, a.s. attempts to minimise these risks in the following ways:

- prepared accounting principles, which are described in the notes to the annual financial statements,
- detailed methodological guidelines and operating procedures for all areas of accounting, which are used in everyday accounting practice,
- standard inventory process,
- established internal controls for accounting,
- efforts to automate bookkeeping to the greatest possible extent.

## THE INTERNAL CONTROL PROCESS

consists of the following steps:



## 14. REMUNERATION

### 14.1. Principles for Remuneration of Senior Management

Senior executives of Sberbank CZ, a.s. are members of the Management Board in accordance with Section 2(1)(a) of Act No. 256/2004 on capital market undertakings (the "Capital Market Undertakings Act").

Senior managers at Sberbank CZ, a.s. are members of the Management Board and members of the Supervisory Board in accordance with Section 2(1)(b) of the Capital Market Undertakings Act.

Members of the Management Board and the Supervisory Board of the Bank are listed in the chapter entitled Governing Bodies (see p. 008).

The Supervisory Board as a body with the power to elect and dismiss members of the Management Board approves performance agreements with the individual members of the Management Board; among other things, these agreements govern the method of remuneration of members, i.e. the amount of income.

The Supervisory Board has not established any committees, not even a remuneration committee.

The sole shareholder as the body with the power to elect and dismiss members of the Supervisory Board, acting in the capacity of the General Meeting, approves performance agreements with the individual members of the Supervisory Board. Members of the Supervisory Board are not entitled to any remuneration for the performance of their duties, therefore the agreements do not regulate the remuneration of these members.

The chairman of the Management Board and members of the Management Board are remunerated on the basis of their respective Performance Agreements concluded with them in accordance with the relevant provisions of the Business Corporations Act. The Performance Agreement with each member of the Management Board has been approved by the Supervisory Board of the Bank. The company pays fixed monthly remuneration to the chairman of the Management Board and members of the Management Board for their management activities and other activities related to the performance of their duties as members of the Management Board.

In 2016, new Performance Agreements were entered into with three members of the Management Board, namely Vladimír Šolc, Karel Soukeník and Jiří Antoš, due to the extension of their terms in office by the decision of the

Supervisory Board. These new Performance Agreements have been concluded for the period of the new terms of office of these members of the Management Board. The new agreements with these members of the Management Board have been approved by the Supervisory Board. On 1 February 2016, Jindřich Horníček became a member of the Management Board and a Performance Agreement was entered into with him for his term of office on the Management Board. In the case of Miroslav Lukáč, the Performance Agreement entered into with him in 2014 continues to apply.

The basic principles of remunerating members of the Management Board are regulated in the internal guideline entitled "Remuneration Policy". This internal guideline was approved by the Supervisory Board on 26 November 2013. This internal guideline is in accordance with Czech and European law. The concluded performance agreements reflect the principles of determining the remuneration of members of the Management Board governed by this internal guideline.

The chairman of the Management Board and members of the Management Board are remunerated with regard to the assessment of their performance, which is measured based on the fulfilment of the defined performance criteria. The performance criteria are established in cooperation with SBEU, are set for each calendar year, and are derived from the financial goals (profit of SBEU before tax, profit of Sberbank CZ, a.s. before tax and profit of the controlled organisational unit) and the fulfilment of structural duties. The variable remuneration component is up to 50% of the fixed component. The bonus is a variable remuneration component and is subject to regulatory requirements of the CNB and the European Banking Authority. The regulatory requirements including possible consequences are also set out in the Performance Agreements with the individual members of the Management Board.

The chairman of the Management Board, members of the Management Board, members of the Supervisory Board or persons related to them do not hold shares or options to purchase shares of Sberbank CZ, a.s. for the reason that shares of Sberbank CZ, a.s. are not publicly traded.

There are no agreements between Sberbank CZ, a.s. and members of its Management Board committing Sberbank CZ, a.s. to provide any performance in the event of the termination of the members' terms of office or employment in connection with a takeover offer.

There are no agreements of members of the Management Board with Sberbank CZ, a.s. that might be substantial and beneficial upon the termination of the legal relationship in terms of users of the annual report, except the aforesaid performance agreements.

## 14.2. Income of Senior Management

Senior managers at Sberbank CZ, a.s. are members of the Management Board and members of the Supervisory Board.

### 1. Income of the Management Board

Performance Agreements have been made with the individual members of the Management Board, under which members of the Management Board are remunerated and under which they received the following income for 2016.

in millions of CZK	2016
Fixed part of remuneration	27.887
Variable part of remuneration*	3.696
Total financial income	31.583
Income in kind**	0.733

\* The variable part of remuneration consists of bonuses paid for the previous years

\*\* The variable part of remuneration consists of bonuses paid for the previous years

The above amounts represent the sum of the income received by the individual members of the Management Board for 2016.

The above amounts are based on the managerial skills, expertise and experience of the individual members of the Management Board and on the overall benefit to the company.

This income was paid based on meeting the financial, qualitative and development criteria and based on the efficiency criteria.

### 2. Income of the Supervisory Board

Members of the Supervisory Board did not receive any monetary or non-monetary income for the performance of their duties in 2016.

## 14.3. Fees Charged by Audit Companies for 2016

	Ernst & Young, s.r.o.	Deloitte Advisory, s.r.o.	PricewaterhouseCoopers Česká republika, s.r.o.
Annual financial statements and quarterly statements, other audit services:	CZK 7,474,170		
Consulting services:	CZK 1,294,700		
Tax services:	CZK 151,250		CZK 169,400
Other:	CZK 1,025,000	CZK 9,942,213	CZK 1,356,078
<b>Total (incl. VAT):</b>	<b>CZK 9,945,120</b>	<b>CZK 9,942,213</b>	<b>CZK 1,525,478</b>

## 15. CORPORATE SOCIAL RESPONSIBILITY

### 15.1. Introduction

In 2016, we managed to fulfil and newly develop the long-term strategy of social responsibility of Sberbank CZ, a.s. on the Czech market. The main pillars of our social responsibility include in particular the active involvement of employees in the corporate volunteer programme and charitable activities performed by distributing funds to non-profit companies from the Sberbank CZ Endowment Fund.

#### Volunteering by Sberbank CZ, a.s. employees

As part of the Volunteering Project, each employee is entitled to one day in the year that can be devoted to active involvement in helping non-profit organisations. The day spent helping the needy is fully covered by Sberbank CZ, a.s. From the beginning of the project in 2012 until the end of 2016, 304 employees of Sberbank CZ, a.s. participated in the project over 14 volunteering days; three centrally organised events took place in 2016.

#### **SBERBANK CZ, A.S. IS A LONG-STANDING PATRON OF THE CAT ROCK (KOČIČÍ KÁMEN)**

On Friday, 9 September 2016 volunteers from the Brno branches met in the Pálava Landscape Protected Area to cultivate the location of the Cat Rock (Kočičí kámen) Natural Monument near Mikulov. The volunteers divided the work fairly among themselves – the men cut bushes and mowed the overgrown grass using light equipment, while others neatly cleaned the meadow with rakes.

#### **CLEANING THE FOREST IN THE BESKID MOUNTAINS**

On Saturday, 16 April 2016 a group of 24 volunteers went to the Beskid Mountains between Vsetín and Velké Karlovice to remove volunteer trees from the local meadows and prepare the meadows as pastures for dozens of sheep. All this was under the auspices of the Salamandr non-profit organisation, which operates in the Beskid Mountains and is among the major organisations of the Czech Union for Nature Conservation. The Salamandr staff had cut the brush with chainsaws, and it was our task to burn the felled trees and branches in several fires.

#### **SBERBANK MANAGERS PLAYED FOOTBALL WITH THE MENTALLY DISABLED**

In October 2016, Sberbank CZ, a.s. contacted the Rybka organisation, which provides sheltered housing and services for mentally disabled people. Forty top managers of Sberbank CZ, a.s. spent a whole afternoon with the residents of the Rybka house and held a football tournament of mixed teams of Rybka and Sberbank

CZ, a.s. But the day did not end with the tournament. When they came back, the Rybka inhabitants had a big surprise waiting for them. During the football tournament, the second group of managers had built a gazebo and marble pitch for Rybka using money from the Fund. According to the director of the organisation, Hana Halová, the mentally disabled are still marginalised and are not really used to such attention. That was why the Sberbank CZ, a.s. managers chose the Rybka house residents as their fellow players.



#### Christmas gifts to shelters

In 2016, Sberbank CZ, a.s. organised the fifth annual event entitled Gifts for the Needy. Together we managed to procure nearly 120 gifts and deliver them to children and young people in shelters and halfway houses. Overall, our gifts brought joy to seven social facilities:

- K srdci klíč – Most
- Halfway house – CERPOS Benešov
- Diaconia Sobotín – Olomouc and Jeseník Halfway House
- Havlíčkův Brod Halfway House
- Hrochův Týnec Halfway House
- Chrudim Shelter
- Home for mothers with children in Hradec Králové

The clients of these facilities had previously created lists of their Christmas wishes, which were delivered to our employees. Our employees then divided the gift wishes among themselves and bought and wrapped the gifts, and the Department of Communications sent them to the mentioned facilities.

The fulfilled wishes included cosmetics, toys, clothes, household supplies, small electronics and books. Sberbank CZ, a.s. employees from the whole country joined the popular initiative.

### Promotion of cancer prevention

In November, Sberbank CZ, a.s. actively participated in the global campaign for the prevention of prostate and testicular cancer – the Movember Project. During the month, we organised several events to promote awareness among employees.

The first activity was the collection of funds, which was supported by the sale of “moustachey” gifts. The collection was held at Prague’s Aviatika and Brno’s M-Palace on Monday, 7 November 2016. Gifts were also prepared at our branches to get our customers involved in the collection as well.

A very interesting educational workshop where our colleagues learned from experts how to timely detect breast cancer, testicular cancer and other types of cancer took place at M-Palace on Thursday, 10 November 2016, and at Prague’s Aviatika on Friday, 11th November. The participants could also try to feel lumps in breast and testicular models and to practice the proper technique of self-examination.

With total proceeds of CZK 115,069 in November, we ranked second among Czech companies and first among banks. At the same time, we exceeded last year’s success by more than CZK 46,000.



## 15.2. Sberbank CZ Endowment Fund

We provide funds for charitable activities through the Sberbank CZ Endowment Fund (hereinafter also the “Fund”), which was established in 2012 as a charitable fund and later transformed into a separate legal entity in March 2014. We support only non-profit organisations registered in the Czech Republic (in particular foundations, endowment funds, associations, community organisations and churches), on the condition that the resources are used solely for purposes that are consistent with the Fund’s charitable goals and mission as set out in the Memorandum of Association of the Fund; the supported areas include the following:

- Vulnerable children and supporting the activities of children living in socially substandard conditions,
- Vulnerable women and supporting programmes for women living in socially substandard conditions,
- Promoting education and financial literacy,
- Disability,
- Seniors,
- Environmental projects.

As of 31 December 2016, nearly CZK 537,000 has been allocated to 46 projects.

In 2016, the Administrative Board met and decided three times on what to do with the accumulated funds.

In January, CZK 40,000 was distributed among 5 projects; in October we supported one project totalling CZK 67,075, and in December the Administrative Board divided CZK 40,000 among 4 projects.

### Projects supported from the Sberbank CZ Endowment Fund in 2016

#### JANUARY 2016

- CZK 5,000 – The Elementary School at the Children’s Psychiatric Hospital used the contribution to furnish a training flat for hospitalised children.
- CZK 10,000 – The Association of Active Ageing and Understanding used the amount for reconditioning and rehabilitation exercises for seniors.
- CZK 10,000 – the Matěj Foundation donated the money to the care of handicapped Matěj.
- CZK 10,000 – The Czech Association of Psychology Students used our contribution to purchase materials for art and music therapy of patients in psychiatric hospitals.
- CZK 5,000 – CE-DI-RO, z.s. used the amount to purchase therapeutic materials for psychological help for post-divorce parenting groups.

## OCTOBER 2016

- CZK 67,705 – connection of volunteer activities and the activities of the Fund in the Rybka, o.p.s. organisation to purchase and build a garden gazebo for the Rybka clients.

## DECEMBER 2016

- CZK 10,000 – Domov pro seniory Kamenec, Slezská Ostrava, p.o. (nursing home for seniors) will use the money to build a playground and promote intergenerational cohesion.
- CZK 10,000 – Jasněnka, z.s. for the purchase of musical instruments as therapy for mentally disabled people.
- CZK 10,000 – SK Kontakt Brno z. s. will dedicate the funds to the transport and entry fees of handicapped swimmers for a competition in April 2017.
- CZK 10,000 – The Angels of Tree of Life Association, Moravia-Silesia will buy a bathing tub for the patients of the mobile hospice.



## 15.3. Environmental Protection

### Green bank

Sberbank CZ, a.s. became the second best GEEN Green Bank 2016. In terms of the carbon footprint assessment, Sberbank CZ, a.s. is the best bank in the Czech market. The comparison of banks is performed by GEEN.EU, which is engaged in environmental sources of electrical energy and investment in it.

### OVERVIEW OF THE WINNING BANKS:

Rank	Bank	Carbon footprint	Coefficient	Result	Activities	Coefficient	Result	Total
1.	ČS	35	0.4	14.0	10	0.6	6.0	20.0
2.	Sberbank	32	0.4	12.8	13	0.6	7.8	20.6
3.	RB	38	0.4	15.2	20	0.6	12.0	27.2

The fundamental criteria for overall evaluation include: the extent of the carbon footprint of the bank's activities, (not) printing materials and documents (printing on recycled paper, electronic substitution, sign pads), electric cars, ecological means of transport (use of electric vehicles, support, e.g. discounted leases or loans for this type of transport), waste management, purchasing green energy, providing loans to projects for renewable energy sources (discounted financing as in the case of ecological means of transport), supporting education in the field of ecology and renewable energy sources, use of computers, consumer electronics (the energy intensity in which banks use electrical appliances).



### Business trips

In 2014, Sberbank CZ, a.s. successfully launched the CarShare internal application, which supports car sharing.

When planning a company car trip, the ride is entered in a special application on the intranet. Any colleague who is going the same way can join the ride. This system of travelling reduced the average fuel consumption per employee in the years 2014–2016. The Sberbank CZ, a.s. vehicle fleet is only renewed with cars with turbo-diesel engines, which have lower emissions.

## 15.4. Respecting Human Rights

In carrying out banking activities, we do not forget the fundamental human rights and moral values on which civilised society is based. Sberbank CZ, a.s. is aware of its social responsibility and fully respects fundamental human rights and freedoms. The Bank identifies with the current positive trends and recognises that the right to have a payment account, among other things, is one of the basic rights of modern society.

Sberbank CZ, a.s. always acts to avoid and prevent the financing of terrorism and other business transactions with entities that grossly violate human rights.

## 15.5. Fight Against Corruption and Bribery

Sberbank CZ, a.s. fully recognises values and attitudes expressing zero tolerance of all forms of direct or indirect bribery or corruption. As a member of the Czech Banking Association, the bank consistently adheres to the Ethical Code of the Czech Banking Association, which is one of the cornerstones of conduct of member banks, expressing, among other things, the requirement for a transparent approach and execution of banking activities in the financial market.

Being aware of the seriousness and meaning of corruption, the bank has established and further elaborated specific measures that effectively prevent corruption or abuse of power by its employees. These rules of conduct are mandatory for all employees of Sberbank CZ, a.s. and are observed without exception in other relationships to which the company is a party.

## 15.6. Social and Employment Issues

Sberbank CZ, a.s. supports its employees in the area of mental and physical health, and that is why we especially promoted the following areas in the field of employee benefits and employee care in the past year:

- In 2016, we focused on better management of holiday time, and we make sure that our employees plan their days off and draw them to the greatest extent possible.
- In order to support balance between the work and private lives of its employees, the bank now provides employees with 5 paid personal days off in addition to the regular 5 weeks of leave.
- The bank organised special days for its employees' children, who had the opportunity to get to know the work of their parents and work at the bank in general, and could take part in contests, games, painting and other activities.
- The bank actively promotes volunteerism; employees can register for charitable work and their absence in the length of one day is paid.
- Last year, the bank organised workshops and events to promote the health of its employees, e.g. the prevention of breast cancer and the like.
- In order to strengthen team spirit, the bank continued supporting sports, cultural and social activities.
- It also expanded the number of discounts to employees on the products and services of our partners and other third parties.
- Finally, the bank allows its employees to work from home when working conditions so permit..

## 16. ADDITIONAL INFORMATION



### 16.1. Shares

The company's shares are ordinary registered shares, are numbered, if so provided by law, and are issued as dematerialised securities. Dematerialised shares are registered with the Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.).

The company has issued 561,198 dematerialised registered shares with a par value of CZK 5,000 per share. The total volume of the issue is CZK 2,805,990,000.

The registered capital that has been paid up in full amounts to CZK 2,805,990,000.

The holder of all the above shares is the sole shareholder, Sberbank Europe AG, with its registered office at Schwarzenbergplatz 3, 1010 Vienna, Republic of Austria.

The shares are freely transferable. The shares are not traded on the regulated European market.

Sberbank CZ, a.s. has not issued any convertible bonds which carry the right to their exchange for shares or any priority bonds which carry the right to a preferential subscription for shares.

There are no programmes on the basis of which employees and members of the Management Board may acquire shares in the company, options on such shares or other rights to them under preferential conditions.

During 2016, Sberbank CZ, a.s. did not hold any own shares or any shares of the controlling entity.

No members of senior management hold any shares constituting an ownership interest in Sberbank CZ, a.s.

No rating has been assigned to the shares of Sberbank CZ, a.s.

#### Basic rights and obligations of shareholders:

The basic rights and obligations of shareholders are governed by the Articles of Association and Act No. 90/2012 Coll. on business corporations.

All the shares carry the same rights and obligations.

Each shareholder has the right to participate in the management of the company through the General Meeting and the right to participate in the profits of the company approved for distribution.

Shareholders shall exercise their rights and fulfil their obligations assigned to them under the Articles of Association and applicable laws at the General Meeting or outside it. Each shareholder is entitled to attend the General Meeting, to vote, to request and receive explanations of matters relating to the company or entities controlled by the company, and to raise objections and submit counterproposals. The voting rights attached to shares are not limited. The voting right of each shareholder is associated with the respective share. Each share with a par value of CZK 5,000 represents one vote. The total number of votes in the company is 561,198.

### 16.2. Mortgage Bonds

The aggregate liabilities under all mortgage bonds in circulation issued by a single issuer must be fully covered by claims or parts thereof under mortgage loans (ordinary cover) or by an alternative method (alternative cover). Only claims under mortgage loans or parts thereof not exceeding 70% of the pledge value of the pledged real property securing these claims may be used for the ordinary cover of the aggregate liabilities under all mortgage bonds in circulation. Sberbank CZ, a.s. has not yet used any alternative cover.

As of 31 December 2016, the volume of loans serving as cover declined by 20% on a year-to-year basis in covering the issued mortgage bonds with mortgage loans, from CZK 11.113 billion as of 31 December 2015 to CZK 8.916 billion as of 31 December 2016. Bond liabilities (principal + accrued coupon) in the amount of CZK 3.241 billion are covered with mortgage loans concluded before 31 December 2016 at the rate of more than 275%. The pledge value of real property securing these loans is CZK 19.210 billion, which covers more than five times the bank's liabilities under the bonds issued. The bank is obliged to check claims, regularly reevaluate real property and monitor compliance of the pledges with the Land Register. The cover sufficiency is monitored by the bank daily and is regularly checked by the CNB.

All completed issues of mortgage bonds of Sberbank CZ, a.s. were duly repaid at maturity.

The bank may register new issues of mortgage bonds on the Prague Stock Exchange.

No rating has been assigned to Sberbank CZ, a.s. or to any mortgage bonds issued by it.

Bonds **ISIN: CZ0002003254, CZ0002003460** were issued on the basis of the Bond Programme 2010 of Sberbank CZ, a.s., the base prospectus of which was approved by the decision of the Czech National Bank, ref. No. 2013/10785/570, dated 27 September 2013, effective on the same date.

Bond **ISIN: CZ0002002454** was issued on the basis of the Bond Programme of Volksbank CZ, a.s., the base prospectus of which was approved by the decision of the Czech National Bank dated 22 February 2010, ref. No. 2010/1613/570 to file No. Sp/2010/28/572, with effect as of the following day.

### Issue of mortgage bonds of Sberbank CZ, a.s. for the year ending 31 December 2016:

#### MORTGAGE BONDS VB CZ 5.30% MATURING IN 2017

- Identification code (ISIN): CZ0002001688
- Issue date; form: 18 December 2007; in bearer form, dematerialised
- Total issue volume: CZK 0.8 billion
- Nominal value; quantity: CZK 10,000; 80,000
- Coupons: fixed annual interest rate of 5.30% payable annually in arrears
- Mortgage bonds traded on: –
- Mortgage bond maturity: The mortgage bonds will be redeemed at their nominal value on 18 December 2017

#### MORTGAGE BONDS VB CZ 4.10% MATURING IN 2016

- Identification code (ISIN): CZ0002002199
- Issue date; form: 19 May 2010; in bearer form, dematerialised
- Total issue volume: CZK 0.5 billion
- Nominal value; quantity: CZK 10,000; 50,000
- Coupons: fixed annual interest rate of 4.10% payable annually in arrears
- Mortgage bonds traded on: –
- Mortgage bond maturity: The mortgage bonds were redeemed in full at their nominal value on 19 May 2016

#### MORTGAGE BONDS VB CZ VAR MATURING IN 2017

- Identification code (ISIN): CZ0002002454
- Issue date; form: 22 March 2012; in bearer form, dematerialised
- Total issue volume: CZK 0.5 billion
- Nominal value; quantity: CZK 1; 500,000,000
- Coupons: floating semi-annual interest rate of 6M PRIBOR + 2% payable semi-annually in arrears
- Mortgage bonds traded on: Prague Stock Exchange
- Mortgage bond maturity: The mortgage bonds will be redeemed at their nominal value on 22 March 2017

#### MORTGAGE BONDS VB CZ 3.20% MATURING IN 2016

- Identification code (ISIN): CZ0002002611
- Issue date; form: 11 October 2012; in bearer form, dematerialised
- Total issue volume: CZK 1 billion
- Nominal value; quantity: CZK 1; 1,000,000,000
- Coupons: fixed annual interest rate of 3.20% payable annually in arrears
- Mortgage bonds traded on: Prague Stock Exchange
- Mortgage bond maturity: The mortgage bonds were redeemed in full at their nominal value on 11 October 2016

#### MORTGAGE BONDS VB CZ 2.30% MATURING IN 2018

- Identification code (ISIN): CZ0002003254
- Issue date; form: 24 October 2013; in bearer form, dematerialised
- Total issue volume: CZK 1 billion
- Nominal value; quantity: CZK 10,000; 100,000
- Coupons: fixed annual interest rate of 2.30% payable annually in arrears
- Mortgage bonds traded on: Prague Stock Exchange
- Mortgage bond maturity: The mortgage bonds will be redeemed at their nominal value on 24 October 2018

#### MORTGAGE BONDS VB CZ 2.00% MATURING IN 2020

- Identification code (ISIN): CZ0002003460
- Issue date; form: 26 June 2014; in bearer form, dematerialised
- Total issue volume: CZK 1.3 billion
- Nominal value; quantity: CZK 10,000; 130,000
- Coupons: fixed annual interest rate of 2.00% payable annually in arrears
- Mortgage bonds traded on: Prague Stock Exchange
- Mortgage bond maturity: The mortgage bonds will be redeemed at their nominal value on 26 June 2020

In accordance with Section 60 of the Capital Market Undertakings Act, Sberbank CZ, a.s. asked the Prague Stock Exchange on 14 March 2016 to de-list the issue of mortgage bonds SB CZ 1.10/17, ISIN CZ 0002003684 from the regulated market due to the fact that they had not been sold, with effect as of 30 March 2016. The last trading day was 29 March 2016. At the meeting held on 14 March 2016, the Management Board of Sberbank CZ, a.s. decided to delete the issue in question from the records of the Central Securities Depository Prague as of 31 March 2016.

Detailed information on the issue of mortgage bonds of Sberbank CZ, a.s. is available at [www.sberbankcz.cz](http://www.sberbankcz.cz), namely <https://www.sberbankcz.cz/obcane/investovani/hypotecni-zastavni-listy>

## 16.3. Judicial Proceedings

### Passive litigation:

In 2015, the Bank paid CZK 129.4 million to Mgr. Daniel Schaffer in damages on the basis of the final decision of the court of second instance. The Bank strongly disagrees with this court decision and has filed an extraordinary appeal against it with the Supreme Court of the Czech Republic. The appellate proceedings are still pending.

Other than the above, two cases for damages were being conducted against the Bank at the end of 2016 in the total amount of CZK 17,890,000. No significant impact on the Bank's position is expected in either of those cases.

### Debt collection:

At the end of 2016, the Bank had in particular the following claims against its clients:

- claim in the amount of CZK 29,015,845.80 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 83,462,958.29 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 34,806,742.78 registered in insolvency proceedings against a client of the company (PO),
- claim in the amount of CZK 36,080,348.76 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 27,177,308.46 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 38,003,475.51 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 19,988,696.84 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 38,135,026.33 registered in insolvency proceedings against a client of the Bank (PO),
- claim in the amount of CZK 11,199,899.61 registered in insolvency proceedings against a client of the Bank (PO).

The list of the above active and passive litigation is not exhaustive and includes only major litigation.

## 16.4. Major Contracts

Except contracts made under regular business conditions, no major contracts have been made to which Sberbank CZ, a.s. is a party and which might result in a liability or claim of any member of the Group affecting the company's ability to fulfil its obligations to holders of securities (bonds) based on the issued securities (bonds).

## 16.5. Research, Science and Development

In 2016, the bank invested CZK 82,160,000 in activities in research and development (in 2015: CZK 33,802,000). These are mainly internal costs associated with the implementation of projects in the development of information technology. The largest share in these costs is attributable to projects designed to improve multi-channel banking, improve the support of the issuance of payment cards, including transaction processing, and improve the data warehouse.

## 16.6. Conflict of Interest

Sberbank CZ, a.s. declares that it is not aware of any potential conflict of interest between the obligations of members of the Management Board, including members of senior management and members of the Supervisory Board to the Bank, and their private interests or other duties.

## 17. ALTERNATIVE PERFORMANCE INDICATORS

In order to provide a more qualified presentation of financial results and financial performance, the bank presents users with annual reports and additional, alternative indicators of financial performance. These are indicators that are derived from the basic indicators described and presented in the financial statements and its notes, to which they can be reconciled. They can also be indicators the reconciliation of which with the basic indicators presented in the financial statements is not possible because their calculation is methodologically and technically very complex, and the publication of a detailed calculation and reconciliation goes beyond the capacity of the annual report and financial statements.

The bank has decided to use the following alternative performance indicators to present the financial results and financial performance.

### Total amounts owed to clients

An indicator that represents the total liabilities from deposits received and securities issued. It constitutes the total resources which the bank received from non-financial entities.

The indicator is the sum of selected positions of the passive party to the statement of financial position (balance sheet) of the bank presented in the financial statements:

in millions CZK	2016	2015
Total amounts owed to clients:	59,049	61,537
– Amounts owed to clients	55,787	55,768
– Liabilities from debt securities issued	3,262	5,769

### Profit from financial operations before the creation of reserves and loss provisions

This indicator represents the total amount of proceeds the bank has achieved in its main business, including in particular the acceptance of deposits and the provision of loans.

The indicator is the sum of the selected positions of the bank's statement of comprehensive income presented in the financial statements:

in millions CZK	2016	2015
Profit from financial operations before the creation of reserves and loss provisions:	2,028	1,888
– Net interest income	1,539	1,409
– Net income from fees and commissions	365	433
– Net trading income	99	45
– Net income from financial investments	25	1

### Share of non-performing loans (NPL)

This indicator represents the ratio of the volume of non-performing loans to total loans. Non-performing loans are non-standard, doubtful and irrecoverable claims defined in the bank's financial statements in Chapter 33(b).

The indicator is the ratio of the selected positions of the bank's statement of comprehensive income presented in the financial statements:

in millions CZK	2016	2015
Share of non-performing loans (NPL):	5.74%	5.19%
– Loans and advances individually impaired	3,257	2,701
– Loans and advances to clients – gross	56,755	52,048



# FINANCIAL STATEMENTS

SBERBANK CZ, a.s.

## **INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

**FOR THE YEAR ENDED 31 DECEMBER 2016**

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	Year ended 31 December	
		2016	2015
Interest and similar income		1,920	1,972
Interest expense and similar charges		(381)	(563)
<b>Net interest income</b>	<b>3</b>	<b>1,539</b>	<b>1,409</b>
Fee and commission income		505	577
Fee and commission expense		(140)	(144)
<b>Net fee and commission income</b>	<b>4</b>	<b>365</b>	<b>433</b>
Net trading income	5	99	45
Net income from financial investments	6	25	1
Impairment charge for credit losses		(214)	(314)
Provisions	26	(26)	24
Administrative expenses	7	(1,398)	(1,379)
Other operating income	8	47	30
Other operating expenses	9	(101)	(212)
<b>Operating profit</b>		<b>336</b>	<b>37</b>
Profit before income tax		336	37
Income tax expense	10	(64)	(14)
<b>Profit for the year</b>		<b>272</b>	<b>23</b>
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability	28	0	(7)
Items that are or may be reclassified to profit or loss			
Fair value reserves (available-for-sale financial assets)	28	(21)	(1)
<b>Other comprehensive income for the period, net of income tax</b>		<b>(21)</b>	<b>(8)</b>
<b>Total comprehensive income</b>		<b>251</b>	<b>15</b>
<b>Profit attributable to:</b>			
– Owners of the Bank		272	23
<b>Profit for the period</b>		<b>272</b>	<b>23</b>
<b>Total comprehensive income attributable to:</b>			
– Owners of the Bank		251	15
<b>Total comprehensive income</b>		<b>251</b>	<b>15</b>



# STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2016

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union



in CZK million	Note	As at 31 December	
		2016	2015
<b>ASSETS</b>			
Cash and balances with central banks	11	12,975	19,989
Loans and advances to banks	12	1,955	2,296
Loans and advances to customers	13,14	55,613	50,781
Derivative financial instruments	15	113	35
Financial assets at fair value through profit or loss	16	0	32
Investment securities:			
- Available for sale	17	0	1,211
- Loans and receivables	17	245	1,353
Intangible assets	18	268	152
Property and equipment	19	282	291
Income tax assets		88	142
-current income tax		0	88
-deferred tax	20	88	54
Other assets	21	376	289
Deferred items	21	50	38
<b>Total assets</b>		<b>71,965</b>	<b>76,609</b>
<b>LIABILITIES</b>			
Deposits from banks	22	3,467	6,513
Due to customers	23	55,787	55,768
Derivative financial instruments	15	30	10
Debt securities in issue	24	3,262	5,769
Current income tax liabilities		28	0
Other liabilities	25	765	409
Deferred items	25	16	2
Provisions	26	91	59
Subordinated debt	27	189	0
<b>Total liabilities</b>		<b>63,635</b>	<b>68,530</b>
<b>EQUITY</b>			
Share capital	28	2,806	2,806
Share premium account		4,015	4,015
Reserve		152	151
Cumulative gains / (loss) not recognized in the profit for the period	28	0	21
Retained earnings		1,357	1,086
<b>Total equity</b>		<b>8,330</b>	<b>8,079</b>
<b>Total equity and liabilities</b>		<b>71,965</b>	<b>76,609</b>

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Share capital	Share premium account	Reserve	Cumulative gains not recognized in the profit for the period		Retained earnings	Total Equity
				Fair value reserve	Employee benefits re-measurement		
<b>As at 1 January 2015</b>	<b>2,806</b>	<b>4,015</b>	<b>132</b>	<b>22</b>	<b>7</b>	<b>1,082</b>	<b>8,064</b>
Remeasurements fo defined benefit liability (asset)	0	0	0	0	(7)	0	(7)
Net change in available-for-sale investments, net of tax	0	0	0	(1)	0	0	(1)
<b>Other comprehensive income (recognized directly in equity)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>(7)</b>	<b>0</b>	<b>(8)</b>
Net profit	0	0	0	0	0	23	23
<b>Total comprehensive income for 2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>(7)</b>	<b>23</b>	<b>15</b>
Dividends relating to 2014	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0
Transfer to reserve	0	0	19	0	0	(19)	0
<b>As at 31 December 2015</b>	<b>2,806</b>	<b>4,015</b>	<b>151</b>	<b>21</b>	<b>0</b>	<b>1,086</b>	<b>8,079</b>
<b>As at 1 January 2016</b>	<b>2,806</b>	<b>4,015</b>	<b>151</b>	<b>21</b>	<b>0</b>	<b>1,086</b>	<b>8,079</b>
Remeasurements fo defined benefit liability (asset)	0	0	0	0	0	0	0
Net change in available-for-sale investments, net of tax	0	0	0	(21)	0	0	(21)
<b>Other comprehensive income (recognized directly in equity)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>(21)</b>
Net profit	0	0	0	0	0	272	272
<b>Total comprehensive income for 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(21)</b>	<b>0</b>	<b>272</b>	<b>251</b>
Dividends relating to 2015	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0
Transfer to reserve	0	0	1	0	0	(1)	0
<b>As at 31 December 2016</b>	<b>2,806</b>	<b>4,015</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>1,357</b>	<b>8,330</b>



# STATEMENT OF CASH FLOW

## FOR THE YEAR ENDED 31 DECEMBER 2016

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union



in CZK million	Note	2016	2015
<b>Cash flow from / (used in) operating activities</b>			
<b>Profit before income tax</b>		<b>336</b>	<b>37</b>
Adjustment for:			
Impairment losses on loans and advances		(214)	(314)
Provisions	26	32	8
Depreciation of property and equipment	7	106	117
Change in other remeasurements		0	(8)
<b>(Increase)/ decrease in operating assets:</b>			
Due from banks, non-demand, over 3 months		702	357
Financial assets at fair value through profit or loss		(46)	348
Loans and advances		(3,510)	2,388
Other assets		(87)	(17)
Prepayments and accrued income		(12)	(8)
<b>Increase / (decrease) in operating liabilities</b>			
Due to banks, term		(3,042)	1,311
Financial liabilities at fair value through profit and loss		20	(404)
Due to customers		19	11,384
Promissory notes and certificates of deposits	24	(1,034)	(36)
Other liabilities		356	(118)
Accruals and deferred income		14	(1)
<b>Net cash flow from / (used in) operating activities before income tax</b>		<b>(6,360)</b>	<b>15,044</b>
Net income tax		18	(135)
<b>Net cash flow from (used in) operating activities</b>		<b>(6,342)</b>	<b>14,909</b>

in CZK million	Note	2016	2015
<b>Cash flow from / (used in) investing activities</b>			
Purchase of investment securities	17	(92)	(137)
Proceeds from sale and redemption of available for sale securities	17	1,303	1,036
Purchase of property, equipment and intangible assets	18,19	(254)	(178)
Sale of property, equipment and intangible assets		1	3
Impairment losses on fixed assets		19	0
<b>Net cash flow from (used in) investing activities</b>		<b>977</b>	<b>724</b>
<b>Cash flow from / (used in) financing activities</b>			
Repayment of mortgage bonds	24	(1,473)	(229)
Repayment of subordinated liabilities	27	0	(278)
Draw of subordinated liabilities	27	189	0
<b>Net cash flow from financing activities</b>		<b>(1,284)</b>	<b>(507)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(6,649)</b>	<b>15,126</b>
Cash and cash equivalents at the beginning of the year	31	19,121	3,995
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(6,649)</b>	<b>15,126</b>
Cash and cash equivalents at the end of the year	31	12,472	19,121
<b>Operational cash flow from interest</b>			
Interest paid		381	563
Interest received		1,920	1,972
Income tax		(23)	148

These financial statements were approved for issue by the Board of Directors on 10 April 2017 and signed on its behalf by:

Signature of the statutory representatives

Person responsible  
for accounting

Person responsible  
for the preparation of the  
financial statements



**Vladimír Šolc**  
Chairman of the  
Board of Directors



**Karel Soukeník**  
Member of the  
Board of Directors



**Alena Sládková**



**Libor Nosek**

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

# NOTES TO THE FINANCIAL STATEMENTS



## 1 General Information

Sberbank CZ, a.s. (hereinafter referred to as “the Bank”) was incorporated on 31 October 1996. The Bank had 28 domestic regional branches in the Czech Republic as at 31 December 2016 (as at 31 December 2015: 29 branches) and employed on average 851 people (as at 31 December 2015: 846 people).

As at 31 December 2016 and 31 December 2015, the ultimate holding company was Sberbank, which is incorporated in Russia and whose registered office is located at 117997 Moscow, 19 Vavilova St. (hereinafter referred to as “Sberbank RU”). The financial statements of the Bank were included in the consolidated financial statements of Sberbank RU. The direct holding company was Sberbank Europe AG (hereinafter referred to as “Sberbank EU”), which is incorporated in Austria.

The Bank's operations primarily consist of the following:

- Providing Czech and foreign currency loans and guarantees
- Accepting and placing deposits in Czech and foreign currencies
- Accepting current and term accounts denominated in Czech and foreign currencies
- Rendering of general banking services through a network of branches and agencies
- Providing foreign exchange transactions on the inter-bank money market
- Providing foreign trade finance and related banking services
- Trading in securities and portfolio management
- Issuing mortgage bonds

## 2 Accounting Policies

### (a) Statement of compliance and basis of preparation of financial statements

The statutory financial statements, comprising the statement of financial position, statements of comprehensive income and statement of changes in equity, a statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”). The policies set out below have been consistently applied to all the reporting periods presented.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of financial statements to conform with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (ab).

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZKm”) unless otherwise stated.

## **(b) Operating segments reporting**

The Bank determines and presents operating segments based on the information which is internally presented to the Board of Directors as the Bank's chief operating decision making body with regard to resources to be allocated to the segment and assesses its performance.

The operating segment is a component of the Bank:

- That engages in business activities from which revenues and expenses may arise (including revenues and expenses related to transactions with other components of the Bank)
- Whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance
- For which discrete financial information is available.

## **(c) Foreign currencies translation**

### **FUNCTIONAL AND PRESENTATION CURRENCY**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

The financial statements are presented in CZK, which is the Bank's functional and presentation currency.

### **TRANSACTIONS AND BALANCES**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates 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 "net trading income".

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of net trading income. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income in the fair value reserve in equity.

## **(d) Financial assets and liabilities and their valuation**

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities is based on management's intention at initial recognition and the relevant criteria for classification have to be met.

### **(i) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

The category of financial assets and liabilities at fair value through profit or loss has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at initial recognition at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue
- The group of financial assets and financial liabilities, such as debt securities, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel, and on that basis are designated at fair value through profit and loss
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modifying the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from sale and changes in the fair value of financial instruments held for trading, including trading derivatives that are managed in conjunction with designated financial assets or financial liabilities, are recorded in "net trading income".

Gains and losses arising from sale and changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss at inception are recorded in "net income from financial investments".

#### **(ii) PLOANS 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: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration. These assets are carried at the amortized cost.

#### **(iii) HELD-TO-MATURITY FINANCIAL ASSETS**

Held-to-maturity investments are non-derivative financial assets traded on active market with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. These assets are carried at amortized cost.

If the Bank has sold other than an insignificant amount of held-to-maturity assets before maturity (other than in certain specific circumstances), the entire category has to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial assets as held-to-maturity during the following two years.

#### **(iv) AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These assets are carried at fair value.

#### **(v) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

For financial liabilities, the classification and rules referred to in paragraph (i) are applied.

#### **(vi) OTHER FINANCIAL LIABILITIES**

The Bank classifies all financial liabilities in this category, except for those classified in the category of financial liabilities at fair value through profit or loss in accordance with those rules for classification in that category. Other financial liabilities are carried at amortized cost.

The Bank issues mortgage bonds. Bought-back mortgage bonds directly decrease the liabilities from issued securities.

## **(vii) RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS**

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on the trade date – the date on which the Bank commits to purchasing or selling the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized in the statement of comprehensive income under “fee and commission expense”. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the profit for the period in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the profit for the period. Dividends on available-for-sale equity instruments are recognized in the profit for the period when the Bank’s right to receive payment is established.

## **(viii) DETERMINATION OF FAIR VALUE**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurable date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

The fair values of quoted investments in active markets are based on current bid prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no active market for a financial asset, the Bank establishes the fair value using valuation techniques that maximise the use of relevant observable inputs. These include for example the use of a discounted cash flow analysis and other valuation techniques commonly used by market participants.

The Bank’s accounting methods on fair value are disclosed in Note 34.

## **(e) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## **(f) Derivative financial instruments and hedge accounting**

Derivatives including foreign exchange contracts, currency and interest rate swaps are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Sources for fair value measurement of the derivatives are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The methodology of credit value adjustment (CVA) and debit value adjustments (DVA) for derivatives is based on the Sberbank Europe group methodology. The basic principle of CVA and DVA calculation is to estimate expected loss during the lifetime of a derivative.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the profit for the period unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The Bank has prepared a methodology for hedge accounting for interest rate risk management. This methodology is applied when hedging the risk decided by the responsible unit of the Bank. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value due to the change of interest rates of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

For interest risk management of certain assets or liabilities, the Bank designates the fair value hedge relationship. The objective of such a hedge relationship is to secure the Bank from the effect of the fair value fluctuation of the hedged asset or liability which affects the profit and loss. Changes in the fair value of the hedging derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk, in the same line item in the comprehensive income.

If the derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

The Bank designates certain derivatives as the hedging instruments in a fair value hedge when the responsible organizational unit of the Bank decides to hedge such risk. The Bank does not apply a cash flow hedge or net investment hedge accounting as risks that can be covered with this type of hedge accounting are not important for the Bank.

### **(g) Recognition of deferred day one profit and loss**

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique where the variables of which include only data from observable markets.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

### **(h) Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognized in the statement of comprehensive income under “interest and similar income” and “interest expense and similar charges” using the effective interest method.

Interest income and expense for interest-bearing financial instruments classified as held for trading, are recognized in the statement of comprehensive income under “net trading income”.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The effective interest rate is established when the financial asset or liability is first recognized and it is revised at the time of the change of the estimated future cash flows arising from the financial instruments with floating interest rate or with non-fixed payments.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(i) Fee and commission income and fee expense**

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package as own participation. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognized evenly over the period in which the service is provided. The same principle is applied for asset management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

#### **(j) Dividend income**

Dividends are recognized in the profit for the period when the Bank's right to receive payment is established.

#### **(k) Sale and repurchase agreements**

Securities sold subject to repurchase agreements ("repos") are reclassified in the statement of financial position as assets. The counterparty liability is included in "deposits from banks" or "due to customers", as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as "loans and advances to banks" or "loans and advances to customers", as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

#### **(l) Impairment of financial assets**

##### **(i) LOANS AND RECEIVABLES CARRIED AT AMORTIZED COSTS**

The Bank assesses as 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 a group of financial assets is impaired and impairment losses are incurred 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 (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank mainly uses to determine that there is objective evidence of an impairment loss include the following:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy or insolvency proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral
- Downgrading below investment grade level

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three and six months.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit for the period. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract and under current market conditions.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized 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, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to 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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their

magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in the profit for the period in "impairment charge for credit losses".

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. These procedures mainly include: (i) cession of a loan (if the debt is ceded at a lower price than the face value); (ii) report from the executor that there is no other property of the debtor that may be punished by execution of the loan; and (iii) the final termination of the insolvency proceedings with the debtor.

In the statement of comprehensive income under "impairment charge for credit losses" proceeds from written-off receivables are also reported.

#### **(ii) ASSETS CLASSIFIED AS AVAILABLE FOR SALE**

The Bank assesses as at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the profit for the period on equity instruments are not reversed through the statement of comprehensive income. 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 in profit or loss, the impairment loss is reversed through the profit for the period.

#### **(iii) ASSETS CLASSIFIED AS HELD TO MATURITY**

Bonds classified as held to maturity are regularly tested for impairment. If the Bank concludes that there is objective evidence that a bond is impaired, it is reflected in an allowance account and the impairment loss is recognized in profit or loss. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

#### **(iv) RESTRUCTURED AND FORBORNE LOANS AND ADVANCES**

From the date of renegotiation, such loans are treated as individually impaired for a period of six months. If a loan performs according to the forbearance schedule, it becomes treated as a watched loan during the subsequent 18 months, and as standard starting the third year from the renegotiation (according to the CNB methodology described in the Note 33 (b)). The impairment of forborne receivables is measured using the original effective interest rate. Management continuously reviews the performance of the agreed conditions of forborne loans and the probability of future installments.

The Bank measures loans and advances with forbearance status. The Bank identifies all contracts with clients where contractual conditions were modified in order to relieve existing financial difficulties or in cases where a client might get into financial difficulties if such relieve was not granted. Loans and advances with forbearance status can be designated loans and advances in the non-defaulted portfolio and also in portfolio with default. In accordance with regulatory requirements, the Bank regularly evaluates all exposures in the portfolio – on-balance and off-balance exposures in terms of forbearance. Testing is done at the level of individual loans (contract).

### (m) Intangible assets

Amortization of intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Software – definite period under the contract, or according to the estimated useful life, or 36 months (if there is no agreement for a definite period or estimation of useful life)
- Audiovisual work – 18 months
- Other – 72 months

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized on the basis of the expected useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives.

The cost of depreciation of intangible assets is recognized in the statement of comprehensive income under "Administrative expenses".

### (n) Property, premises and equipment

Land and buildings comprise mainly branches and offices. All property, premises and equipment are stated at historical cost less depreciation. Historical costs of property, premises and equipment and intangible assets include:

- The cost (expenditures that are directly attributable to the acquisition of the items)
- Directly attributable costs necessary to bring the asset into operation
- Estimated costs of dismantling and removing the asset and restoring the place where the property is located
- Borrowing costs incurred for the period of the preparation of the asset for its intended use or sale. The Bank is currently buying property only from its own financial resources.

Tangible and intangible assets with acquisition costs up to CZK 10,000, furniture and hardware up to CZK 2,000, are expensed as acquired.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to "other general administrative expenses" during the financial period in which they are incurred.

Land, assets under construction and works of art are not depreciated. Depreciation on other long-term assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows (in years):

Buildings and construction (including Administrative buildings)	30
Hardware and equipment	4
Fixtures and fitting	6
Safes	12
Motor vehicles	4

Leasehold improvements are depreciated over the term of the lease.

When classifying new assets into depreciation groups, the Bank uses the component approach, i.e. the major components of assets with different useful lives are depreciated separately.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, as at each statement of financial position date.

The cost of depreciation of property, premises and equipment are recognized in the statement of comprehensive income under "Administrative expenses". Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in "other operating income" or "other operating expenses" in the profit for the period.

The Bank does not hold any assets for which it would use the revaluation model. All property under paragraphs (m) and (n) is depreciated using the cost model. The Bank currently does not own the building, to which IAS 40 Investment property would be applied, i.e. property held primarily to earn rental income or for capital appreciation.

#### **(o) Impairment of non-financial assets**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment can be external (decrease in market prices) or internal (information obtained from a review of useful lives and residual book values) carried out once a year. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **(p) Leases**

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to "other general administrative expenses" in the profit for the period on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognized as an expense in the period in which the termination takes place.

The Bank has currently no lease agreements.

#### **(q) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (including Mandatory Minimum Reserves), due from banks and due to banks.

#### **(r) Provisions**

Provisions for legal claims, restructuring, financial guarantees issued, promises of loans issued, letters of credit issued and other contingent liabilities are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

#### **(s) (s) Financial guarantee contracts**

The Bank gives financial guarantees, i.e. guarantees and letters of credit. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's obligations from given guarantees are measured at the higher of the initial measurement, less amortization of revenue from fees amortized on straight basis in "income from fees and commissions" for the duration of the guarantee and the best estimate of expenses which will be required to settle any financial obligation that existed at the statement of financial position date. They are recognized as "provisions". These estimates are determined based on experience with similar transactions and the history of past losses, supplemented by the judgment of management.

Any change in the amount of "provisions" is recognized in "impairment charge for credit losses" in the statement of comprehensive income.

#### **(t) Staff costs**

Staff costs are included in "administrative expenses" and they also include remuneration of the members of the Managing and Supervisory Board.

#### **EMPLOYEE BENEFITS**

The Bank does not provide any employee benefits that subject of creating and valuating reserves using actuary methods in accordance with standard IAS 19 Employee benefits. The Bank stopped providing such benefits in 2015. The reserve created for this benefits was released into profit and loss during 2015.

#### **PENSIONS**

The Bank currently contributes to a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

#### **SOCIAL FUND**

The Bank creates a social fund to finance the social needs of its employees and employee benefit programs. The allocation to the social fund is recognized in the "administrative expenses".

#### **(u) Taxation and deferred income tax**

##### **INCOME TAX**

Income tax payable on profits, based on Czech tax law, is recognized as an expense in the period in which profits arise.

## **DEFERRED TAX**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from the depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax losses carried forward. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The tax effects of income tax losses available for carry-forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognized in the profit for the period together with the deferred gain or loss.

## **(v) Value added tax**

The Bank is registered for value added tax ("VAT"). Intangible and tangible fixed assets are stated at acquisition cost including the appropriate VAT. The Bank does not claim a reduced deduction of input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT.

## **(w) Borrowings**

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in the profit for the period over the period of the borrowings using the effective interest method.

## **(x) Share capital and reserves**

### **SHARE ISSUE COSTS**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### **DIVIDENDS ON SHARES**

Dividends on shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

### **RESERVE**

In accordance with the Articles of Incorporation, the Bank is required to set aside a reserve in equity.

The reserve represents accumulated transfers from retained earnings. A minimum of 5% of net profit should be allocated annually to the reserve until the amount of a minimum of 20% of share capital is achieved. This reserve is not distributable and can be used exclusively to cover losses.

### **(y) Fiduciary activities**

The Bank acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, and other institutions. These assets and income arising thereof are excluded from these financial statements, as they do not belong to the Bank.

### **(z) Collateral valuation**

The fair value of the collaterals is determined using market data, valuation models and independent expert estimations. The dominant type of collateral is residential and non-residential property, where an expert estimation of the market value is conservatively reduced by a factor for the type of collateral. The amounts of reduction factor are based on conservative expert estimations, until the frequency of the realization of collaterals does not allow the determination of these factors on the basis of statistically significant observations. The reported financial effect of collateral is limited up to the carrying amount of the related financial asset.

### **(aa) IFRS /IAS accounting and reporting developments**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2016:

- **IAS 27 Separate Financial Statements (amended)**  
The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank assessed no material impact to its financial statements.
- **IAS 1: Disclosure Initiative (Amendment)**  
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The Bank adjusted financial statements accordingly.
- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**  
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The Bank identified no material impact from this amendment to its accounting principles and financial statements.
- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**  
The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Bank had no transactions in scope of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 41 Agriculture (Amendment): Bearer Plants**

The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants are now within the scope of IAS 16 Property, Plant and Equipment and subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41 Agriculture. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. The Bank assessed no material impact to its financial statements.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Bank does not have any plans that fall within the scope of this amendment.

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Bank assessed no material impact to its financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2010–2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had a material effect on the Bank's financial statements.

- > **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- > **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- > **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- > **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- > **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- > **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- > **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- **The IASB has issued the Annual Improvements to IFRSs 2012–2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had a material effect on the Bank's financial statements.
  - > **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - > **IFRS 7 Financial Instruments:** Disclosures: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - > **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - > **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

Standards issued but not yet effective and not early adopted.

- **IFRS 9 Financial Instruments: Classification and Measurement**  
The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. This standard will significantly influence financial statements of the Bank.

In 2016, the Bank and Sberbank Group performed initial impact study of IFRS 9 on the financial statements.

#### Classification and measurement

The Bank will classify all financial assets and liabilities according to business model and characteristics of future contractual cash-flows from such assets and liabilities. Existing categories according to standard IAS 39 will be replaced by the following new categories according to IFRS 9:

- financial assets measured at amortized costs,
- financial assets measured at fair-value through profit & loss,
- financial assets measured at fair-value through other comprehensive income.

Measurement of financial liabilities will not change significantly in comparison with existing standard IAS 39.

The major business model will be to hold financial assets to collect future contractual cash-flows. Business model based on holding financial assets to collect future contractual cash-flows with possibility to sell will be applied mainly for financial assets that are currently classified as available for sale.

Based on initial impact study the Bank expects that most of the loan portfolio will continue to be measured at amortized cost. Loans that need to be measured at fair value will be the minority. The reason may be a special, individual arrangements in credit agreements, which cause the credit agreement fails to pass mandatory so called SPPI test (future contractual cash-flows are not solely payment of principal and interest).

## Impairment

The methodology of financial assets impairment changes significantly according to IFRS 9. Loan loss provisions calculation is based on estimation of future expected credit losses.

The Bank classify financial assets into three categories:

- “Stage 1” – category to which financial assets are assigned at initial recognition and are not impaired. Loan loss provision is based on expected credit losses within next 12 months;
- “Stage 2” – financial assets with significant increase in credit risk are assigned into this category. Loan loss provision is based on future lifetime expected credit losses;
- “Stage 3” – category to which defaulted assets are assigned. Loan loss provision calculation is similar to the existing IAS 39 standard. It is based on difference between carrying amount and value of individual discounted future expected cash-flows.

The Bank develop models for the calculation of parameters necessary for loan loss provisions calculation (probability of default, exposure at default, loss given default etc.). Especially for categories “Stage 1” and “Stage 2”. Models will be regularly reviewed to provide relevant input parameters for loan loss provision calculation.

The Bank estimates that new impairment methodology will require additional provisioning. It will directly reduce the Bank’s regulatory capital. Consequently, the Bank within the Sberbank group has also worked with the less favorable option impact on the bank’s capital and plans to increase equity capital in the appropriate amount to fulfill the regulatory requirements for capital of the Bank.

Project of preparation for IFRS 9 follows after initial impact study. Project is coordinated with activities on Sberbank Europe level and covers:

- development of models for loan loss provision calculation parameters that will be used mainly for “Stage 1” and “Stage 2”,
- implementation of software tools for loan loss provision calculation and valuation of financial assets,
- update of internal processes and systems to provide relevant information for area of Classification and measurement, as well as for area of Impairment of financial assets.

### • IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Bank has assessed no material impact to its financial statements.

### • IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB’s intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the “separately identifiable” principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU. The Bank assessed no impact material to its financial statements.

### • IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the

customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Bank will be influenced by this standard. New approach according this standard will have to be applied mainly for lease contracts for premises where the Bank offers banking services. This will increase significantly increase volume of fixed assets in statement of financial position and long term liabilities from these contracts.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. This amendment has no material impact to the Bank's financial statements.

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments have not yet been endorsed by the EU. The Bank assume no material impact to its financial statements.

- **IAS 7: Disclosure Initiative (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. These Amendments have not yet been endorsed by the EU. The Bank assume no material impact to its financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Bank assessed no material impact to its financial statements.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. These Amendments have not yet been endorsed by the EU. The Bank assessed no material impact to its financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Bank suppose no material impact to its financial statements

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Bank assumes no material impact to its financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Bank assessed no impact to its financial statements.

- > **IFRS 1 First-time Adoption of International Financial Reporting Standards:** Tato úprava odstraňuje This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- > **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- > **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

## **(ab) Critical accounting estimates and judgments**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **IMPAIRMENT LOSSES ON LOANS AND ADVANCES**

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis.

The amount of impairment loss reflects the decrease in expected future cash flows (payments) from the portfolio of loans.

For receivables that are not past due, the amount of impairment was estimated based on historical observations of credit losses of homogenous portfolio of clients with similar credit characteristics.

For receivables that are past due, the amount of impairment is calculated as the change in the present value of estimated future cash flows. The expected cash flows are estimated based on the financial conditions of individual clients and the realizable value of collateral, using historical observations of the loss portfolio and the profitability of each type of collateral.

Management uses estimates based on the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows from defaulted portfolio differs by  $\pm 5\%$ , the provision would be estimated at CZK 42 million lower or CZK 106 million higher (2015: the provision would be estimated at CZK 69 million lower or CZK 33 million higher).

#### **IMPAIRMENT OF AVAILABLE-FOR-SALE EQUITY INVESTMENTS**

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

#### **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. The valuation techniques include the net present value and discounted cash flow models, a comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free rates, credit spreads, and other premiums used in estimating discount rates, bond prices and foreign currency exchange rates. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area who created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### **DEFERRED TAX**

Significant estimates are required in determining deferred income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of temporary differences is different from the amounts that were initially recorded, such differences will impact the current income tax provision and deferred tax in the period in which such a determination is made.

#### **FUTURE COSTS**

The Bank estimates significant future costs that are expected to incur while not a regular costs associated with its activities. These estimates are performed at least once a year, or in moments when identifying future event that may cause such expense. These estimates are booked and recorded as reserves. The most significant reserves, which make up the Bank, include provisions for the removal of technical improvements in the leased premises and provisions for litigation.

### 3 Net Interest Income

Interest and similar income (CZKm)	2016	2015
Loans and advances to customers	1,875	1,928
Debt securities classified as loans and advances to customers	15	1
Due from banks	19	31
Loans and advances to banks	1,909	1,960
Investment securities available for sale	11	8
Interests from hedge accounting	0	4
	1,920	1,972
Total interest and similar income	1,920	1,972

Interest income from loans and advances to customers (CZKm)	2016	2015
Receivables from companies and individuals including consumer loans	1,886	1,922
Receivables from municipalities	1	3
Receivables from governmental bodies	1	1
Other receivables from customers	2	3
	1,890	1,929

There was CZK 90 million in interest income recognized on impaired receivables in 2016 (2015: CZK 72 million).

There was CZK 71 million in interest income recognized on loans and receivables with forbearance measures in 2016 (2015: CZK 25 million).

Net interest income comprise the net interest expense of CZK 0 million recognized on hedging instruments (2015: CZK 7 million) and CZK 0 million on hedged items (2015: CZK 11 million).

Interest and similar expense (CZKm)	2016	2015
Due to customers	253	389
Due to banks	13	33
Debt securities in issue	115	141
	381	563

## 4 Net Fee and Commission Income

(CZKm)	2016	2015
Fee and commission income	505	577
Fee and commission expense	(140)	(144)
	<b>365</b>	<b>433</b>

<b>Fee and commission income</b> (CZKm)	2016	2015
International payment transactions	144	158
Domestic payment transactions	66	70
Lending business (those which are not regarded as part of the effective interest rate)	99	127
Foreign exchange, foreign notes and coins transactions	139	172
Securities and custody business	15	13
Other	42	37
	<b>505</b>	<b>577</b>

Fee and commission income from securities and custody business includes CZK 0 million in fee income from custody activities in 2016 (2015: CZK 1 million).

<b>Fee and commission expense</b> (CZKm)	2016	2015
International payment transactions	(4)	(6)
Domestic payment transactions	(2)	(2)
Lending business (those which are not part of the effective interest rate)	(27)	(19)
Foreign exchange, foreign notes and coins transactions	(69)	(78)
Securities and custody business	(2)	(3)
Other	(36)	(36)
	<b>(140)</b>	<b>(144)</b>

Fee and commission expense from securities and custody business includes CZK 0 million in fee expense from custody activities in 2016 (2015: CZK 1 million).

## 5 Net Trading Income

(CZKm)	2016	2015
Fixed-income securities and money market	2	1
Net foreign exchange gains	82	57
Interest rate contracts	(1)	8
Foreign exchange	16	(21)
	<b>99</b>	<b>45</b>

Net foreign exchange gains include results arising from both customer and proprietary activities in foreign exchange cash, spot, forward, swap and option operations.

Net trading income comprises of a net loss of CZK 0 million recognized on the fluctuation of the fair value of an interest swap which is designated as hedging instrument (2015: CZK 7 million) and net profit of CZK 0 million on the fair value change of a hedged item (2015: CZK 11 million).

## 6 Net Income from Financial Investments

(CZKm)	2016	2015
Net income from sale of securities available for sale	25	2
Net income from assigned receivables	0	(1)
	<b>25</b>	<b>1</b>

## 7 Administrative Expenses

(CZKm)	2016	2015
Personnel expenses	828	754
Depreciation of property and equipment and amortization of intangible assets	106	117
Other general administrative expenses	464	508
	<b>1,398</b>	<b>1,379</b>

<b>Personnel expenses</b> (CZKm)	2016	2015
Salaries and bonuses of Board of Directors members	33	35
Salaries and bonuses of senior management	50	53
Salaries and bonuses of Supervisory Board members	0	0
Salaries and bonuses of the employees	534	476
Social security costs	192	176
Other personnel costs	19	14
	<b>828</b>	<b>754</b>

Social security costs also include the contribution to the state pension scheme.

### MANAGEMENT BONUS SCHEME

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval by the Supervisory Board. Key performance indicators of the annual performance bonus are based on the financial results of the Group (Sberbank Europe AG), Bank (Sberbank CZ, a.s.), profit center / segment and the strategic and individual objectives. The Annual performance bonus is paid if the requirements set out in the Group guidelines on remuneration and in the Bank internal guidelines General principles of the remuneration are fulfilled. The annual bonus can also be reduced or unpaid in relation to the achievement of the performance objectives.

### RETIREMENT BENEFITS

The Bank provides its employees with a defined contribution retirement scheme in accordance with Act No. 42/1994 Coll. Participating employees can contribute a percentage of their salaries to a pension fund. The Bank contributes up to CZK 3,600 a year per person. Total Bank expense for the retirement scheme in 2016 was CZK 1.5 million (2015: CZK 1.6 million). The expenses for the retirement scheme are recognized on the line "Other personnel costs" in the table "Administrative expenses".

### OTHER GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2016	2015
Rent and leasing	143	125
Information technology	97	114
Marketing and public relations	71	91
Material consumption	32	40
Audit, tax, legal and other consultancy	53	70
Tax and fees	2	2
Other	66	66
	<b>464</b>	<b>508</b>

## 8 Other Operating Income

(CZKm)	2016	2015
Gain on disposal of fixed assets	10	3
Income from the services provided within the group	27	23
Other	10	4
	<b>47</b>	<b>30</b>

## 9 Other Operating Expenses

(CZKm)	2016	2015
Deposit insurance	13	79
Contribution fund	67	0
Cost of sales of fixed assets	1	0
Other	20	133
	<b>101</b>	<b>212</b>

Other operating expenses in 2015 contain payment of compensation in the amount of CZK 129.4 million, which the Bank had unexpectedly paid on the basis of a final court decision. The Bank does not agree with this decision and is taking all legal steps to make this decision annulled and ensure that the paid funds are returned to the Bank. In 2016 extraordinary expenses contain CZK 19 milion partial write-off of investment into new multichannel banking. Reason was change in infrastructure architecture within the project.

## 10 Income Tax Expense

(CZKm)	2016	2015
Current tax expense	93	17
Deferred tax income/expense relating to the origination and reversal of temporary differences (Note 20)	(29)	(3)
	<b>64</b>	<b>14</b>

The following table shows how the tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate:

(CZKm)	2016	2015
Profit before taxation	336	37
Applicable rates	19%	19%
Taxation at applicable tax rates	64	7
Tax effect of non-deductible expenses	12	1
Other	(12)	6
	<b>64</b>	<b>14</b>

The effective tax rate in 2016, adjusted for the effect of difference between actual tax due for 2015 and calculated estimation of the tax for 2015 (CZK 0.5 million) was 19.1% (2015: 22.7%).

## 11 Cash and Balances with Central Banks

The Bank classifies its cash and balances with central banks, except for cash in hand, in the category of financial assets "loans and receivables".

(CZKm)	31.12.2016	31.12.2015
Loans and deposits to central bank	11,200	18,200
Mandatory minimum reserves with central banks	1,023	1,063
Cash in hand	714	706
Current accounts with central banks	38	20
	<b>12,975</b>	<b>19,989</b>

Mandatory minimum reserves with the Czech National Bank ("CNB") are generally available for use by the Bank. But it is not actively used for day-to-day banking business. Limit of mandatory minimum reserves are fulfilled according to average balance in reference period. These deposits bear interest at the CZK repo rate, which was 0.05% as at 31 December 2016 (31 December 2015: 0.05%).

## 12 Loans and Advances to Banks

The Bank classifies its loans and advances to banks in the category of financial assets "loans and receivables".

(CZKm)	31.12.2016	31.12.2015
<b>Analyzed by product and bank domicile</b>		
Current accounts		
Domestic	16	16
Foreign	1,550	1,029
Term deposits		
Domestic	0	9
Foreign	389	1,242
	1,955	2,296
Allowances for credit losses	0	0
<b>Net due from banks</b>	<b>1,955</b>	<b>2,296</b>

Loans and advances to banks amounting to CZK 1,566 million (2015: CZK 1,205 million) are included in the item cash and cash equivalents (Note 31).

## 13 Loans and Advances to Customers

The Bank classifies its loans and advances to customers in the category of financial assets "loans and receivables".

(CZKm)	31.12.2016	31.12.2015
<b>Analyzed by product</b>		
Investment loans	31,111	30,772
Working capital financing	4,335	4,954
Mortgages	17,049	13,267
Consumer loans	4,260	3,055
Gross loans and advances	56,755	52,048
Allowance for impairment (Note 14)	(1,142)	(1,267)
<b>Net loans and advances</b>	<b>55,613</b>	<b>50,781</b>

In 2016, the Bank pledged no loans and advances to customers as collateral for received loans and advances.

In 2015, the Bank pledged collateral for the received long-term loan for financing housing demands of the clients. The value of the pledged loan collateral at gross amortized cost is CZK 1,341 million.

For an analysis of individual categories of loans and advances to customers according to their credit quality see Note 33 (b).

## 14 Impairment Charge for Credit Losses

The movement in allowance for impairment of loans and advances to customers can be analyzed as follows:

(CZKm)	Retail	Corporate	Total
As at 1 January 2015	686	767	1,453
Allocation to provision for loan impairment	310	357	667
Reversal of provision for loan impairment	(171)	(179)	(350)
Loans written off during the year as uncollectible	(247)	(259)	(506)
Net foreign exchange difference	1	2	3
<b>As at 31 December 2015</b>	<b>579</b>	<b>688</b>	<b>1,267</b>
Allocation to provision for loan impairment	343	312	655
Reversal of provision for loan impairment	(274)	(160)	(434)
Loans written off during the year as uncollectible	(321)	(25)	(346)
Net foreign exchange difference	0	0	0
<b>As at 31 December 2016</b>	<b>327</b>	<b>815</b>	<b>1,142</b>

Segments Corporate/Retail are determined in accordance with the Basel II standardized approach as opposed to Note 32, where the segments are defined based on the Bank's organizational structure.

The Bank also realized a loss amounting to CZK 68 million (2015: CZK 319 million) on ceded receivables. The loss is recognized in the "impairment charge for credit losses".

The Bank received a financial guarantee for the haircut on market values of real estate collateral from Sberbank Europe AG in 2014. As a result of this guarantee part of the allowance for impairment was released (Note 33b).

## 15 Derivative Financial Instruments

The Bank's trading activities primarily involve providing various derivative products to its customers and managing positions for its own account. The trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position and which do not meet the criteria of hedge accounting.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2016 and 31 December 2015 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

Derivative financial instruments								
Trading derivatives  (CZKm)	31.12.2016				31.12.2015			
	Con- tract/ Nominal Assets	Con- tract/ Nominal Liabilities	Fair value positive	Fair value negative	Con- tract/ Nominal Assets	Con- tract/ Nominal Liabilities	Fair value positive	Fair value negative
<b>Interest rate derivatives</b>								
Swaps	3,819	3,819	19	13	2,630	2,630	12	1
Options	0	0	0	0	0	0	0	0
	3,819	3,819	19	13	2,630	2,630	12	1
<b>Foreign exchange derivatives</b>								
Swaps	5,620	5,537	90	12	4,106	4,093	16	3
Options	0	0	0	0	189	189	5	5
Forwards	833	829	4	5	224	223	2	1
	6,453	6,366	94	17	4,519	4,505	23	9
<b>Total</b>	<b>10,272</b>	<b>10,185</b>	<b>113</b>	<b>30</b>	<b>7,149</b>	<b>7,135</b>	<b>35</b>	<b>10</b>

Fair value gains less losses of trading derivatives are recognized in the profit for the period.

The Bank has no hedge relationship in books as at 31 December 2016 neither as at 31 December 2015 that would meet requirements of hedge accounting. In the past the Bank used interest rate swaps to hedge its exposure to changes in fair values of its fixed-rate state bonds, which were classified in available for sale portfolio.

## 16 Financial Assets at Fair Value Through Profit or Loss

Securities held for trading (CZK m)	31.12.2016	31.12.2015
Debt securities	0	32

The Bank does not hold securities designated at fair value through profit or loss in 2016 and 2015.

## 17 Investment Securities

The Bank classifies its investment securities in the categories of financial assets “available for sale” and “loans and receivables”.

(CZK m)	31.12.2016	31.12.2015
<b>Securities available for sale</b>		
Debt securities thereof:		
– Listed	0	1,211
	0	1,211
<b>Securities in category loans and receivables</b>		
Debt securities thereof:		
– Unlisted	245	1,353
	245	1,353

(CZK m)	Securities available for sale	Securities in category loans and receivables	Securities held to maturity	Total
As at 1 January 2015	2,111	60	0	2,171
Additions	137	1,353	0	1,490
Disposals	(1,015)	(60)	0	(1,075)
Gains / losses from changes in fair value	(22)	0	0	(22)
<b>As at 31 December 2015</b>	<b>1,211</b>	<b>1,353</b>	<b>0</b>	<b>2,564</b>
Additions	92	250	0	342
Disposals	(1,257)	(1,358)	0	(2,615)
Gains / losses from changes in fair value	(46)	0	0	(46)
<b>As at 31 December 2016</b>	<b>0</b>	<b>245</b>	<b>0</b>	<b>245</b>

The Bank pledged no securities as at 31 December 2016. The volume of pledged securities available for sale as at 31 December 2015 was CZK 459 million in fair-value. Securities were pledged in favor of European Investment Bank which provided loans to finance SME and municipalities. The subject of the pledge were Czech government bonds. The pledge is based on tripartite agreement involving Sberbank CZ, a.s. (collateral provider), European Investment Bank (collateral beneficiary) and Clearstream (international settlement and custody organization). During 2016 loans were repaid and pledge of securities according this agreement was released.

## 18 Intangible Assets

(CZKm)	Software	Development in progress	Other	Total
<b>Costs</b>				
As at 1 January 2015	428	21	1	450
Additions	58	38	0	96
Transfer	0	0	0	0
Disposal	(10)	0	0	(10)
As at 31 December 2015	476	59	1	536
Additions	48	124	0	172
Transfer	0	0	0	0
Disposal	0	(25)	0	(25)
As at 31 December 2016	524	158	1	683
<b>Accumulated amortization</b>				
As at 1 January 2015	(349)	0	(1)	(350)
Amortization charge	(34)	0	0	(34)
Disposals (accumulated amortization)	0	0	0	0
As at 31 December 2015	(383)	0	(1)	(384)
Amortization charge	(31)	0	0	(31)
Disposals (accumulated amortization)	0	0	0	0
As at 31 December 2016	(414)	0	(1)	(415)
<b>Net book value</b>				
As at 1 January 2015	79	21	0	100
As at 31 December 2015	93	59	0	152
As at 31 December 2016	110	158	0	268

The acquisition amount of fully amortized intangible assets which are still in use was CZK 172 million in 2016 (2015: CZK 129 million).

## 19 Property and Equipment

(CZKm)	Land and buildings	Leasehold improvement	Equipment	Other	Construction in progress	Total
<b>Costs</b>						
As at 1 January 2015	178	143	269	175	24	789
Additions	2	33	28	16	0	79
Transfer	0	16	4	0	(20)	0
Disposal	0	(7)	(85)	(20)	0	(112)
As at 31 December 2015	180	185	216	171	4	756
Additions	0	16	32	29	5	82
Transfer	0	0	0	0	0	0
Disposal	0	(17)	(38)	(60)	(3)	118
As at 31 December 2016	180	184	210	140	6	720
<b>Accumulated depreciation</b>						
As at 1 January 2015	(104)	(69)	(209)	(110)	0	(492)
Depreciation charge	(5)	(18)	(30)	(23)	0	(76)
Transfer	0	0	0	0	0	-
Disposals (accumulated depreciation)	0	7	78	18	0	103
As at 31 December 2015	(109)	(80)	(161)	(115)	0	(465)
Depreciation charge	(5)	(18)	(21)	(26)	0	(70)
Transfer	0	0	0	0	0	0
Disposals (accumulated depreciation)	0	12	35	50	0	97
As at 31 December 2016	(114)	(86)	(147)	(91)	0	(438)
<b>Net book value</b>						
As at 1 January 2015	74	74	60	65	24	297
As at 31 December 2015	71	105	55	56	4	291
As at 31 December 2016	66	98	63	49	6	282

The acquisition amount of fully amortized property and equipment assets which are still in use was CZK 178 million in 2016 (2015: CZK 218 million). The amount of received compensation from third parties for items of property and equipment that were given up or lost was CZK 1 million (2015: CZK 1 million).

## 20 Income Tax Assets

Deferred income taxes in 2016 are calculated on all temporary differences under the liability method using the 19% income tax rate which is supposed to be applicable at recognition (19% for 2015).

The movement on the deferred income tax account is as follows:

(CZKm)	2016	2015
As at 1 January	54	49
Deferred tax income/expense relating to the origination and reversal of temporary differences (Note 10)	29	3
Available-for-sale securities		
Fair value re-measurement (Note 28)	5	0
Remeasurements of employee benefits (Note 28)	0	2
As at 31 December	88	54

Deferred income tax asset and liability are attributable to the following items:

(CZKm)	31.12.2016	31.12.2015
Allowance for impairment	58	49
Available-for-sale securities	0	(5)
Fixed assets	(6)	(7)
Provisions	36	17
	<b>88</b>	<b>54</b>

The deferred tax (debit) / credit in the statement of income comprise the following temporary differences:

(CZKm)	2016	2015
Allowance for impairment	9	1
Depreciation of fixed assets	1	0
Reserves	19	2
Total (Note 10)	29	3

The Bank's management believes it is probable that the Bank will fully realize its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

## 21 Other Assets

(CZKm)	31.12.2016	31.12.2015
Deferred items	50	38
Other debtors, net of provisions	57	47
Anticipated receivables	5	5
Other clients receivables	133	0
Cash in transfer	161	0
Other receivables	20	237
	<b>426</b>	<b>327</b>

## 22 Deposits from Banks

The Bank classifies its deposits from banks in the category of financial liabilities "measured at amortized cost".

(CZKm)	31.12.2016	31.12.2015
<b>Analyzed by product and bank domicile</b>		
Current accounts		
Domestic	1	2
Foreign	343	440
Term deposits		
Domestic	0	946
Foreign	2,836	3,114
Borrowings		
Domestic	0	0
Foreign	180	2,001
Other		
Domestic	0	10
Foreign	107	0
	<b>3,467</b>	<b>6,513</b>

The Bank provided collaterals for its obligations by pledge of securities (Note 17) and pledge of receivables (Note 13).

Deposits from banks in the amount of CZK 2,069 million (2015: CZK 2,073 million) are included in the item cash and cash equivalents (Note 31).

## 23 Due to Customers

In 2016 and 2015, the Bank does not report any due to customers measured at fair value against profit and loss accounts.

The Bank classifies its due to customers in the category of financial liabilities "measured at amortized cost".

Due to customers measured at amortized cost (CZKm)	31.12.2016	31.12.2015
<b>Analyzed by product</b>		
Current accounts	20,968	19,721
Term deposits	5,125	5,899
Savings accounts with notice period	2	3
Savings accounts	29,692	30,145
	55,787	55,768
<b>Analyzed by customer type</b>		
Private companies	18,391	19,040
Individual – households	27,265	27,463
Individual – entrepreneurs	2,327	2,553
Government bodies	5,317	4,613
Non-profit institutions	482	367
Insurance companies and pension funds	1,640	1,432
Other financial institutions	365	300
	55,787	55,768

The Bank has not given any collateral for its liabilities.

## 24 Debt Securities in Issue

The Bank classifies its debt securities in issue in the category of financial liabilities "measured at amortized cost".

(CZKmn)	Issue date	Currency	Maturity date	31.12.2016	31.12.2015
<b>Issued mortgage bonds</b>					
Emise HZL 5,30/17	18 December 2007	CZK	18 December 2017	803	809
Emise HZL 4,10/16	19 May 2010	CZK	19 May 2016	0	459
Emise HZL VAR1/17	22 March 2012	CZK	22 March 2017	486	490
Emise HZL 3,20/16	11 October 2012	CZK	11 October 2016	0	998
Emise HZL 2,30/18	24 October 2013	CZK	24 October 2018	898	922
Emise HZL 2,00/20	26 June 2014	CZK	26 June 2020	1,075	1,057
Emise HZL 1,10/17	5 September 2014	CZK	5 September 2017	0	0
				3,262	4,735
<b>Promissory notes and certificates of deposits</b>					
Promissory notes and certificates of deposits short-term				0	966
Promissory notes and certificates of deposits long-term				0	68
				0	1,034
<b>Debt securities in issue</b>				<b>3,262</b>	<b>5,769</b>

In 2016 and 2015, the Bank did not issue any mortgage bonds.

The Bank repaid two mortgage bonds issues in 2016. The first issue in the nominal amount of CZK 500 million (HZL 4,10/16), the second issue in the nominal amount of CZK 1,000 million (HZL 3,20/16)

Issued mortgage bonds are collateralized by the Bank's receivables arising from the granted mortgages in line with Czech regulatory requirements.

## 25 Other Liabilities and Accruals and Deferred Income

(CZKmn)	31.12.2016	31.12.2015
Deferred items	16	2
Payments in transit	60	30
Other clearing accounts	435	109
Other creditors	207	157
Payables to Deposit insurance fund	1	22
Anticipated payables	38	64
VAT and other tax payables	10	4
Other	14	23
	<b>781</b>	<b>411</b>

## 26 Provisions

(CZKm)	Provision for financial guarantees and other contingent liabilities	Employee benefits provision	Other operating provision	Total provisions
As at 1 January 2015	18	14	19	51
Release	(15)	(14)	0	(29)
Cover of costs	0	0	0	0
Additions	13	0	24	37
Remeasurements	0	0	0	0
As at 31 December 2015	16	0	43	59
Release	(24)	0	(15)	(39)
Cover of costs	0	0	(3)	(3)
Additions	48	0	26	74
Remeasurements	0	0	0	0
As at 31 December 2016	40	0	51	91

Other operating provisions include also provisions for the removal of technical improvements to the property of third parties, the Bank performed mainly in connection with the lease contracts to the premises in which the Bank operates its banking business.

## 27 Subordinated Debt

The Bank classifies its subordinated debt in the category of financial liabilities "measured at amortized cost".

The Bank reports subordinated debt as of 31 December 2016 in the amount of CZK 189 million. The Bank issued this debt on 29 December 2016 to its parent company Sberbank Europe AG, the sole shareholder, in volume EUR 7 million. Annual interest rate of subordinated debt is 5.915% and the maturity of this debt is 29 December 2023. The Bank has drawn this subordinated debt to cover capital buffer internally defined by the Bank. The purpose of this buffer is to ensure the fulfillment of requirement for total capital adequacy ratio. The subordinated debt was drawn under standard market conditions.

## 28 Equity

There was no change in issued shares in 2016.

Issued shares carry standard shareholder's rights. Shares do not carry any special rights that would, for example, restrict or prioritize dividend payment or allow repayment equity back to shareholders.

Share capital (CZKm)	31.12.2016	31.12.2015
Voting shares	2,806	2,806
Non-voting shares	0	0
Issued, paid and registered by the Commercial register	2,806	2,806

Issues of shares				
ISIN	Date of issue	Nominal value of share	Number of shares	Nominal value
		CZK		CZK m
CZ0008040201	23.10.1998	5,000	30,000	150
CZ0008040201	23.10.1998	5,000	100,000	500
CZ0008040201	7.8.2002	5,000	4,600	23
CZ0008040201	7.8.2002	5,000	15,400	77
CZ0008040201	23.11.2005	5,000	3,165	16
CZ0008040201	23.11.2005	5,000	10,555	53
CZ0008040201	31.7.2006	5,000	6,565	33
CZ0008040201	31.7.2006	5,000	21,895	109
CZ0008040201	20.12.2006	5,000	8,479	42
CZ0008040201	20.12.2006	5,000	28,281	142
CZ0008040201	16.5.2007	5,000	8,336	42
CZ0008040201	16.5.2007	5,000	27,804	139
CZ0008040201	21.12.2007	5,000	16,488	82
CZ0008040201	21.12.2007	5,000	54,992	275
CZ0008040201	30.7.2008	5,000	14,882	74
CZ0008040201	30.7.2008	5,000	49,634	248
CZ0008040201	18.4.2014	5,000	160,122	801
			<b>561,198</b>	<b>2,806</b>

As at 31 December 2016, the nominal value of ordinary securities is CZK 5,000. As at 31 December 2015, the nominal value of ordinary securities was CZK 5,000.

Cumulative gains not recognized in the profit for the period may be analyzed as follows:

(CZKm)	2016	2015
As at 1 January	21	29
Net gains/(losses) from changes in fair value of available-for-sale securities	(45)	12
Net gains from the sale of available-for-sale securities	19	(2)
Changes in fair value due to hedge accounting	0	(11)
Changes in provision for employee benefits	0	(9)
Change in deferred income taxes (Note 20)	5	2
<b>As at 31 December</b>	<b>0</b>	<b>21</b>

## 29 Contingent Liabilities and Commitments

Commitments to provide a loan, loan guarantees to third parties and guarantees from acceptance of letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

Contingent liabilities include:

(CZKm)	31.12.2016 Contract amount	31.12.2015 Contract amount
Documentary credits	81	51
Financial guarantees	1,164	2,091
Provision for guarantees (Note 26)	(22)	(7)
Net financial guarantees	1,142	2,084
Undrawn formal standby facilities, credit lines	3,805	2,720
Provision for un-drawn credit lines (Note 26)	(18)	(9)
Net un-drawn formal standby facilities, credit lines	3,787	2,711
<b>Total in gross amount</b>	<b>4,929</b>	<b>4,795</b>

Un-drawn credit lines are irrevocable.

For purpose of calculation of provision for credit risk exposures relating to off-balance sheet items, the Bank considers the probability of outflow for loans and advances in default as follows:

- In case the client is classified as substandard, the probability of outflow is 50% for issued financial guarantees.
- In case the client is classified as doubtful or loss, the probability of outflow is 100% for issued financial guarantees.
- In case the client is classified as substandard, doubtful or loss, the probability of outflow is 100% for credit-related commitments.
- In case the client is classified as substandard, doubtful or loss, the probability of outflow is 100% for letters of credit.

The uncertainties about the amount or timing of any resulting outflows of economic benefits are summarized in probability of outflow and the credit conversion factor (which is 50% for loan commitments and letters of credit and 100% for guarantees) and are reflected in the provision.

The Bank expects that the possibility of any outflow in settlement is remote for loans and advances without default.

The amount and timing of off-balance assets drawing are calculated with internal models. Drawing can happen at anytime during the lifetime of the contract.

## 30 Other Contingent Liabilities

### LITIGATION

As of 31 December 2016, there is no litigation, in which it is expected significant impact on the financial position of the Bank.

### TAXATION

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Czech tax authorities are authorized to perform tax inspections for three years retrospectively. The last tax inspection was for the year 2007.

### ASSETS UNDER MANAGEMENT AND CUSTODY

(CZKm)	31.12.2016	31.12.2015
Assets held under custody	0	1,037

Assets held under custody are shown at their nominal value.

(CZKm)	31.12.2016	31.12.2015
Assets held under management	5,808	5,659

Assets held under management are shown at their fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2016 and 31 December 2015.

### OPERATING LEASE COMMITMENTS (THE BANK AS LESSEE)

Future minimum lease payments (cash outflow) under land, building and equipment operating leases are as follows:

(CZKm)	31.12.2016	31.12.2015
Up to 3 months	29	28
Not later than 1 year	72	79
Later than 1 year and not later than 5 years	249	306
Later than 5 years	30	55
	<b>380</b>	<b>468</b>

### OPERATING LEASE RECEIVABLES (THE BANK AS LESSOR)

The Bank does not have any future minimum lease payments (cash inflow) under land, building and equipment operating lease contracts in 2016 and 2015.

## 31 Cash and Cash Equivalents

Analysis of the balances of cash and cash equivalents as shown in the balance sheets:

(CZKm)	31.12.2016	31.12.2015	1.1.2015
Cash and balances with central banks (Note 11)	12,975	19,989	7,310
Due from banks due up to 3 months (Note 12)	1,566	1,205	619
Due to banks due up to 3 months (Note 22)	(2,069)	(2,073)	(3,934)
	<b>12,472</b>	<b>19,121</b>	<b>3,995</b>

## 32 Operating Segments

The Bank has the following four reportable segments in 2016 and 2015. These operating segments are the Bank's strategic business units which offer different products and services, and are managed separately because they require different technology, product distribution and service rendering methods and marketing strategies. The Board of Directors reviews the internal management reports for each of these strategic business units on a monthly basis.

- **Retail banking:** Private individuals and entrepreneurs and companies with a turnover of less than EUR 1 million;
- **Corporate banking:** Companies with turnover greater than EUR 50 million and non-banking institutions in the financial sector;
- **SME banking:** Small companies and entrepreneurs with turnover up to EUR 50 million;
- **Treasury:** Asset and liability management, dealing.

The result of other Bank activities (head office expenses, unallocated expenses and eliminating and reconciling items) is reported within the reconciliation of the reportable segment revenues, profit or loss, assets and liabilities and other material items with corresponding items in the Bank's financial statements. The methods of reporting the segments' profit and loss, assets and liabilities is in accordance with the methods of reporting profit and loss, assets and liabilities of the aggregate Bank level.

In 2016 and 2015, no client of the Bank (or group of related persons) constituted more than 10% of the total revenues of the Bank.

The accounting policies of the reportable segments are the same as described in Note 2.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Bank's Board of Directors.

### Operating segment information for 2016

(CZKm)	Retail Banking	Corporate Banking	SME	Treasury	Total
Net interest income	717	237	536	49	1,539
Non-interest income	175	112	192	57	536
Total segment revenue	892	349	728	106	2,075
Segment expense	(495)	(74)	(129)	(72)	(770)
Other material non-cash items:					
Allocation to provision for loan impairment	(260)	(32)	(773)	0	(1,065)
Reversal of provision for loan impairment	167	5	672	0	844
Loans written off during the year as uncollectible	3	1	3	0	7
Provisions and other operating costs	0	0	0	0	0
Reportable segment profit before income tax	307	249	501	34	1,091
Reportable segment assets	24,724	10,589	20,686	15,966	71,965
Reportable segment liabilities	35,303	5,943	15,330	7,059	63,635
Capital expenditure	51	1	1	71	124
Depreciation	(50)	(4)	(4)	(48)	(106)

### Operating segment information for 2015

(CZKm)	Retail Banking	Corporate Banking	SME	Treasury	Total
Net interest income	595	290	477	47	1,409
Non-interest income	177	99	186	47	509
Total segment revenue	772	389	663	94	1,918
Segment expense	(548)	(88)	(119)	(2)	(757)
Other material non-cash items:					
Allocation to provision for loan impairment	(260)	(64)	(636)	0	(960)
Reversal of provision for loan impairment	157	42	445	0	644
Loans written off during the year as uncollectible	0	2	(1)	0	1
Provisions and other operating costs	0	0	0	(188)	(188)
Reportable segment profit before income tax	121	281	352	(96)	658
Reportable segment assets	20,360	8,990	21,637	25,622	76,609
Reportable segment liabilities	36,314	7,273	15,031	9,912	68,530
Capital expenditure	62	1	0	91	154
Depreciation	(94)	(2)	(3)	(18)	(117)

## Reconciliations of reportable segment profit before income tax and assets and liabilities

(CZKm)	2016	2015
<b>Profit before income tax</b>		
Total profit before income tax for reportable segments	1,091	658
Unallocated expenses	(755)	(621)
Profit before income tax	336	37
<b>Assets</b>		
Total assets for reportable segments	71,965	76,609
Unallocated assets	0	0
Total assets	71,965	76,609
<b>Liabilities</b>		
Total liabilities for reportable segments	63,635	68,530
Unallocated liabilities	0	0
Total liabilities	63,635	68,530

Total Bank revenue is generated solely by the reportable segments.

The vast majority of the Bank's total revenues is generated from customers domiciled in the Czech Republic.

All of the Bank's Property, plant and equipment and intangible assets are located in the Czech Republic.

## 33 Financial Risks

### (a) Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating interest rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might become due.

The Bank seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar contingent liabilities.

### (b) Credit risk

The Bank defines credit risk as the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation.

Credit risk management is performed in close co-operation with the Bank's parent company and together with The Bank's strategy and risk appetite reflects the risk strategy and risk-appetite of shareholders.

A conservative strategy to credit risk management is applied. Considered within the general context of the overall business relations existing with each respective customer, every transaction for which the Bank knowingly undertakes risk should yield a contribution margin that is commensurate with the specific risk incurred.

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to a decrease in the accepted level of credit risk. This process is performed for each individual borrower and the whole loan portfolio. When deciding about the acceptance of a new exposure, an analysis of the customer's cash flow and overall financial situation is a key factor, as well as the existing experience with the customer together with the quality of received collateral. The decision-making is performed independently from the sales units.

In 2015, the CNB performed an inspection focused on the credit risk management and risks associated with the lending process, the liquidity risk management system and the internal capital adequacy process (ICAAP).

The CNB subsequently started administrative proceedings with the Bank related to the results of this inspection on 16 March 2016 in order to remedy all of the findings, which were identified during the inspection. The CNB restricted the following operations as part of the administrative proceedings:

- a) approving new and increasing existing exposures exceeding 15% of regulatory capital,
- b) increasing exposures in the "project finance" and "commercial real estate" segments,
- c) approving exposures where maturity repayment exceeds 50% of the loan's principal.

Already during the inspection in 2015, and subsequently during the administrative proceedings in 2016, the Bank continuously adopted appropriate measures to improve its internal processes and to eliminate findings. These measures were continuously communicated to the CNB. On 7 June 2016, the CNB delivered a decision to lift restrictions under letter c) of the preceding paragraph. Subsequently, on 7 September 2016 the CNB delivered another separate decision to lift the restrictions under letter a) of the preceding paragraph. This decision also confirmed the CNB limitation according to point b) of the previous paragraph for cases where the approval of loan transaction is based on the project rating. As of 31 December 2016, the Bank had addressed almost all findings which were the result of the inspection and the subject of the administrative proceedings described above.

After further improvements in the last restricted area had been made the Bank applied to the CNB to cancel this decision. On 17 February 2017 the CNB delivered a notification to the Bank which complied with the Bank's request and restrictions on lending activity in the aforementioned segments no longer apply.

The capital requirement for credit risk in the investment portfolio is calculated using the standardized approach.

The table below summarizes maximum exposure to credit risk before collateral held or other credit enhancements. Included in the table are the Bank's assets and liabilities at carrying amounts (after impairment).

#### MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

(CZKmn)	31.12.2016	31.12.2015
<b>Credit risk exposures relating to on-balance sheet assets</b>		
Loans and advances to banks	1,955	2,296
Loans and advances to customers:		
– Corporate loans		
Investment loans	23,354	22,405
Working capital financing	2,229	2,717
Mortgages	100	131
Consumer loans	0	1
– Retail loans		
Investment loans	7,180	7,719
Working capital financing	1,801	1,831
Mortgages	16,866	13,036
Consumer loans	4,083	2,941
Derivative financial instruments	113	35
Financial assets at fair value through profit or loss		
Debt securities	0	32
Investment securities		
Debt securities	245	2,564
Other exposures	426	327
<b>Credit risk exposures relating to off-balance sheet items (nominal amount)</b>		
Financial guarantees	1,164	2,092
Loan commitments and other credit related liabilities	3,886	2,770
	<b>63,402</b>	<b>60,897</b>

Corporate loans include loans and advances to customers with a total exposure above EUR 1 million or with annual turnover of at least EUR 50 million. Segments Corporate/Retail are determined in accordance with the Basel II standardized approach for calculation of the capital requirement for credit risk in investment portfolios as opposed to Note 32, where the segments are defined based on the Bank's organizational structure.

## FINANCIAL EFFECT OF COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS

(CZKm)	31.12.2016	31.12.2015
<b>Credit risk exposures relating to on-balance sheet assets</b>		
Loans and advances to banks	0	1,500
Loans and advances to customers:		
– Corporate loans		
Investment loans	11,956	10,953
Working capital financing	777	793
Mortgages	88	100
– Retail loans		
Investment loans	4,911	5,054
Working capital financing	644	637
Mortgages	14,129	11,109
Consumer loans	1,243	1,082
	<b>33,748</b>	<b>31,228</b>

## MAXIMUM EXPOSURE TO CREDIT RISK AFTER COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

(CZKmn)	31.12.2016	31.12.2015
<b>Credit risk exposures relating to on-balance sheet assets</b>		
Loans and advances to banks	1,955	796
Loans and advances to customers:		
– Corporate loans		
Investment loans	11,398	11,452
Working capital financing	1,452	1,924
Mortgages	12	31
Consumer loans	0	1
– Retail loans		
Investment loans	2,269	2,665
Working capital financing	1,157	1,194
Mortgages	2,737	1,927
Consumer loans	2,840	1,859
Derivative financial instruments	113	35
Financial assets at fair value through profit or loss		
Debt securities	0	32
Investment securities		
Debt securities	245	2,564
Other exposures	426	327
<b>Credit risk exposures relating to off-balance sheet items (nominal amount)</b>		
Financial guarantees	1,164	2,092
Loan commitments and other credit related liabilities	3,886	2,770
	<b>29,654</b>	<b>29,669</b>

Only balance sheet items are subject to collaterals and other credit enhancements received.

## COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS

Collateral held and other credit enhancements may be summarized by the collateral type as follows:

(CZKm)	31.12.2016	31.12.2015
Financial effect of collateral held and other credit enhancements		
Bank and similar guarantees	1,439	744
Mortgage right on real estate	28,309	26,188
Financial collateral	594	2,123
Other	3,406	2,173
	<b>33,748</b>	<b>31,228</b>

Accounting policies for collaterals are presented in the Note 2 (z).

In 2014, the Bank received a guarantee agreement from Sberbank Europe covering the difference between the estimation of the market value of collateral and the value of collateral that the Bank accepts for risk purposes. The value of this guarantee is CZK 53,3 milion and is part of the line "Financial collateral".

In 2015 and 2016, the Bank received no cash-flow from the guarantee described. The amount of the guarantee was reduced to an amount of CZK 35 million in 2015 and to CZK 23 million in 2016 because of the derecognition two loans case covered by the guarantee. There is no loss connected with the derecognition that should be covered by cash-flow from the guarantee.

## LOANS AND ADVANCES

The Bank's exposure to credit risk from loans and advances is summarized as follows:

(CZKm)	31.12.2016		31.12.2015	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	53,333	1,955	49,143	2,296
Past due but not impaired	165	0	204	0
Individually impaired	3,257	0	2,701	0
<b>Gross loans and advances</b>	<b>56,755</b>	<b>1,955</b>	<b>52,048</b>	<b>2,296</b>
Allowances for impairment	(1,142)	0	(1,267)	0
<b>Net loans and advances</b>	<b>55,613</b>	<b>1,955</b>	<b>50,781</b>	<b>2,296</b>

The total amount of the loans and advances to customers which are neither past due nor impaired consist of CZK 24,037 million (31 December 2015: CZK 24,530 million) loans and advances provided to the corporate clients and CZK 29,296 million (31 December 2015: CZK 24,613 million) loans and advances provided to the retail clients.

The total impairment provision for loans and advances as at 31 December 2016 is CZK 1,142 million (31 December 2015: CZK 1,267 million) of which CZK 842 million (31 December 2015: CZK 1,017 million) represents the individually impaired loans; the remaining amount of CZK 300 million (31 December 2015: CZK 250 million) represents the portfolio provision.

## INTERNAL RATING OF LOANS AND ADVANCES AND CNB CATEGORIZATION

The Bank uses internal rating models for the purposes of managing and monitoring the quality of the loan portfolio.

Each borrower is based on its credit quality assigned to specific rating grade. This rating grade represents probability of client default within one year (PD).

The current rating scale consists of 26 rating grades, where the 26th grade is reserved for customers in default (for Corporate banking also grade 25 indicates default).

The internal rating has to be periodically updated. Validation and parameter changes are carried out in cooperation with the parent company.

Individually not impaired loans and advances (loans and advances without default) are in accordance with the CNB's regulations classified as follows (rating grades 1–25):

- standard, when principal and interest payments are regularly paid and none of them are overdue for more than 30 days, no receivable from the debtor has been restructured in the last two years because of the deterioration of debtor's financial situation and there is no reason to doubt full repayment without usage collateral for collecting the receivable,
- watched, when there has been identified deterioration of debtor's financial situation since the recognition of the receivable or principal or interest payments are paid with problems, but none of them is overdue more than 90 days or no receivable from the debtor has been restructured within last 6 months because of the deterioration of debtor's financial situation and with regard to the financial and economic situation of the debtor is probable full collection of the receivable without usage collateral for collecting the receivable.

Individually impaired loans and advances (loans and advances in default) are in accordance with the CNB's regulations classified as follows (rating grade 26 or grade 25 for Corporate banking):

- non-standard, when its full repayment is uncertain because of the financial and economic situation of the debtor; partial repayment is highly probable without usage collateral for collecting the receivable. The receivable is considered as substandard even if the principal or interest payments are paid with problems, but none of them is overdue for more than 180 days,
- doubtful, when full repayment is highly improbable mainly because of the financial and economic situation of the debtor; partial repayment is possible and probable without necessity to use collateral for collecting the receivable. The receivable is considered doubtful even if the principal or interest payments are paid with problems, but none of them is overdue for more than 360 days,
- loss, when full repayment is impossible because of the financial and economic situation of the debtor impossible, it is expected that this receivable will not be recovered or will be recovered only partially in a very small amount, without usage collateral for collecting the receivable. The receivable is considered a loss even if the principal or interest payments are overdue for more than 360 days. A loss is also considered a receivable from a debtor whose assets were declared bankrupt, unless it concerns a claim against the asset of arising after the declaration of bankruptcy.

Rating scale (valid since 1 January 2015):

Rating Grade	Risk	Min PD	Average PD	Max PD
1	Low	0.00%	0.02%	0.03%
2	Low	0.03%	0.04%	0.04%
3	Low	0.04%	0.05%	0.06%
4	Low	0.06%	0.07%	0.08%
5	Low	0.08%	0.10%	0.11%
6	Low	0.11%	0.13%	0.16%
7	Low	0.16%	0.18%	0.22%
8	Low	0.22%	0.25%	0.30%
9	Low	0.30%	0.35%	0.41%
10	Low	0.41%	0.48%	0.56%
11	Low	0.56%	0.66%	0.78%
12	Low	0.78%	0.91%	1.07%
13	Medium	1.07%	1.25%	1.47%
14	Medium	1.47%	1.73%	2.02%
15	Medium	2.02%	2.38%	2.79%
16	Medium	2.79%	3.27%	3.84%
17	Medium	3.84%	4.51%	5.29%
18	Medium	5.29%	6.20%	7.28%
19	High	7.28%	8.54%	10.03%
20	High	10.03%	11.77%	13.81%
21	High	13.81%	16.20%	19.01%
22	High	19.01%	22.31%	26.19%
23	High	26.19%	30.73%	36.06%
24	High	36.06%	42.32%	49.66%
25	High	49.66%	58.28%	100.00%
26	Default	100.00%	100.00%	100.00%

Table of external ratings converted to the internal rating:

Rating Grade	Risk	PD (na 1 rok)	Rating S&P	Rating Fitch	Rating Moody's
1	Low	0.02%	AAA	AAA	Aaa
1	Low	0.02%	AA+	AA+	Aa1
1	Low	0.02%	AA	AA	Aa2
1	Low	0.02%	AA-	AA-	Aa3
1	Low	0.02%	A+	A+	A1
2	Low	0.04%	A	A	A2
3	Low	0.05%	A-	A-	A3
4	Low	0.07%	A-	A-	A3
5	Low	0.10%	BBB+	BBB+	Baa1
6	Low	0.13%	BBB+	BBB+	Baa1
7	Low	0.18%	BBB	BBB	Baa2
8	Low	0.25%	BBB-	BBB-	Baa3
9	Low	0.35%	BBB-	BBB-	Baa3
10	Low	0.48%	BB+	BB+	Ba1
11	Low	0.66%	BB+	BB+	Ba1
12	Low	0.91%	BB	BB	Ba2
13	Medium	1.25%	BB-	BB-	Ba3
14	Medium	1.73%	BB-	BB-	Ba3
15	Medium	2.38%	B+	B+	B1
16	Medium	3.27%	B	B	B2
17	Medium	4.51%	B	B	B2
18	Medium	6.20%	B-	B-	B3
19	High	8.54%	CCC+	CCC+	Caa1
20	High	11.77%	CCC+	CCC+	Caa1
21	High	16.20%	CCC	CCC	Caa2
22	High	22.31%	CCC-	CCC-	Caa3
23	High	30.73%	CC	CC	Ca
24	High	42.32%	C	C	C
25	High	58.28%	C	C	C
26	Default	100.00%	C	C	C

## LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

Loans and advances which are not overdue are allocated to this category. These loans and advances are not individually impaired.

Loans and receivables, individually not impaired: (CZKm)	31.12.2016	31.12.2015
Low risk	27,022	19,376
Medium risk	22,785	27,226
High risk	3,526	2,541
Default	0	0
<b>Gross loans and receivables, individually not impaired</b>	<b>53,333</b>	<b>49,143</b>
Portfolio allowance for impairment for credit risks	(282)	(244)
<b>Net loans and receivables, individually not impaired</b>	<b>53,051</b>	<b>48,899</b>

## LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

Loans and advances from 1 up to 90 days overdue are generally not considered to be impaired by an individual impairment provision.

Loans and receivables past due, individually not impaired: (CZKm)	31.12.2016	31.12.2015
Low risk	8	12
Medium risk	40	155
High risk	117	37
Default	0	0
<b>Gross loans and receivables, individually not impaired</b>	<b>165</b>	<b>204</b>
Portfolio allowance for impairment for credit risks	(18)	(6)
<b>Net loans and receivables, individually not impaired</b>	<b>147</b>	<b>198</b>

The table below summarizes the gross amount of loans and advances to customers past due but not impaired by business segment along with the fair value of related collateral held by the Bank as security.

(CZKm)	31.12.2016		31.12.2015	
	Loans and advances past due but not impaired	Financial effect of received collaterals	Loans and advances past due but not impaired	Financial effect of received collaterals
Corporate	10	4	134	0
Retail	155	84	70	41
<b>Total</b>	<b>165</b>	<b>88</b>	<b>204</b>	<b>41</b>

The table below summarizes the term structure of overdue loans:

<b>Gross loans and receivables past due, individually not impaired</b> (CZKm)	<b>31.12.2016</b>	<b>31.12.2015</b>
1–30 days overdue	109	182
30–60 days overdue	30	17
60–90 days overdue	26	5
<b>Total gross amount</b>	<b>165</b>	<b>204</b>

As at 31 December 2016, from the total loans and advances past due but not impaired 66% were overdue by up to 1 month (2015: 89%).

#### INDIVIDUALLY IMPAIRED LOANS AND ADVANCES

The Bank performs an assessment for the individual impairment of loans and advances that are above the materiality threshold. Individually, impaired loans and advances include exposures corresponding to the sub-categories of substandard, doubtful and loss loans and receivables in accordance with regulatory classifications. Therefore, they also include loans and advances more than 90 days overdue. The remaining loans and advances from financial activities are considered within the collective evaluation of impairment and for the calculation of the portfolio provision.

<b>Loans and receivables past due, individually impaired</b> (CZKm)	<b>31.12.2016</b>	<b>31.12.2015</b>
Default	3,257	2,701
<b>Gross loans and receivables past due, individually impaired</b>	<b>3,257</b>	<b>2,701</b>
Individual allowance for impairment for credit risks	(842)	(1,017)
<b>Net loans and receivables past due, individually impaired</b>	<b>2,415</b>	<b>1,684</b>

The table below summarizes the gross amount of individually impaired loans and advances to customers by business segment along with the fair value of related collateral held by the Bank as security.

(CZKm)	<b>31.12.2016</b>		<b>31.12.2015</b>	
	Individually impaired loans and advances	Financial effect of received collaterals	Individually impaired loans and advances	Financial effect of received collaterals
Corporate	2,074	1,569	1,200	583
Retail	1,183	641	1,502	875
<b>Total</b>	<b>3,257</b>	<b>2,210</b>	<b>2,702</b>	<b>1,458</b>

#### LOANS AND ADVANCES UNDER FORBEARANCE MEASURES

The Bank performs the restructuring of loans and advances in cases where according to the assessment of the current legal and financial situation of the client it would probably suffer a loss if the restructuring was not performed. The restructuring mainly includes a modification of the repayment schedule, adjustment of interest rates, forgiveness of past due interests or extending the payment of the principal or accessory amounts or transformation of an overdraft current account to a loan.

The evidence of loans and receivables under forbearance measures is as follows:

- Restructured loan continues to be recognized under original loan number and the continuation of the allowance for impairment is maintained.
- Restructured loan is derecognized and new asset is recognized. The allowance for impairment is transferred from derecognized loan to newly recognized asset.
- Overdraft current account is transformed to new installment loan and respective allowance for impairment transferred.

The allowance for impairment of loans under forbearance measures is calculated using the same methodology as for other loans and receivables.

In 2016, loans and advances totaling CZK 2,084 million (2015: CZK 698 million) were restructured. Out of these, there were CZK 1,670 million loans to Corporate customers and CZK 414 million loans to Retail customers (2015: Corporate customers – CZK 275 million; Retail customers – CZK 423 million).

They were mainly for the extension of bridging loans in real estate, which had a maturity in 2014, and the extension of loans based on the requirements of clients in business sectors that were affected by deteriorating economic conditions. Restructuring is associated with a temporary worsening of the grade classification of the client. After the successful completion of restructuring and repayment methods for the clients, and in accordance with the rules of the CNB, they are reclassified back to a more creditworthy category. The client can be reclassified every six month by a maximum of 2 grades (CNB classification) if it fulfils the terms of restructuring and does not delay with the repayments.

The Bank maintains the evidence of loans and advances under forbearance measures and evaluates their status on a grade 26 according to current rating scale.

Forborne loans and receivables according to degree of impairment

<b>As at 31 December 2016</b> (CZKm)	Forborne loans and receivables	Received collateral	<b>Loans and receivables to customer – total</b>	Received collateral
Not impaired	148	120	53,498	31,539
Impaired	1,936	1,490	3,257	2,209
<b>Gross loans and receivables</b>	<b>2,084</b>	<b>1,610</b>	<b>56,755</b>	<b>33,748</b>
Allowance for impairment	(250)	0	(1,142)	0
<b>Net loans and receivables</b>	<b>1,834</b>	<b>1,610</b>	<b>55,613</b>	<b>33,748</b>

<b>As at 31 December 2015</b> (CZKm)	Forborne loans and receivables	Received collateral	<b>Loans and receivables to customer – total</b>	Received collateral
Not impaired	224	203	49,347	29,770
Impaired	474	330	2,701	1,458
<b>Gross loans and receivables</b>	<b>698</b>	<b>533</b>	<b>52,048</b>	<b>31,228</b>
Allowance for impairment	(86)	0	(1,267)	0
<b>Net loans and receivables</b>	<b>612</b>	<b>533</b>	<b>50,781</b>	<b>31,228</b>

The reconciliation from the opening balances to the closing balances of the forborne loans and receivables:

(CZK m)	Retail banking	Corporate banking	Total
As at 1 January 2015	306	448	754
New forborne receivables	185	261	446
Change in forborne receivables (repayments, increase)	(67)	(224)	(291)
Reclassification	24	(24)	0
Written off forborne receivables	0	(11)	(11)
Sale of forborne receivables	0	(175)	(175)
Healed forborne receivables	(25)	0	(25)
<b>As at 31 December 2015</b>	<b>423</b>	<b>275</b>	<b>698</b>
As at 1 January 2016	423	275	698
New forborne receivables	100	1 511	1 611
Change in forborne receivables (repayments, increase)	(90)	(99)	(189)
Reclassification	17	(17)	0
Written off forborne receivables	(5)	0	(5)
Sale of forborne receivables	(5)	0	(5)
Healed forborne receivables	(26)	0	(26)
<b>As at 31 December 2016</b>	<b>414</b>	<b>1,670</b>	<b>2,084</b>

#### LOANS AND ADVANCES TO BANKS

The Bank has a portfolio of only properly repaid loans and advances to banks not impaired by individual or portfolio allowance.

For receivables from banks, the internal grade is derived from external ratings provided by recognized rating agencies.

Loans and advances to banks, individually not impaired (CZK m)	31.12.2016	31.12.2015
Low Risk	1,923	2,216
Medium Risk	32	49
High Risk	0	31
<b>Total</b>	<b>1,955</b>	<b>2,296</b>

## DEBT SECURITIES

The table below presents an analysis of debt securities by rating agency designation as at 31 December 2016 and 31 December 2015, based on Moody's external ratings.

As at 31 December 2016 (CZKm)	Financial assets at fair value through profit or loss	Investment securities	Total
Aaa to A3	0	245	245
Baa1 to Baa3	0	0	0
Unrated	0	0	0
<b>Total</b>	<b>0</b>	<b>245</b>	<b>245</b>

As at 31 December 2016 (CZKm)	Financial assets at fair value through profit or loss	Investment securities	Total
Aaa to A3	32	1,211	1,243
Baa1 to Baa3	0	1,353	1,353
Unrated	0	0	0
<b>Total</b>	<b>32</b>	<b>2,564</b>	<b>2,596</b>

## CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

Diversification is one of the key principles in managing credit risk. The Bank fully adheres to regulatory limits for an exposure to single economically-linked groups of customers. The Bank applies these limits as follows. Towards the Sberbank group the Bank applies a limit of EUR 150 million (CZK 4,053 million as of 31 December 2016), towards banking institutions the Bank applies a limit of 50% of regulatory capital (CZK 3,990 million as of 31 December 2016) and towards to other economically linked groups of customers the Bank applies a limit of 25% of regulatory capital (CZK 1,995 million as of 31 December 2016). The Bank has receivables to 7 economically linked groups with exposure exceeding 10% of regulatory capital as of 31 December 2016. This number was the same also as of 31 December 2015.

Additionally, the Bank places and monitors limits on the amount of risk accepted in relation to both geographical and industry sectors.

### Geographical sectors

<b>As at 31 December 2016</b> (CZK <sup>m</sup> )	Domestic	European Union	Other Europe	Other	Total
<b>Assets</b>					
Loans and advances to banks	15	336	1,407	197	1,955
Loans and advances to customers	48,682	6,615	246	70	55,613
from this forborne loans	1,826	8	0	0	1,834
Financial assets at fair value through profit or loss	0	0	0	0	0
Debt investment securities	245	0	0	0	245
Derivative financial instruments	23	89	1	0	113
Other financial assets	426	0	0	0	426
<b>Total financial assets</b>	<b>49,391</b>	<b>7,040</b>	<b>1,654</b>	<b>267</b>	<b>58,352</b>

<b>As at 31 December 2015</b> (CZK <sup>m</sup> )	Domestic	European Union	Other Europe	Other	Total
<b>Assets</b>					
Loans and advances to banks	25	828	1,322	121	2,296
Loans and advances to customers	44,952	5,652	153	24	50,781
from this forborne loans	603	9	0	0	612
Financial assets at fair value through profit or loss	32	0	0	0	32
Debt investment securities	1,211	1,353	0	0	2,564
Derivative financial instruments	19	16	0	0	35
Other financial assets	326	(2)	3	0	327
<b>Total financial assets</b>	<b>46,565</b>	<b>7,847</b>	<b>1,478</b>	<b>145</b>	<b>56,035</b>

## Industry sectors

As at 31 December 2016								
(CZKm)	Real estate	Trade and services	Manufacturing	Households	Financial institutions	Public sector	Other industries	Total
<b>Assets</b>								
Loans and advances to banks	0	0	0	0	1,955	0	0	1,955
Loans and advances to customers	9,649	8,757	13,053	20,627	2,610	783	134	55,613
from this forbore loans	36	188	1,504	103	1	0	2	1,834
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0	0
Investment securities	0	200	0	0	45	0	0	245
Derivative financial instruments	12	3	7	0	90	0	1	113
Other financial assets	6	12	0	0	408	0	0	426
<b>Total financial assets</b>	<b>9,667</b>	<b>8,972</b>	<b>13,060</b>	<b>20,627</b>	<b>5,108</b>	<b>783</b>	<b>135</b>	<b>58,352</b>

As at 31 December 2015								
(CZKm)	Real estate	Trade and services	Manufacturing	Households	Financial institutions	Public sector	Other industries	Total
<b>Assets</b>								
Loans and advances to banks	0	0	0	0	2,296	0	0	2,296
Loans and advances to customers	10,642	10,329	11,104	15,978	1,227	1,400	101	50,781
from this forbore loans	56	334	64	154	2	0	2	612
Financial assets at fair value through profit or loss	0	0	0	0	0	32	0	32
Investment securities	0	0	0	0	1,353	1,211	0	2,564
Derivative financial instruments	7	4	6	0	18	0	0	35
Other financial assets	6	4	0	0	317	0	0	327
<b>Total financial assets</b>	<b>10,655</b>	<b>10,337</b>	<b>11,110</b>	<b>15,978</b>	<b>5,211</b>	<b>2,643</b>	<b>101</b>	<b>56,035</b>

## DERIVATIVES

The Bank maintains strict control limits on credit risk from derivative positions, by both amount and term. Credit risk exposure is expressed by a credit equivalent, which in relation to derivatives is only a small fraction of the derivative's notional amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security which is required for credit transactions is obtained for credit risk exposures on these instruments.

## FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR ARRANGEMENTS

The following table sets out the analysis of possible impact of enforceable master netting agreements to the Bank's financial position.

31 December 2016						
(CZKm)	Gross amount	Gross amount netting	Net amount reported	Gross amounts – enforceable master netting agreements		Net amount
				Financial instrumenty	Financial collateral	
<b>Assets</b>						
Derivatives	89	0	89	(16)	(72)	1
<b>Total Assets</b>	<b>89</b>	<b>0</b>	<b>89</b>	<b>(16)</b>	<b>(72)</b>	<b>1</b>
<b>Liabilities</b>						
Derivatives	16	0	16	(16)	0	0
<b>Total Liabilities</b>	<b>16</b>	<b>0</b>	<b>16</b>	<b>(16)</b>	<b>0</b>	<b>0</b>

31 December 2015						
(CZKm)	Gross amount	Gross amount netting	Net amount reported	Gross amounts – enforceable master netting agreements		Net amount
				Financial instrumenty	Financial collateral	
<b>Assets</b>						
Derivatives	11	0	11	0	0	11
<b>Total Assets</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>11</b>
<b>Liabilities</b>						
Derivatives	2	0	2	0	(1)	1
<b>Total Liabilities</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>(1)</b>	<b>1</b>

## CREDIT-RELATED COMMITMENTS

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Payment guarantees and standby letters of credit with the characteristics of credit substitutes carry the same credit risk as loans. Documents and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### (c) Currency risk

The Bank defines currency risk as a risk of financial loss because of changes in foreign exchange rates.

The Bank takes on exposures resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank manages its open foreign exchange position using foreign exchange deals (spots and forwards). Foreign exchange derivatives made on behalf of clients are included in terms of accounting in the trading portfolio. The Board of Directors sets limits on the level of currency position by currency and in total for all currencies, which are monitored daily.

#### SENSITIVITY ANALYSIS

The tables below summarize the Bank's exposure to currency risk. It is expressed by the sensitivity analysis showing the effect of change in the CZK foreign exchange rate against significant currencies on the balance sheet, on the Bank's annual net profit and other movements in equity.

In 2016, the effect of appreciation (+) / depreciation (-) in the CZK foreign exchange rate against the EUR by 10% and against USD by 20% was tested (in 2015: against the EUR by 10% and against USD by 20%) on the Bank's annual net profit and other movements in equity.

In the Bank's management judgment such an annual change in foreign exchange rates may be reasonably possible based on historical development. Included in the table are the respective changes in the Bank's annual net profit and other movements in equity from assets and liabilities denominated in the above mentioned currencies.

The Bank has set limits on open currency positions in each currency. Within these limits, the Bank manages currency position so that it is balanced in all currencies (see the table Currency position). The impact of foreign exchange rate changes in net profit in the individual currencies, as well as in the aggregate for all currencies, is immaterial.

As at 31 December 2016 (CZKm)	EUR		USD	
	10%	-10%	20%	-20%
<b>Assets</b>				
Cash and balances with central banks	(13)	13	(11)	11
Loans and advances to banks	(131)	131	(36)	36
Loans and advances to customers	(992)	992	(80)	80
Loans and receivables	0	0	0	0
Other assets	(3)	3	(2)	2
Unsettled transactions with currency instruments	(205)	205	(422)	422
	<b>(1,344)</b>	<b>1,344</b>	<b>(551)</b>	<b>551</b>
<b>Liabilities</b>				
Deposits from banks	281	(281)	1	(1)
Due to customers	655	(655)	486	(486)
Debt securities in issue	0	0	0	0
Subordinated debt	19	(19)	0	0
Other liabilities	11	(11)	2	(2)
Unsettled transactions with currency instruments	376	(376)	59	(59)
	<b>1,342</b>	<b>(1,342)</b>	<b>548</b>	<b>(548)</b>
<b>Total (annual net profit)</b>	<b>(2)</b>	<b>2</b>	<b>(3)</b>	<b>3</b>

Changes in the CZK foreign exchange rate against EUR and USD do not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2015 (CZKm)	EUR		USD	
	10%	-10%	20%	-20%
<b>Assets</b>				
Cash and balances with central banks	(13)	13	(10)	10
Loans and advances to banks	(159)	159	(39)	39
Loans and advances to customers	(776)	776	(77)	77
Loans and receivables	(135)	135	0	0
Other assets	(2)	2	0	0
Unsettled transactions with currency instruments	(203)	203	(385)	385
	<b>(1,288)</b>	<b>1,288</b>	<b>(511)</b>	<b>511</b>
<b>Liabilities</b>				
Deposits from banks	515	(515)	0	0
Due to customers	555	(555)	479	(479)
Debt securities in issue	1	(1)	0	0
Subordinated debt	0	0	0	0
Other liabilities	10	(10)	1	(1)
Unsettled transactions with currency instruments	203	(203)	30	(30)
	<b>1,284</b>	<b>(1,284)</b>	<b>510</b>	<b>(510)</b>
<b>Total (annual net profit)</b>	<b>(4)</b>	<b>4</b>	<b>(1)</b>	<b>1</b>

Changes in the CZK foreign exchange rate against the EUR and USD do not have any effect on the Bank's movements in equity other than annual net profit.

## CURRENCY POSITION

The tables below summarize the Bank's exposure to currency risk expressed by an open currency position. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorized by currency.

As at 31 December 2016 (CZKm)	CZK	EUR	USD	Other	Total
<b>Assets</b>					
Cash and balances with central banks	12,709	124	55	87	12,975
Loans and advances to banks	16	1 313	181	445	1,955
Loans and advances to customers	45,206	9,921	399	87	55,613
Financial assets at fair value through profit or loss	0	0	0	0	0
Investment securities	245				245
Other assets	1,139	27	11	0	1,177
	59,315	11,385	646	619	71,965
<b>Liabilities and equity</b>					
Deposits from banks	363	2,809	7	288	3,467
Due to customers	46,140	6,555	2 431	661	55,787
Debt securities in issue	3,262	0	0	0	3,262
Provisions	69	22	0	0	91
Subordinated debt	0	189	0	0	189
Other liabilities	537	110	9	183	839
Equity	8,330	0	0	0	8,330
	58,701	9,685	2,447	1,132	71,965
<b>Net assets/(liabilities and equity)</b>	<b>614</b>	<b>1 700</b>	<b>(1 801)</b>	<b>(513)</b>	<b>0</b>
<b>Net assets/(liabilities) from unsettled transactions with currency instruments including derivatives</b>	<b>(534)</b>	<b>(1 716)</b>	<b>1 811</b>	<b>524</b>	<b>86</b>
<b>Net open currency position</b>	<b>81</b>	<b>(16)</b>	<b>10</b>	<b>11</b>	<b>86</b>

As at 31 December 2016 (CZKm)	CZK	EUR	USD	Other	Total
<b>Off-balance sheet items</b>					
Financial guarantees	557	563	40	4	1,164
Loan commitments and other credit related liabilities	3,047	823	16	0	3,886
<b>Currency position from off-balance sheet items</b>	<b>3,604</b>	<b>1,386</b>	<b>56</b>	<b>4</b>	<b>5,050</b>

As at 31 December 2015 (CZKm)	CZK	EUR	USD	Other	Total
<b>Assets</b>					
Cash and balances with central banks	19,770	125	48	46	19,989
Loans and advances to banks	17	1,591	194	494	2,296
Loans and advances to customers	42,639	7,758	384	0	50,781
Financial assets at fair value through profit or loss	32	0	0	0	32
Investment securities	1,211	1,353	0	0	2,564
Other assets	927	20	0	0	947
	64,596	10,847	626	540	76,609
<b>Liabilities and equity</b>					
Deposits from banks	1,155	5,150	0	208	6,513
Due to customers	47,391	5,550	2,396	431	55,768
Debt securities in issue	5,633	11	0	125	5,769
Provisions	57	2	0	0	59
Subordinated debt	0	0	0	0	0
Other liabilities	320	96	4	1	421
Equity	8,079	0	0	0	8,079
	62,635	10,809	2,400	765	76,609
<b>Net assets/(liabilities and equity)</b>	<b>1,961</b>	<b>38</b>	<b>(1,774)</b>	<b>(225)</b>	<b>0</b>
<b>Net assets/(liabilities) from unsettled transactions with currency instruments including derivatives</b>	<b>(1,998)</b>	<b>0</b>	<b>1 777</b>	<b>235</b>	<b>14</b>
<b>Net open currency position</b>	<b>(37)</b>	<b>38</b>	<b>3</b>	<b>10</b>	<b>14</b>

As at 31 December 2015 (CZKm)	CZK	EUR	USD	Other	Total
<b>Off-balance sheet items</b>					
Financial guarantees	555	1,494	41	2	2,092
Loan commitments and other credit related liabilities	2,330	437	3	0	2,770
<b>Currency position from off-balance sheet items</b>	<b>2,885</b>	<b>1,931</b>	<b>44</b>	<b>2</b>	<b>4,862</b>

#### (d) Interest rate risk

The Bank defines interest rate risk as the risk of financial loss because of changes in market interest rates.

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to changes in the market interest rate is regularly measured via a simulated change of the present value of the interest cash flows from individual interest rate instruments where the interest rate is increased by a standardized value of interest rate shock of 200 basis points (b. p.). Interest rate swaps or other fixed-rate instruments are used to manage interest rate positions.

#### SENSITIVITY ANALYSIS

The table below summarizes the Bank's exposure to interest rate risks. It is expressed by the sensitivity analysis showing the effect of a change in market interest rates by 100 b.p. on the Bank's annual net profit and other movements in equity. The two week repo rate, which is a key interest rate for the CNB's monetary policy, is usually changed several times a year. Having observed this rate's average annual change over the last 5 years, in the Bank's management judgment a noticeable change in annual market interest rates by 100 b.p. may reasonably be possible. Included in the table is the respective change in the Bank's annual net profit and other movements in equity from:

- interest-bearing financial assets and liabilities at fair value through profit or loss and interest-bearing available-for-sale financial assets and
- loans and receivables, interest-bearing financial liabilities and held-to-maturity investments carried at amortized cost

As at 31 December 2016 (CZKm)	100 b.p.	-100 b.p.
	Annual net profit	
<b>Assets</b>		
Cash and balances with central banks	118	(118)
Loans and advances to banks	18	(18)
Loans and advances to customers	259	(259)
Financial assets at fair value through profit and loss	0	0
Investment securities	2	(2)
	397	(397)
<b>Liabilities</b>		
Deposits from banks	(30)	30
Due to customers	(293)	293
Debt securities in issue	(6)	6
Subordinated debt	0	0
	(329)	329
<b>Derivative financial instruments</b>	<b>6</b>	<b>(6)</b>
<b>Total</b>	<b>73</b>	<b>(73)</b>

As at 31 December 2015 (CZKm)	100 b.p.	-100 b.p.
	Annual net profit	
<b>Assets</b>		
Cash and balances with central banks	185	(185)
Loans and advances to banks	21	(21)
Loans and advances to customers	249	(249)
Financial assets at fair value through profit and loss	0	0
Investment securities	(42)	42
	413	(413)
<b>Liabilities</b>		
Deposits from banks	(58)	58
Due to customers	(373)	373
Debt securities in issue	(16)	16
Subordinated debt	0	0
	(446)	446
<b>Derivative financial instruments</b>	<b>5</b>	<b>(5)</b>
<b>Total</b>	<b>(29)</b>	<b>29</b>

Changes in the market interest rates do not have a material effect on the Bank's movements in equity other than annual net profit.

### (e) Liquidity risk

The Bank defines liquidity risk as the risk that difficulties in meeting obligations associated with financial liabilities are encountered, or the risk of losing the ability to finance assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from the settlement of derivatives. Liquidity risk management is based on both the planning of the cash inflows and cash outflows based on the remaining maturity of the assets and liabilities, and on the experience gained from progress analysis of the previous years. The Bank prepares a liquidity plan which is approved by the Board of Directors together with the business plan, and both these plans are closely interconnected.

## CASH FLOWS FROM BALANCE SHEET FINANCIAL INSTRUMENTS

The table below presents the contractual undiscounted cash flows from the Bank's financial liabilities as compared with total financial assets based on the remaining contractual period as at the statement of financial position date to the contractual maturity date.

As at 31 December 2016					Total	
(CZKm)	Within 3 months	3–12 months	1–5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Non-derivatives Financial liabilities						
Deposits from banks	3,096	371	0	0	3,467	3,467
Due to customers	53,865	1,709	235	0	55,809	55,787
Debt securities in issue	488	852	1,994	0	3,334	3,262
Subordinated debt	0	0	0	267	267	189
Total Non-derivatives financial liabilities	57,449	2,932	2,229	267	62,877	62,705
(remaining contractual maturities)						
Total financial assets	16,733	4,851	25,238	36,777	83,599	70,788
(remaining contractual maturities)						
Net financial assets/(liabilities)	(40 716)	1 919	23,009	36,510	20,722	8,083

As at 31 December 2015					Total	
(CZKm)	Within 3 months	3–12 months	1–5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Non-derivatives Financial liabilities						
Deposits from banks	4,133	744	1,690	0	6,567	6,513
Due to customers	52,248	2,962	613	17	55,840	55,768
Debt securities in issue	333	2,221	3,401	0	5,955	5,769
Subordinated debt	0	0	0	0	0	0
Total Non-derivatives financial liabilities	56,714	5,927	5,704	17	68,362	68,050
(remaining contractual maturities)						
Total financial assets	25,184	5,051	20,236	38,802	89,273	75,662
(remaining contractual maturities)						
Net financial assets/(liabilities)	(31,530)	(876)	14,532	38,785	20,911	7,612

The negative net financial liability with a remaining maturity of less than three months is influenced by the fact that customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the "Within 3 months" column). However, as statistical evidence shows it is unlikely that a majority of those customers will actually withdraw their deposits from the Bank on contractual maturity.

## CASH FLOWS FROM DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives settled on a net basis

The Bank's derivatives to be settled on a net basis include interest rate swaps. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial liabilities settled on a net basis according to the remaining period as at the statement of financial position date to the contractual maturity date.

As at 31 December 2016 (CZKm)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total	
					Undiscounted cash flows	Nominal amount
<b>Trading derivatives</b>						
– Interest derivatives						
Interest rate swaps: assets	4	10	41	7	62	3,819
Interest rate swaps: liabilities	3	8	39	6	56	3,819
<b>Net financial assets/(liabilities)</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>6</b>	<b>0</b>

As at 31 December 2015 (CZKm)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total	
					Undiscounted cash flows	Nominal amount
<b>Trading derivatives</b>						
– Interest derivatives						
Interest rate swaps: assets	4	10	43	7	64	2,630
Interest rate swaps: liabilities	3	7	36	7	52	2,630
<b>Net financial assets/(liabilities)</b>	<b>1</b>	<b>3</b>	<b>7</b>	<b>0</b>	<b>12</b>	<b>0</b>

### Derivatives settled on a gross basis

The Bank's derivatives to be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and foreign exchange options. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial instruments settled on a gross basis according to the remaining period as at the statement of financial position date to the contractual maturity date.

As at 31 December 2016 (CZKm)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total	
					Undiscounted cash flows	Nominal amount
<b>Trading derivatives</b>						
– Foreign exchange derivatives						
Outflow	5,955	185	226	0	6,366	6,366
Inflow	6,036	187	230	0	6,453	6,453

As at 31 December 2015					Total	
(CZKmn)	Within 3 months	3–12 months	1–5 years	Over 5 years	Undiscounted cash flows	Nominal amount
Trading derivatives						
– Foreign exchange derivatives						
Outflow	4,174	98	52	0	4,324	4,324
Inflow	4,187	98	53	0	4,338	4,338

#### OFF-BALANCE SHEET ITEMS

The table below analyses the off-balance sheet items of the Bank exposed to a liquidity risk into relevant maturity bands based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2016 (CZKmn)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Financial guarantees	315	432	362	55	1,164
Loan commitments and other credit related liabilities	3,886	0	0	0	3,886
<b>Total</b>	<b>4,201</b>	<b>432</b>	<b>362</b>	<b>55</b>	<b>5,050</b>

As at 31 December 2015 (CZKmn)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Financial guarantees	333	1,370	259	130	2,092
Loan commitments and other credit related liabilities	2,770	0	0	0	2,770
<b>Total</b>	<b>3,104</b>	<b>1,370</b>	<b>259</b>	<b>130</b>	<b>4,862</b>

Future minimum lease payments under operating lease commitments are analyzed in Note 30 (d).

#### DEPOSITS CONCENTRATION

The following table discloses the concentration of depositors with the 10 largest deposits from non-finance clients. The ratio represents the share of deposits volume collected with such clients and the volume of total deposits from non-finance clients:

As at 31 December 2016	10.35%
As at 31 December 2015	10.03%

## **(f) Operational risk**

The Bank defines operational risk as the risk of a financial loss resulting from inadequate or failed internal processes, people and systems or from external factors including legal risks. In cases of the breakdown of business processes it also includes reputational risk.

In accordance with CNB measures, the Bank has an internal database of requisite regulations for operational risk management, including those for the areas of information security, continuity of operations or internal control systems. The Bank has also established an internal control system of individual processes, which is one of the fundamental elements of operational risk management.

The operational risk management process includes the identification, collection and recording of operational risk events, evaluation and valuation, measures and risk minimization, along with controlling the implementation of the designed measures and their effectiveness. Every identified operational risk event is analyzed and considered individually and the measures to be taken are designed not only in accordance with the frequency of occurrence and amount of realized / forecasted / potential loss, but also with respect to its character and reason for occurrence. The aim is to introduce such measures that effectively minimize or eliminate the probability of subsequent occurrence of the risk event. The implementation of suggested measures is periodically reviewed.

Regular assessment and valuation of operational risk is used by the Bank (Risk Self Assessment). This process is running on the level of really recorded events and on the level of hypothetical risks.

Operational risk management is performed in close co-operation with the Bank's parent company. The Bank applies a standardized method for calculating the capital requirement for operational risk.

## **(g) Regulatory capital management**

The regulatory capital management process is coordinated within the Sberbank Group in close communication with the Bank's shareholder. It is aimed at:

- ensuring the Bank's long-term stability in relation to existing risks;
- compliance with the supervisory capital requirements (capital adequacy); and
- maintaining a strong capital base to support business expansion

The Bank fulfils the requirement of CNB Decree No. 163/2014 ("the Decree"), the European Parliament and European Commission Directive No.575/2013 and Act No.21/1992 on banks for ongoing compliance with the capital adequacy limit by daily monitoring of risk-weighted assets. Required regulatory capital adequacy reports are filed with the CNB on a monthly basis. The Bank also informs the parent company on compliance with the regulatory capital requirements with the same frequency.

The methodology for calculation of regulatory capital is defined by the Decree. The Bank ensures that the capital level exceeds regulatory capital requirements in coordination with the parent company.

The Bank estimates capital requirements for coverage of individual risks in compliance with the valid regulatory legislation.

Additionally, the Bank's internal capital adequacy assessment system ensures that internally determined capital resources exceed the internally assessed capital required.

The table below summarizes the composition of the Bank's regulatory capital and risk-weighted assets. During both years, the Bank complied with the regulatory capital adequacy limit of 10.5%.

(CZKm)	31.12.2016	31.12.2015
<b>Tier 1</b>		
Share capital (net of treasury shares)	2,806	2,806
Share premium account	4,015	4,015
Obligatory reserve funds	152	151
Retained earnings from previous period	1,085	1,063
Less: Intangible assets other than goodwill	(268)	(152)
Other deductible items	0	0
<b>Tier 1 capital</b>	<b>7,991</b>	<b>7,883</b>
<b>Tier 2</b>		
Subordinated debt A	189	0
<b>Tier 2 capital</b>	<b>189</b>	<b>0</b>
<b>Total regulatory capital</b>	<b>7,980</b>	<b>7,883</b>
<b>Risk-weighted assets</b>		
Credit risk in investment/banking portfolio	44,949	41,922
Credit risk in trading portfolio	0	0
General interest rate risk	0	0
Operational risk	3,255	3,168
<b>Total risk-weighted assets</b>	<b>48,204</b>	<b>45,090</b>
<b>Capital adequacy</b>	<b>16.55%</b>	<b>17.48%</b>

## (h) Maturity analysis of assets and liabilities

The table below analyses assets and liabilities and summarizes the composition of the Bank's capital and risk-weighted assets according to when they are expected to be settled or recovered:

As at 31 December 2016 (CZKm)	Within 12 months	After 12 months	Total
<b>ASSETS</b>			
Cash and balances with central banks	12,975	0	12,975
Loans and advances to banks	1,752	203	1,955
Loans and advances to customers	13,650	41,963	55,613
Derivative financial instruments	113	0	113
Financial assets at fair value through profit or loss	0	0	0
Investment securities:			
– Available for sale	0	0	0
– Loans and receivables	2	243	245
Intangible assets	0	268	268
Property and equipment	0	282	282
Income tax assets	0	88	88
– current income tax	0	0	0
– deferred tax	0	88	88
Other assets	376	0	376
Deferred items	50	0	50
<b>Total assets</b>	<b>28,918</b>	<b>43,047</b>	<b>71,965</b>
<b>LIABILITIES</b>			
Deposits from banks	3,467	0	3,467
Due to customers	25,013	30,774	55,787
Derivative financial instruments	30	0	30
Debt securities in issue	1,304	1,958	3,262
Current income tax liability	28	0	28
Other liabilities	765	0	765
Deferred items	16	0	16
Provisions	47	44	91
Subordinated debt	0	189	189
<b>Total liabilities</b>	<b>30,670</b>	<b>32,965</b>	<b>63,635</b>

As at 31 December 2015 (CZKm)	Within 12 months	After 12 months	Total
<b>ASSETS</b>			
Cash and balances with central banks	19,989	0	19,989
Loans and advances to banks	2,064	232	2,296
Loans and advances to customers	11,727	39,054	50,781
Derivative financial instruments	35	0	35
Financial assets at fair value through profit or loss	32	0	32
Investment securities:	2,106	458	2,564
– Available for sale	753	458	1,211
– Loans and receivables	1,353	0	1,353
Intangible assets	0	152	152
Property and equipment	0	291	291
Income tax assets	0	142	142
– current income tax	0	88	88
– deferred tax	0	54	54
Other assets	289	0	289
Deferred items	38	0	38
<b>Total assets</b>	<b>36,280</b>	<b>40,329</b>	<b>76,609</b>
<b>LIABILITIES</b>			
Deposits from banks	4,876	1,637	6,513
Due to customers	21,728	34,040	55,768
Derivative financial instruments	10	0	10
Debt securities in issue	1,799	3,970	5,769
Current income tax liability	0	0	0
Other liabilities	409	0	409
Deferred items	2	0	2
Provisions	37	22	59
Subordinated debt	0	0	0
<b>Total liabilities</b>	<b>28,861</b>	<b>39,669</b>	<b>68,530</b>

## 34 Fair Value of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Segments Corporate/Retail are determined in accordance with the Basel III standardized approach.

Fair value of financial assets and liabilities As at 31 December 2016					
(CZKm)	Level 1	Level 2	Level 3	Fair value total	Carrying amount
<b>Financial assets</b>					
Loans and advances to banks	0	1,956	0	1,956	1,955
Loans and advances to customers thereof:	0	0	56,329	56,329	55,613
Retail	0	0	29,962	29,962	29,503
Corporate	0	0	26,367	26,367	26,110
Securities in category loans and receivables	0	0	245	245	245
<b>Financial liabilities</b>					
Deposits from banks	0	3,473	0	3,473	3,467
Due to customers thereof:	0	30,685	25,131	55,816	55,787
Retail	0	27,003	20,010	47,013	46,991
Corporate	0	3,682	5,121	8,803	8,796
Debt securities in issue thereof:	0	0	3,319	3,319	3,262
Retail	0	0	0	0	0
Corporate	0	0	3,319	3,319	3,262
Subordinated Debt	0	0	264	264	189

Fair value of financial assets and liabilities As at 31 December 2015					
(CZKmn)	Level 1	Level 2	Level 3	Fair value total	Carrying amount
<b>Financial assets</b>					
Loans and advances to banks	0	2,297	0	2,297	2,296
Loans and advances to customers thereof:	0	0	52,003	52,003	50,781
Retail	0	0	24,660	24,660	23,892
Corporate	0	0	27,343	27,343	26,889
Securities in category loans and receivables	0	0	1,353	1,353	1,353
<b>Financial liabilities</b>					
Deposits from banks	0	6,632	0	6,632	6,513
Due to customers thereof:	0	29,662	26,200	55,862	55,768
Retail	0	26,499	20,583	47,082	47,004
Corporate	0	3,163	5,617	8,780	8,764
Debt securities in issue thereof:	0	0	5,834	5,834	5,769
Retail	0	0	564	564	558
Corporate	0	0	5,270	5,270	5,211
Subordinated Debt	0	0	0	0	0

The following methods and assumptions were used in estimating the fair values of the Bank's financial assets and liabilities:

#### LOANS AND ADVANCES TO BANKS

The carrying amounts of current account balances and loans with maturity of less than one month are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current inter-bank market rates irrespective of credit spread. A majority of the loans and advances re-price within relatively short time spans; therefore, it is assumed their carrying amounts approximate their fair values.

#### LOANS AND ADVANCES TO CUSTOMERS

The fair values loans to customers with defined future contractual cash-flows are estimated by discounting their future cash flows using current market rates adjusted for appropriate risk premium that is actually valid for the respective loan at the date of the fair value calculation. For loans without explicitly defined future contractual cash-flows (e.g. overdrafts) the Bank assumes that fair-value is close to carrying amount. For loans impaired with individual loan loss provision calculated according discounted estimated cash-flows the Bank assumes that fair-value is closed to carrying amount decreased by created loan loss provision.

#### DEPOSITS FROM BANKS

The carrying amounts of current account balances and deposits with maturity less than one month are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying amounts approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current inter-bank market rates irrespective of own credit spread.

## DUE TO CUSTOMERS

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying amounts. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities irrespective of own credit spread.

## DEBT SECURITIES IN ISSUE

Mortgage bonds issued are not publicly traded and their fair values are based upon the quoted market prices of the debt securities with similar characteristics. The carrying amounts of promissory notes and certificates of deposit approximate their fair values. Their own credit spread is not considered.

## FAIR VALUE HIERARCHY

The table below analyses financial instruments measured at fair value at the end of the reporting period.

Information about fair value measurements are disclosed using a hierarchy that reflects the significance of inputs used in measuring the fair values of financial instruments (they are categorized into three levels):

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which significant inputs are directly or indirectly observable from market data.
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs) and these data have significant influence on the measurement. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has an established control framework with respect to the measurement of fair values of assets and liabilities. These controls include the verification of observable pricing, re-performance of model valuations, a review and approval process for new models and changes to models, quarterly calibration and back-testing of models against observed market transactions, analysis and investigation of significant daily valuation movements and review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

As at 31 December 2016 (CZKm)	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial instruments	0	113	0	113
Financial assets at fair value through profit or loss	0	0	0	0
Investment securities:				
– Available for sale	0	0	0	0
<b>Financial liabilities</b>				
Derivative financial instruments	0	30	0	30
Due to customers	0	0	0	0

In 2016, there were no transfers of financial assets or liabilities between Level 1 and 2.

<b>As at 31 December 2015</b> (CZKm)	Level 1	Level 2	Level 3	<b>Total</b>
<b>Financial assets</b>				
Derivative financial instruments	0	35	0	35
Financial assets at fair value through profit or loss	32	0	0	32
Investment securities:				
– Available for sale	1,211	0	0	1,211
<b>Financial liabilities</b>				
Derivative financial instruments	0	10	0	10
Due to customers	0	0	0	0

In 2015, there were no transfers of financial assets or liabilities between Level 1 and 2.

## 35 Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. The dividends for the years 2012, 2013, 2014 and 2015 have not been declared yet. At the Annual General Meeting held on 9 May 2016 it was approved to allocate retained earnings without dividend payments and to create reserve funds.

<b>Distribution of the net profit after tax for the year 2015</b>	<b>23</b>
Transfer to reserve funds	(1)
Transfer to retained earnings	(22)
Dividends to shareholders	0

## 36 Shareholders

The shareholder structure of the Bank as at 31 December 2016 was as follows:

<b>Voting shareholders</b>	<b>Share in %</b>
Name and registered office	
Sberbank Europe AG, Schwarzenbergplatz 3, Vienna (formerly Volksbank International AG)	100.00
	<b>100.00</b>

The shareholder structure of the Bank as at 31 December 2015 was as follows:

<b>Voting shareholders</b>	<b>Podíl v %</b>
Name and registered office	
Sberbank Europe AG, Schwarzenbergplatz 3, Vienna (formerly Volksbank International AG)	100.00
	<b>100.00</b>

## 37 Related Parties

The ultimate parent company is Sberbank RU. The parent company Sberbank Europe AG (formerly Volksbank International AG) and companies within Sberbank Group other than the parent company are part of Other related parties.

The amounts of the income, expense and assets and liabilities balances regarding related parties were as follows:

As at 31 December 2016 and year then ended (CZK m)	Note	Ultimate Parent	Management	Other related parties	Total
Interest income	3	5	0	0	5
Commission and fee income	4	0	0	1	1
Other operating income	8	0	0	29	29
Interest expense	3	0	0	0	0
Commission and fee expense	4	0	0	13	13
Administrative expense	7	6	0	40	46
Due from banks	12	1,274	0	110	1,384
Loans and advances	13	0	19	0	19
Securities classified from beginning as loans and receivables	17	0	0	0	0
Other assets	21	0	0	0	0
Due to banks	22	152	0	481	633
Due to customers	23	0	12	0	12
Other liabilities	25	1	0	7	8
Guarantees granted and commitments given	29	66	0	0	66
Guarantees granted and commitments received		1,263	0	1,250	2,513
Assets under custody		0	2	0	2

As at 31 December 2015 and year then ended (CZKm)	Note	Ultimate Parent	Management	Other related parties	Total
Interest income	3	13	0	3	16
Commission and fee income	4	0	0	2	2
Other operating income	8	0	0	24	24
Interest expense	3	1	0	7	8
Commission and fee expense	4	0	0	12	12
Administrative expense	7	0	0	32	32
Due from banks	12	303	0	319	622
Loans and advances	13	0	24	0	24
Securities classified as financial assets from the beginning at fair value through profit or loss	17	0	0	1,353	1,353
Other assets	21	0	0	22	22
Due to banks	22	2	0	2,778	2,780
Due to customers	23	0	21	0	21
Other liabilities	25	0	0	31	31
Guarantees granted and commitments given	29	980	1	131	1,112
Guarantees granted and commitments received		0	0	458	458
Assets under custody		0	0	0	0

As at 31 December 2015 the Bank booked two guarantees from Sberbank Europe in the total amount of CZK 458 million, both denominated in EUR 17 million.

Loans and advances to customers and individuals include the following receivables from related parties (Note 13):

Receivables from related parties (CZKm)	31.12.2016	31.12.2015
Management of the Bank	6	18
Members of Supervisory Board and Board of Directors	13	6
Other related parties (companies in the group)	0	0
<b>Total receivables from related parties</b>	<b>19</b>	<b>24</b>

In the opinion of the management, all receivables from related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than the normal credit risk or present other unfavorable features.

Due to customers includes the following position with related parties:

<b>Deposits from related parties</b> (CZKm)	<b>31.12.2016</b>	<b>31.12.2015</b>
Management of the Bank	8	8
Members of Supervisory Board and Board of Directors	4	13
<b>Deposits from related parties</b>	<b>12</b>	<b>21</b>

Due to banks includes the following position with related parties:

<b>Deposits from related parties</b> (CZKm)	<b>31.12.2016</b>	<b>31.12.2015</b>
Sberbank Moscow	152	2
Volksbank AG	193	2,567
Other related parties (banks in the group)	288	211
<b>Deposits from related parties</b>	<b>633</b>	<b>2,780</b>

It is the management's opinion that deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than the normal interest rate and liquidity risk or present other unfavorable features (Note 22 and 23).

Key management personnel salaries, benefits and contributions paid:

<b>(CZKm)</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Short-term employee benefits	83	86
Termination benefits	0	2
<b>Salaries and bonuses of senior management and Supervisory Board members</b>	<b>83</b>	<b>88</b>


Other personnel expenses are disclosed in Note 7.

## 38 Subsequent Events

On 17 February 2017, the ČNB delivered a notice to inform the Bank that no longer apply restrictions on lending activities in the business segments "project finance" and "commercial real estate" in cases when within approval process of loan transaction project rating is used. This restriction CNB Bank imposed to the Bank as preliminary injunction at the time of initiation of administrative proceedings on March 16, 2016 and confirmed by the decision of 7 September 2016.

There were no other important events which have occurred subsequent to the year-end until the date of preparation of the financial statements and which would have other material impact on the financial statements of the Bank as at 31 December 2016 or would have to be presented in the Notes to the financial statements of the Bank as at 31 December 2016.

## 19. QUANTITATIVE INDICES




CZK thousand	2016	2015	2014	2013	2012	2011
Return on average assets (ROAA)	0.37%	0.03%	0.55%	0.35%	0.37%	0.69%
Return on own average equity (ROAE)	3.47%	0.29%	5.61%	4.48%	4.20%	6.97%
Assets per employee	85,673	90,555	81,043	98,014	91,784	81,303
Administrative costs per employee	1,555	1,586	1,427	1,381	1,287	1,269
Net profit per employee	324	27	464	320	313	544
<b>Capital structure</b>						
Tier 1	7,790,782	7,882,836	7,550,114	5,187,228	4,982,605	4,979,432
Paid-up share capital	2,805,990	2,805,990	2,805,990	2,005,380	2,005,380	2,005,380
Paid up share premium	4,015,635	4,015,635	4,015,635	2,694,628	2,694,628	2,694,628
Legal reserve funds	152,134	150,996	131,861	120,369	109,902	92,578
Retained earnings from previous years	1,085,053	1,063,418	699,869	481,523	282,636	299,914
Tier 2	189,140	0	15,032	2,229,653	150,840	206,400
Provisions for general risks						
Deductible items	(268,030)	(153,202)	(103,240)	(114,672)	(109,941)	(113,068)
Intangible assets	(267,887)	(151,914)	(100,305)	(114,672)	(109,941)	(113,068)
Capital	7,979,922	7,882,836	7,565,146	7,416,880	5,133,445	5,185,832
<b>Capital requirements</b>						
Total capital requirements relating to credit risk	3,595,457	3,352,336	3,496,067	3,545,617	3,277,445	2,920,592
Total capital requirements relating to operational risk	260,390	253,440	230,927	216,979	210,067	217,539
<b>Capital adequacy</b>	<b>16.55%</b>	<b>17.49%</b>	<b>16.21%</b>	<b>15.77%</b>	<b>11.78%</b>	<b>13.22%</b>

## 20. CAPITAL REQUIREMENTS

CZK thousand	2016		2015	
	Exposure	Capital requirement	Exposure	Capital requirement
Exposures to regional governments or local authorities	252,800	20,224	300,470	24,038
Exposures to public sector entities	200	16	5,103	408
Exposures to institutions	349,204	27,936	368,075	29,446
Exposures to corporates	25,865,543	2,069,243	26,291,494	2,103,319
Retail exposures	8,671,107	693,689	6,842,276	547,382
Exposures secured by mortgages on immovable property	5,360,258	428,821	4,307,125	344,570
Exposures in default	3,381,763	270,541	2,221,171	177,694
Exposures associated with particularly high risk	300,939	24,075	314,482	25,159
Exposures in the form of covered bonds			676,309	54,105
Other items	761,394	60,912	577,697	46,216



## 21. REPORT ON RELATIONSHIPS



The Management Board of Sberbank CZ, a.s. submits, for the accounting period from 1 January 2016 to 31 December 2016, the following Report on Relationships between the Related Entities in accordance with Section 82 et seq. of Act No. 90/2012 Coll. on business corporations.

### 1) Controlled entity

**Sberbank CZ, a.s.**, Co. Reg. No. 250 83 325, with its registered office at U Trezorky 921/2, Jinonice, 158 00 Prague 5, Czech Republic, entered in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 4353 ("Sberbank CZ" or the "Bank")

### 2) Controlling entity

The sole shareholder of Sberbank CZ is the company **Sberbank Europe AG** with its registered office at Schwarzenbergplatz 3, 1010 Vienna, Austria ("Sberbank Europe"). Sberbank Europe is an entity directly controlling Sberbank CZ.

**Sberbank of Russia**, with its registered office at 19 Vavilova St., 117997 Moscow, Russian Federation ("Sberbank of Russia") is an entity indirectly controlling Sberbank CZ through Sberbank Europe.

### 3) The structure of relationships between the controlling entity and the controlled entity and between the controlled entity and the entities controlled by the same controlling entity, the role of the controlled entity

Sberbank CZ is a joint-stock company incorporated under Czech law that operates on the Czech market as an independent bank pursuant to Act No. 21/1992 Coll. on banks. The Bank provides financial services in accordance with its line of business.

Sberbank CZ is part of the international financial group Sberbank Group headed by Sberbank of Russia. Sberbank of Russia owns a number of companies, a list of which is available on the website of Sberbank of Russia as well as in the annual report of Sberbank of Russia. Sberbank of Russia operates mainly in Central and Eastern Europe (Sberbank Europe), Kazakhstan (Subsidiary Bank Sberbank JSC), the Ukraine (SBERBANK PJSC), Belarus (BPS-Sberbank OJSC), Turkey (DenizBank A.S.) and Switzerland (Sberbank AG).

The structure of relationships between the related entities within the group Sberbank Group is listed in Annex 1 to this report. This structure shows the mutual relationships between individual related entities within the group.

Other entities controlled by the same (directly and indirectly) controlling entity with which Sberbank CZ has regular mutual relationships are in particular the following entities: Sberbank banka d.d., Sberbank Magyarország Ztr., Sberbank a.d. BL, Sberbank Srbija a.d., Sberbank BH d.d., Sberbank d.d., PJSC VS Bank, and ALB EDV-Service GmbH.

Sberbank CZ does not control or mediate the control of another entity.

### 4) Manner and means of controlling

The Control is exercised mainly through decisions of the sole shareholder exercising the powers of the General Meeting (e.g. through an amendment to the Articles of Association) and through members in the bodies Sberbank CZ, i.e. the Supervisory Board and the Audit Committee (e.g. the Supervisory Board appoints and dismisses members of the Board of Sberbank CZ).

Sberbank Europe exercises its shareholder rights in accordance with the Articles of Association of Sberbank CZ and the applicable laws and regulations.

## 5) Overview of acts performed at the initiative or in the interest of the controlling entity or the entities controlled by it if such acts related to assets exceeding 10% of the equity of the controlled entity established according to the last financial statements

In 2016, Sberbank CZ neither adopted nor performed any legal acts relating to assets exceeding 10% of the equity of the controlled entity identified by the last financial statements, at the initiative or in the interest of the related entities.

## 6) Overview of mutual agreements between the controlled entity and the controlling entity or between the controlled entities

Below is the list of the most important contracts and agreements concluded between the related entities and effective on 31 December 2016:

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Contract "Sublicensing Murex – Order + Acceptance"	Provision of the sublicense for the Murex software	Sberbank of Russia	Sberbank CZ	Standard
Contract "Sublicensing QRIC – Order + Acceptance"	Provision of the sublicense for the QRIC software	Sberbank of Russia	Sberbank CZ	Standard
Contract "Licence order (ORACLE)"	Provision of licence and support for the Oracle software	Sberbank of Russia	Sberbank CZ	Standard
Annexes 1 to 10 to the contract "Licence order (ORACLE)"	Specific conditions for the provision of and support for the Oracle software	Sberbank of Russia	Sberbank CZ	Standard
Agreement – "Non-Disclosure Agreement"	Arrangement on the obligation to maintain confidentiality regarding the proprietary information under the cooperation	Sberbank of Russia	Sberbank CZ	Standard
Agreement for the Provision of Services	Provision of services of the data centre (the use and operation of technical equipment server + software)	Sberbank of Russia	Sberbank CZ	Standard
Contract "Sublicensing Mercury – Order + Acceptance"	Provision of the sub-licence for the Mercury software	Sberbank of Russia	Sberbank CZ	Standard
Contract "Sublicensing Zeus – Order + Acceptance"	Provision of the sub-licence for the Zeus software	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Connection Agreement No. 40 (FPSU tokens)"	Provision of services – secure VPN network	Sberbank of Russia	Sberbank CZ	Standard
Contract "Microsoft Unlimited Contract"	Provision of the sub-licence for the Microsoft software	Sberbank of Russia	Sberbank CZ	Standard
Annexes 1 to 4 to the "Microsoft Unlimited Contract"	Specific conditions of the provision of the sublicense to Microsoft software (including renewal)	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Connection Agreement No. 30 (FPSU Unit)"	Provision of services – secure VPN network	Sberbank of Russia	Sberbank CZ	Standard
Annexes 1 to 2 to "Connection Agreement No. 30 (FPSU Unit)"	Acknowledgement of receipt of equipment for the implementation of the provision of services	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Computer Programme Sublicensing Agreement"	Provision of the sublicense and support for the software (computer programs)	Sberbank of Russia	Sberbank CZ	Standard
Master Agreement "ISDA – Master Agreement, Schedule, CSA"	Determination of the framework conditions for OTC derivative transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	
Master Agreement "GMRA Master Agreement"	Determination of the framework conditions for repo transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Master Agreement "Master Agreement on Personnel Lease"	Negotiation of the framework conditions for the lease of the workforce (employees of Sberbank CZ for the activities of Sberbank Europe)	Sberbank CZ	Sberbank Europe	Standard
Master Agreement "Master Agreement on Personnel Lease"	Negotiation of the master conditions for the lease of the workforce (employees of Sberbank CZ for the activities of Sberbank Europe)	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement on Virtual and Partial Personnel "Lease"	Negotiation of the framework conditions for the lease of the workforce (employees of Sberbank CZ for the activities within Sberbank Europe including Sberbank Group)	Sberbank CZ	Sberbank Europe	Standard
Master Agreement "Master Agreement – Granting SW Licences and Services"	Determination of the master conditions for the provision of the licence and support for software (individual software listed in the annexes to the Master Agreement)	Sberbank Europe	Sberbank CZ	Standard
Annex 1 to the Master Agreement "Granting of Licence – Midas"	Provision of licence and support for the Midas software	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement for Granting of Software licences and services"	Determination of the master conditions for the provision of licence and support for software (Thomson Reuters – software for trading on markets)	Sberbank Europe	Sberbank CZ	Standard
Agreement "Services Agreement – Strategy Reporting Center"	Provision of services (designing credit strategies and policies for the approval process of retail products)	Sberbank CZ	Sberbank Europe	Standard
Master Agreement "Master Services Agreement"	Determination of the master conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank Europe	Standard
Annexes 1 to 7 to the Master Agreement "Master Services Agreement"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank Europe	Standard
Agreement "Euro Intra – Group Revolving Loan Facility Agreement"	Determination of the conditions for revolving credit facility	Sberbank Europe	Sberbank CZ	Standard
Agreement "Subordinated Downstream Term Loan Agreement"	Determination of the conditions for drawing a subordinated debt	Sberbank Europe	Sberbank CZ	Standard
Amendment 1 to the "Subordinated Downstream Term Loan Agreement"	Amendment to the conditions for drawing a subordinated debt	Sberbank Europe	Sberbank CZ	Standard
Contract "Contract on the Confidentiality of Protected Information"	Arrangement on the obligation to maintain confidentiality regarding proprietary information	Sberbank Europe	Sberbank CZ	Standard
Contract "Audit Group Contract"	Group audit regulation	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Services Agreement"	Determination of the master conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank banka d.d.	Standard
Annexes 1 to 2 to the Master Agreement "Master Services Agreement"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank banka d.d.	Standard

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Slovenia"	Determination of the framework conditions for OTC derivative transactions	Sberbank banka d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank banka d.d.	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Banja Luka"	Determination of the framework conditions for OTC derivative transactions	Sberbank a.d. Banja Luka	Sberbank CZ	Standard
		Sberbank CZ	Sberbank a.d. Banja Luka	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Serbia"	Determination of the framework conditions for OTC derivative transactions	Sberbank Srbija a.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Srbija a.d.	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Bosnia and Herzegovina"	Determination of the framework conditions for OTC derivative transactions	Sberbank BH d.d., Sarajevo	Sberbank CZ	Standard
		Sberbank CZ	Sberbank BH d.d., Sarajevo	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Hungary"	Determination of the framework conditions for OTC derivative transactions	Sberbank Magyarország Zrt.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Magyarország Zrt.	
Agreement "Service Agreement Consolidated with Amendments"	Determination of the conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank Magyarország Zrt.	Standard
Annexes 1 to 3 to the "Service Agreement consolidated with amendments"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank Magyarország Zrt.	Standard
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Croatia"	Determination of the framework conditions for OTC derivative transactions	Sberbank d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank d.d.	
Master Agreement "Master Agreement"	Determination of the conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank d.d.	Standard
Annexes 1 to 5 to the Master Agreement "Master Agreement"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank d.d.	Standard
Master Agreement "Master Agreement No. 01-1.12/2/2015"	Determination of the master conditions for the provision of technological support	Sberbank Technologies Minsk (Controlled entity Sberbank of Russia)	Sberbank CZ	Standard
Agreement "Non-Disclosure Agreement No. NDA-01-1-12/2/2015"	Arrangement on the obligation to maintain confidentiality regarding the proprietary information under the cooperation	Sberbank Technologies Minsk (Controlled entity Sberbank of Russia)	Sberbank CZ	Standard
Agreement "Guarantee Agreement"	Surety for the loan provided to Safina	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Guarantee and Indemnity"	Guarantee to cover potential losses from the so-called "haircut" in the property value for the selected loan transactions	Sberbank Europe	Sberbank CZ	Standard

The legal predecessor of Sberbank CZ is Volksbank CZ, a.s. ("Volksbank CZ"). The name of the business was changed on 28 February 2013. Sberbank CZ as the legal successor acquired as a result of the acquisition all the rights and obligations of Volksbank CZ, including the contractual relationships arising from validly concluded contracts. And, therefore, the list of contracts above does not distinguish between Sberbank CZ and Volksbank CZ.

On 29 July 2016, Penta Investments became the majority shareholder of Sberbank Slovensko, a.s. The sale of Sberbank Slovensko, a.s. resulted in 2016 in the termination of a series of contracts and agreements concluded between Sberbank CZ and Sberbank Slovensko, a.s., in particular relating to the cooperation in the field of Underwriting HUB. Some contracts concluded between Sberbank CZ and Sberbank Slovensko, a.s. remained in force (e.g. "ISDA 2002 Master Agreement", "Contract No. 0120160001 for the Security Owner Account Opening and Maintenance"); however, no performance was provided based on them until 2016.

One-off contracts and agreements with insignificant performance concluded with Sberbank Europe, Sberbank of Russia, as well as other related parties are not described.

Sberbank CZ and Sberbank of Russia enter, on a continuous basis and under standard market conditions, into other relationships as follows:

- (a) relationships regarding interbank deposits, for which Sberbank CZ paid or received interest under standard market conditions;
- (b) relationships regarding the maintenance of a current account for which Sberbank CZ paid or received fees and interest under standard market conditions;
- (c) credit transactions in trade finance, under which Sberbank CZ received a fee or interest under standard market conditions;
- (d) Operations in the foreign exchange market under standard market conditions; and
- (e) relationships regarding the maintenance of nostro and loro accounts.

Sberbank CZ and Sberbank of Russia enter, on a continuous basis and under standard market conditions, into other relationships as follows:

- (a) relationships regarding interbank deposits, for which Sberbank CZ paid or received interest under standard market conditions;
- (b) relationships regarding the maintenance of a current account for which Sberbank CZ paid or received fees and interest under standard market conditions;
- (c) Credit transactions in corporate financing, under which Sberbank CZ received a fee or interest under standard market conditions;
- (d) Operations in the foreign exchange market under standard market conditions; and
- (e) relationships regarding the maintenance of loro accounts.

Sberbank CZ, together with other controlled entities, enter, on a continuous basis and under standard market conditions, into other relationships as follows:

- (a) related to money market operations;
- (b) related to the foreign exchange market operations;
- (c) regarding the maintenance of loro and nostro accounts; and
- (d) regarding the maintenance of current accounts for which Sberbank CZ paid or received fees and interest under standard market conditions.

Sberbank CZ cooperates in group projects within the group Sberbank Europe. Their overall objective is to fully utilise the business potential of Central European markets in all segments. The governing body concluded that the relationships are fully comparable with similar contractual relationships which Sberbank CZ enter in the field of inter-bank transactions.

## 7) Assessment of the potential damage to the controlled entity

In 2016, Sberbank CZ did not suffer any damage/loss as a result of relationships between related entities. All acts and contracts and agreements were made under standard market conditions.

## 8) The assessment of relationships between the controlling entity and the controlled entity and between the controlled entity and the entities controlled by the same controlling entity

Sberbank CZ operates on the Czech market as a universal and an independent bank in accordance with the applicable laws and regulations, providing financial services to its clients in accordance with its line of business and banking licence. In 2016, Sberbank CZ duly observed and complied with the legal and regulatory requirements.

Sberbank CZ confirms that in 2016 the controlling entity did not abuse the influence (whether directly or indirectly) of a controlling entity to force the adoption of any measure or to conclude any contract that could result in any damage to Sberbank CZ.

The relationships between Sberbank CZ and other related entities in 2016 corresponded to standard market conditions and the contracts and agreements concluded between them can be regarded as mutually beneficial. The mutual cooperation between the related entities within the group brings benefits for Sberbank CZ, including in the form of strengthening the position of Sberbank CZ in the market and expanding the range of financial services to its clients.

Sberbank CZ is not aware that the above-mentioned relationships within the Sberbank group create any disadvantages for the group.

## 9) Statement of the Management Board of Sberbank CZ

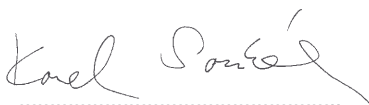
The Management Board of Sberbank CZ hereby declares that this report has been prepared in accordance with Section 82 et seq. of Act No. 90/2012 Coll. on business corporations. This report has been prepared with due care and to the best knowledge of the Management Board so as to fulfil the purpose of the Business Corporations Act and provide a credible Report on relationships between the related entities within the Sberbank Group.

In Prague on 29.03.2017



**Vladimír Šolc**

Chairman of the Management Board  
For Sberbank CZ, a.s.



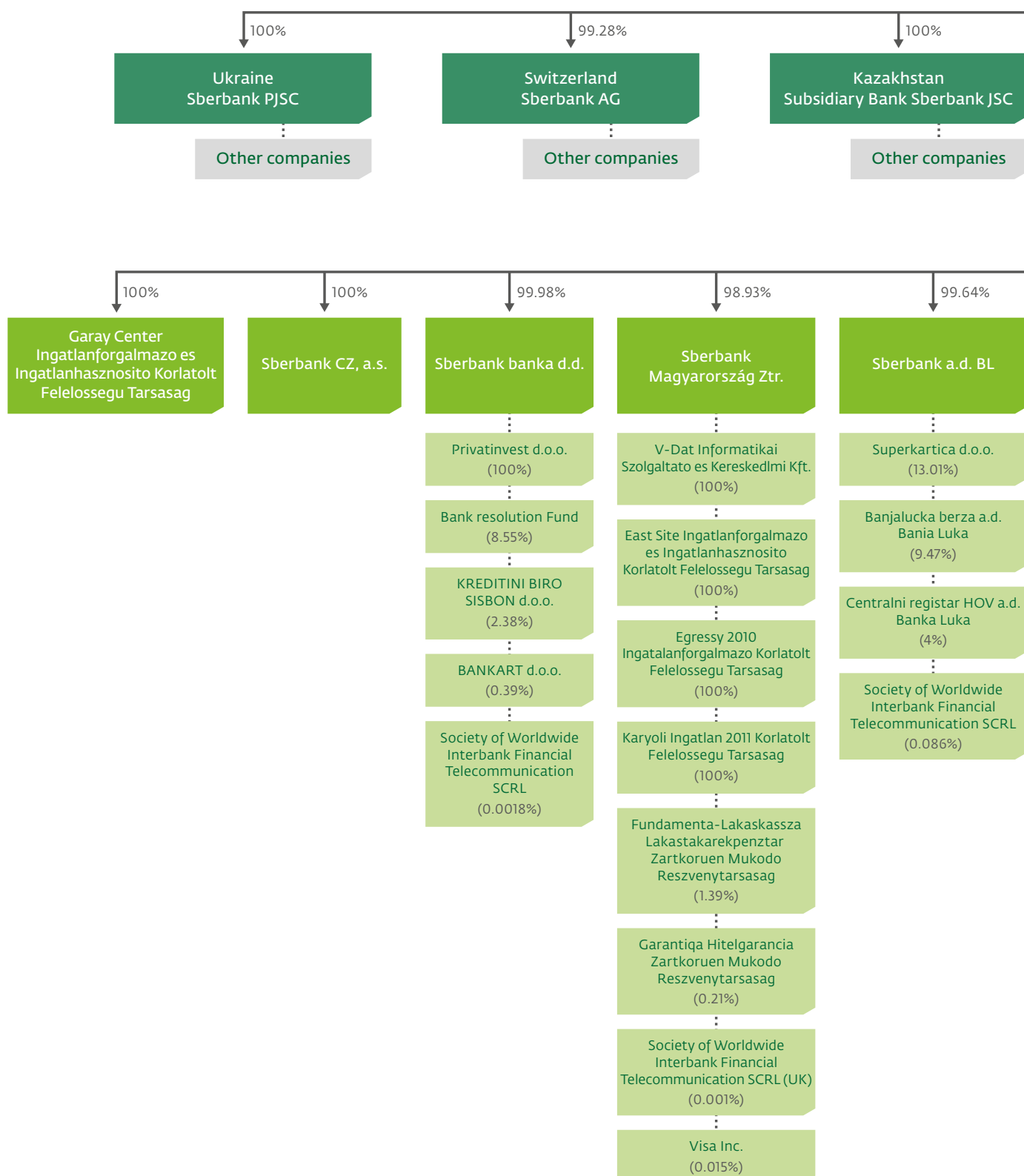
**Karel Soukeník**

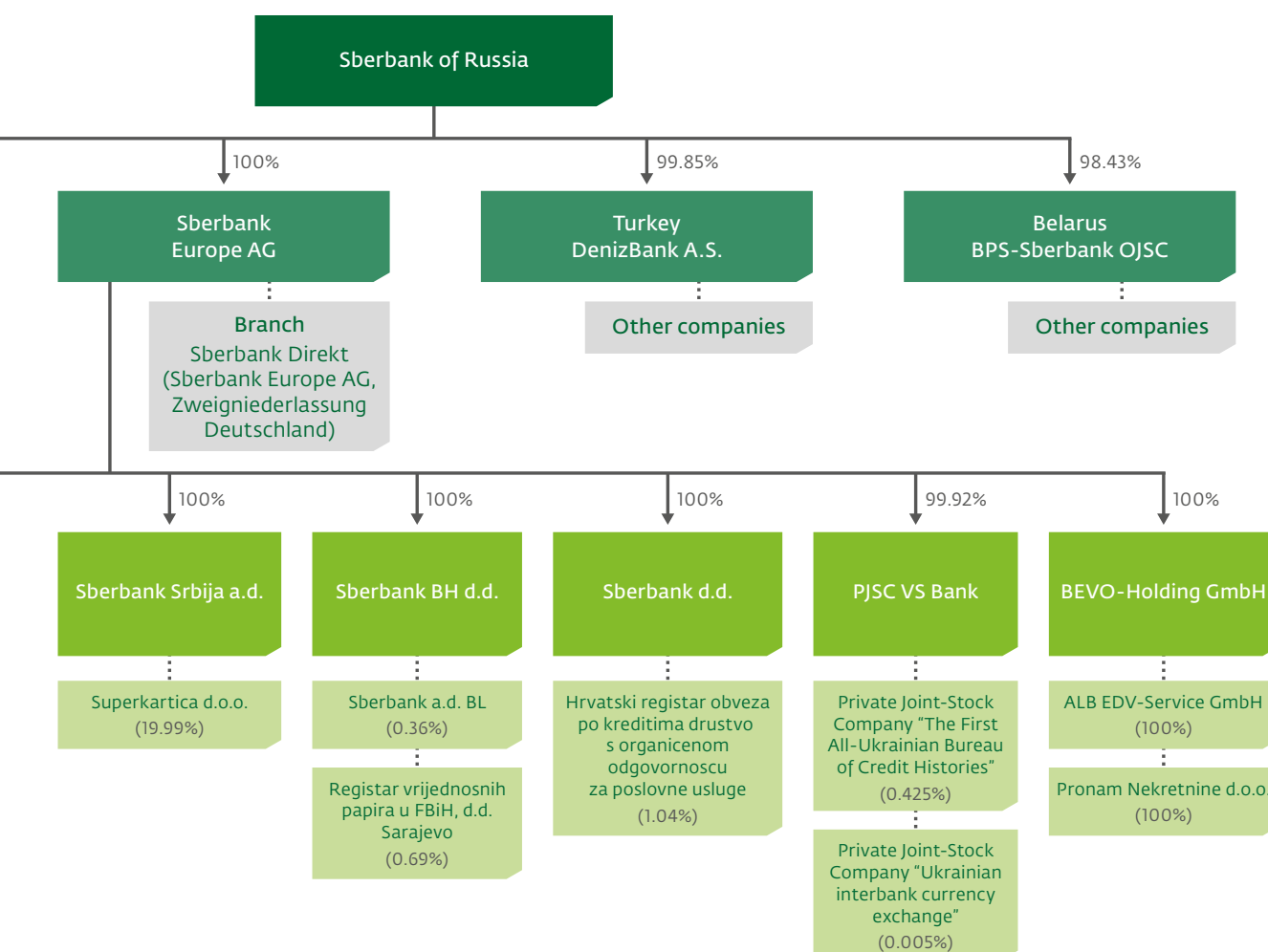
Member of the Management Board  
For Sberbank CZ, a.s.

# APPENDIX NO. 1 TO THE REPORT ON RELATIONSHIP

## Structure of Relationships between Related Entities

Valid as of 31 December 2016





## 22. AFFIDAVIT



We, the undersigned, hereby declare that the annual report of Sberbank CZ, a.s. for the year 2016 provides, to the best of our knowledge, a true and accurate picture of the financial position, business activities and profit and loss of Sberbank CZ, a.s. for the previous fiscal period and of the outlook of the future financial situation, business activities and profit and loss.

In Prague on 10.04.2017

**Vladimír Šolc**

Chairman of the Management Board  
For Sberbank CZ, a.s.

**Karel Soukeník**

Member of the Management Board  
For Sberbank CZ, a.s.

## 23. INDEPENDENT AUDITOR'S REPORT



### INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Sberbank CZ, a.s.:

#### *Opinion*

We have audited the accompanying financial statements of Sberbank CZ, a.s. (hereinafter also the "Bank") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Bank, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Sberbank CZ, a.s. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with IFRS EU.

#### *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, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### *Credit risk and impairment of loans and advances to customers*

The appropriateness of loan impairment allowances is a key area of judgement for the Bank's management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions. There is also uncertainty related to the development of the local economy and the Eurozone, including the geo-political effects such as tensions with Russia, and their impact on the overall level of defaults in the Czech market.

Due to the significance of Loans and advances to customers, representing 77% of Total assets, this is considered a key audit matter.

The Bank performs an individual assessment of loan impairment allowances for individually significant exposures. This requires significant judgment of the management regarding impairment trigger identification and cash flow forecasts, including collateral realization, which involves a high level of complexity due to a changing credit environment.

Further, statistical models are used for the estimation of loan impairment allowances for individually not-significant exposures and portfolios where a default was not identified on an individual basis. However, the changing credit environment could have a negative impact on the stability and sustainability of the models used and on the accuracy of loan impairment allowances calculated using these models.

We tested the controls implemented in the credit allowance process and assessed their operating effectiveness. We performed detailed analytical review procedures related to the development of the structure and characteristics of the credit portfolio, including the related credit impairment allowances and provisions.

Specific procedures addressing the credit risk for individually significant exposures included a review of a sample of loan exposures, and an assessment of each exposure's classification and the adequacy of the individual impairment allowance, where relevant. We also selected a sample of collaterals and inspected the existence and the value of the collateral, for which internal valuation specialists were involved. The work performed was focused on the exposures with the most risk considering both the quantitative and qualitative factors such as the ownership structure, industry or financial performance.

In respect of credit allowance models, we involved internal risk specialists, inspected the model documentation and other related evidence such as back-testing and assessed their compliance with IFRS EU. We also addressed significant changes implemented in the current period. We verified the application of the models through the recalculation of allowances either on the individual or portfolio level.

We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to the credit risk and are compliant with IFRS EU.

Refer to the Section 33b Credit risk for the relevant disclosures.

### *Regulatory matters and inspection*

On an ongoing basis, the Bank faces challenges and risks related to the changing regulatory environment, including the increased level of regulatory scrutiny and pressure on compliance with newly enforced legislation. A proper response from the Bank to these challenges, including disclosure in the financial statements (if required), is important from a going concern perspective as well as the fairness of the financial statements presentation.

Moreover, during the year, the Bank was subject to lending restrictions as a result of regulatory sanctions imposed by the regulator, the Czech National Bank ('CNB'), in March 2016 following an inspection focused on: the credit risk management system and risks associated with loans; the liquidity risk management system; and the internal capital adequacy assessment process ('ICAAP') in 2015. Following remedial action steps performed by the Management of the Bank, the sanctions were gradually withdrawn with the last one in February 2017.

We continuously monitored the impact of current and new regulations on the financial statements and footnotes. This included, but was not limited to, inquiries of management and audit committee and inspection of Compliance department and Internal Audit reports. We also assessed the completeness and adequacy of disclosures related to regulatory matters.

With respect to the CNB inspection, we monitored and discussed the development of remedial action steps with the management. We inspected the communication (both incoming and outgoing) with the regulator. We assessed the impact of the inspection on the audit and our conclusions, mainly in relation to the control environment.

We analyzed the structure of statement of financial position and monitored the development of loan and deposit balances. We reviewed the liquidity reports and assessed the development of the liquidity position of the Bank.

Refer to the Section 33b Credit risk and Section 38 Subsequent events for the relevant disclosures.

### *Other Information*

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

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

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

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

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank 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 Bank's Board of Directors and Audit Committee for the Financial Statements*

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

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

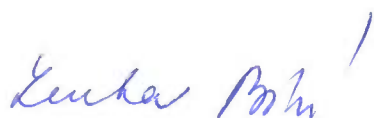
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

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

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

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

Ernst & Young Audit, s.r.o.  
License No. 401



Lenka Bízová, Auditor  
License No. 2331



Douglas Burnham  
Partner

10 April 2017  
Prague, Czech Republic

## 24. OUR NETWORK



### Head office

#### PRAHA

U Trezorky 921/2  
158 00 Praha 5  
Tel.: +420 800 133 444

### Corporate centres

#### BRNO

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#### ČESKÉ BUDĚJOVICE

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#### JIHLAVA

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#### LIBEREC

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#### OLMOUC

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#### OSTRAVA

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### Branches

#### BRNO

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Tel.: +420 221 102 301

#### PRAHA 2

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120 00 Praha 2  
Tel.: +420 221 584 285

#### PRAHA 2

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Tel.: +420 221 102 411

#### PRAHA 2

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#### PRAHA 4

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#### PRAHA 5

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Tel.: +420 257 257 301

#### PRAHA 7

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170 00 Praha 7  
Tel.: +420 220 410 620

#### PRAHA 9

Centrum Černý Most,  
Chlumecká 765/6  
198 19 Praha 9  
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390 01 Tábor  
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#### TEPLICE

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415 01 Teplice  
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Mírové náměstí 3428/5A  
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#### ZLÍN

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760 01 Zlín  
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#### ZNOJMO

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## ATM

### BRNO

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602 00 Brno  
0–24 hodin

### JIHLAVA

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### PRAHA 1

Na Příkopě 860/24  
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0–24 hodin

### PRAHA 5

U Trezorky 921/2  
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0–24 hodin

### BRNO

M-Palác, Heršpická 5  
658 26 Brno  
0–24 hodin

### KARLOVY VARY

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### PRAHA 1

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0–24 hodin

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Dukelských Hrdinů 10  
170 00 Praha 7  
0–24 hodin

### BRNO

Palackého třída 183/38  
612 00 Brno  
0–24 hodin

### LIBEREC

Soukenné náměstí 26  
460 01 Liberec  
0–24 hodin

### PRAHA 2

Lazarská 8/13  
120 00 Praha 2  
0–24 hodin

### PRAHA 9

Centrum Černý Most,  
Chlumecká 765/6  
198 19 Praha 9  
0–24 hodin

### BRNO

Galerie Vaňkovka,  
Ve Vaňkovce 462/1  
602 00 Brno  
7–22 hodin

### OLMOUC

Horní náměstí 14/17  
772 00 Olomouc  
0–24 hodin

### PRAHA 2

Náměstí I. P. Pavlova 3  
120 00 Praha 2  
0–24 hodin

### TÁBOR

Nám. Františka Křižíka 506  
390 01 Tábor  
0–24 hodin

### ČESKÉ BUDĚJOVICE

nám. Přemysla Otakara II. č. 27  
370 01 České Budějovice  
0–24 hodin

### OSTRAVA

28. října 3138/41  
702 00 Ostrava  
0–24 hodin

### PRAHA 2

Vinohradská 1789/40  
120 00 Praha 2  
0–24 hodin

### TEPLICE

OC Galerie,  
Náměstí Svobody 3316  
415 01 Teplice  
0–24 hodin

### FRÝDEK-MÍSTEK

OC Frýda,  
Na Příkopě 3727  
738 01 Frýdek-Místek  
0–24 hodin

### PARDUBICE

17. listopadu 408  
530 02 Pardubice  
0–24 hodin

### PRAHA 4

Na Pankráci 1724/129  
140 00 Praha 4  
0–24 hodin

### ÚSTÍ NAD LABEM

Mírové náměstí 3428/5A  
400 01 Ústí nad Labem  
0–24 hodin

### HRADEC KRÁLOVÉ

Gočárova Třída 718/13  
500 02 Hradec Králové  
0–24 hodin

### PLZEŇ

Americká 1981/24  
301 00 Plzeň  
0–24 hodin

### PRAHA 5

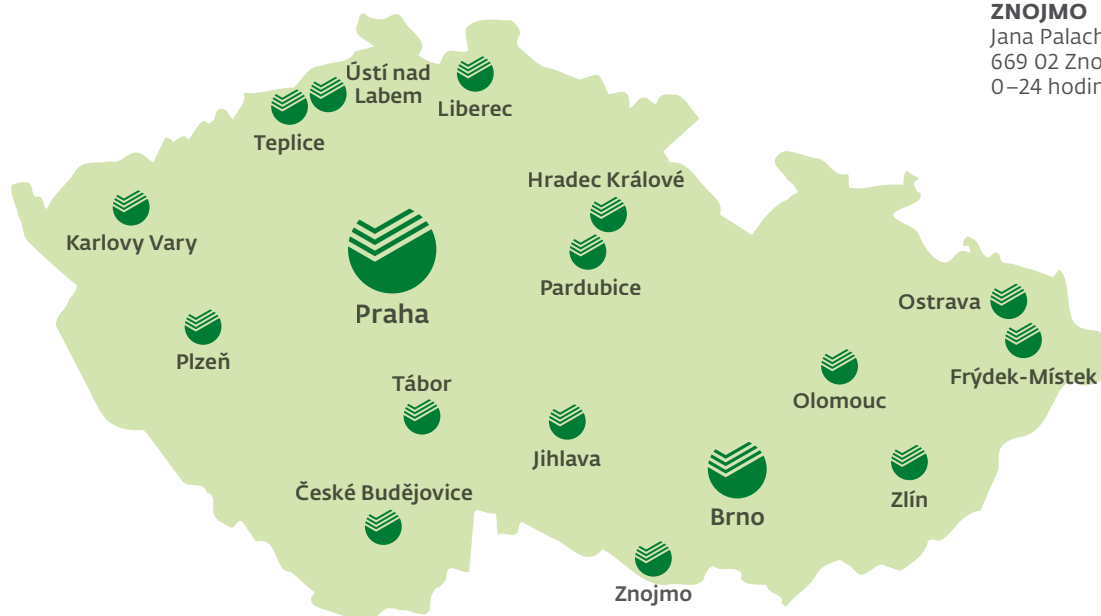
Karla Engliše 1 (Anděl)  
150 00 Praha 5  
0–24 hodin

### ZLÍN

Štefánikova 5293  
760 01 Zlín  
0–24 hodin

### ZNOJMO

Jana Palacha 1262/11  
669 02 Znojmo  
0–24 hodin



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The annual report is published on the Sberbank CZ website (section Annual Reports and Financial Results) at:  
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