J&T FINANCE GROUP

ANNUAL REPORT 2016

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BOARD OF DIRECTORS' REPORT

2016 was another challenging and eventful year for J&T FINANCE GROUP ("JTFG", "the Group"). In the times of near-zero interest rates and tightened pressure on regulation, it was more difficult than ever to maintain the performance and growth set in the previous years. Despite this challenging market situation, JTFG achieved profit of EUR 61.8 million and maintained total assets above EUR 10 billion.

In 2016, JTFG proceeded with the entry of CEFC into the Group. In March 2016, CEFC subscribed to an emission of unsecured perpetuity certificates of EUR 200 million issued by J&T FINANCE GROUP SE, further strengthening the capital position of the Group.

In September 2016, CEFC began the first steps in the approval process relating to the increase of its share on JTFG to 50% and filed the approval request with the National Bank of Slovakia. Due to its complexity and the number of regulators who have to approve the transaction, it is expected that the approval process will take up the whole year of 2017.

Strategy of JTFG

Entry of CEFC, a strong Chinese investor into the Group, has led to addition of a third pillar to the Group's strategy. Besides development of investment and private banking in J&T Banka and retail banking in Poštová Banka, JTFG will focus on cooperation with Chinese clients and investors, taking advantage of its new shareholder's contacts and know-how in China.

Development of activities of J&T Banka focuses on private clients with services of corporate finance, investment banking, transaction advisory, financing of management buy-outs, succession planning and asset management.

The bank has strengthened its corporate finance sales team and the priority for 2017 will be the development of portfolio in the sector of SME clients. The key added value not only for new clients in this sector should be an individual approach as well as the promptness of processing client requests.

The Group also plans to further expand and diversify the product portfolio of J&T Banka to better suit the changing needs of its current as well as new clients.

Cooperation with Chinese clients focuses on providing a single full-service platform for Chinese investors in Europe. The first step has been already made and J&T Banka has established its Chinese desk in order to service its new clients.

Development of retail banking focuses on Poštová banka. At the begining of 2017 Poštová banka introduced a new logo, webpage, mobile application and marketing communication with the aim to more adequately address its current and new clients. The new strategy of the bank is focused around digitalisation, innovations, cross-selling and building of a strong brand which will provide a complex experience for all types of clients including retail, corporate and SME.

The bank plans to further develop and enhance its cooperation with Slovenská pošta and utilize its extensive branch network to provide new products to wide range of clients.

New products are also being introduced including unique offset mortgages "Užitočné bývanie" enabling clients to achieve unparalleled interest rates on the market. During 2016 the bank started a loyalty program for its customers "VEĽKÉ PLUS" in order to reward its loyal clients for using the services of the bank.

The Group continues to support art and artists through the general partnership of J&T BANKA with Rudolfinum galery, where the exhibition of Jiří Černický was performed or by exhibitions in the Moravian galery where a significant part of the Magnus Art collection was presented. The J&T Banka Art Index was issued again in cooperation with Art & Antiques, serving as an overview of successful artists to be watched in the Czech Republic and also other countries.

Balance sheet figures of J&T Banka group was recalculated from CZK to EUR using the Czech National Bank exchange rate as at 31 December 2016 of 27.02 CZK/EUR and income statement figures were recalculated by the average rate for 2016 of 27.033 CZK/EUR.

CHART 1.
NET INTEREST INCOME 2016 vs 2015 (mil. EUR)

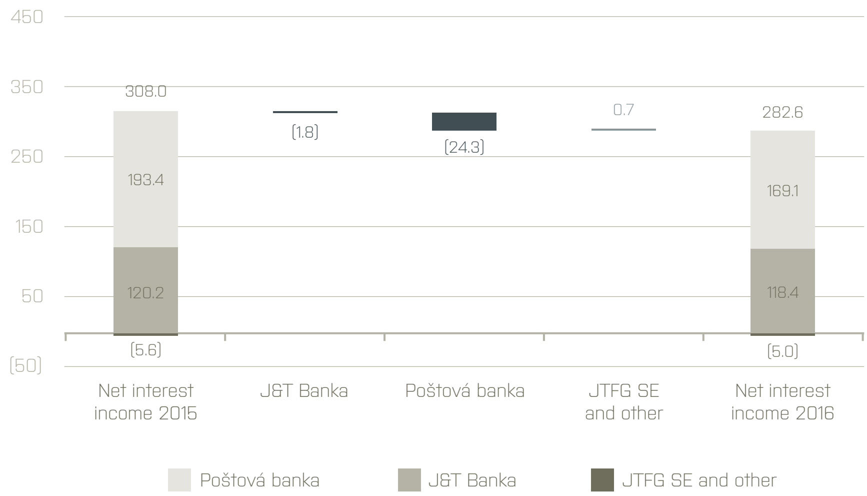
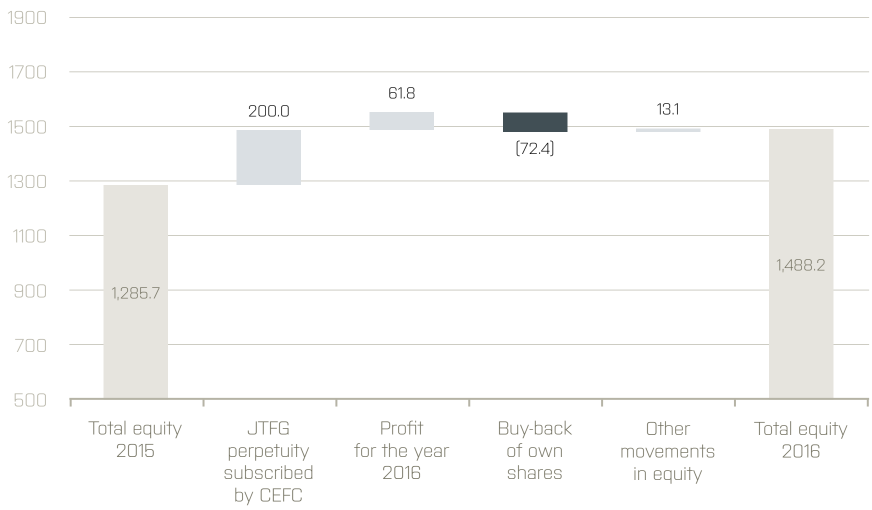


CHART 2.
TOTAL EQUITY DEVELOPMENT 2016 (mil. EUR)



In 2016 J&T Banka also managed to attract top talents of Czech and worldwide tennis to the J&T Banka Prague Open, with Lucie Šafářová as the winner proving that the quality of local players is of the highest level. J&T BANKA also organized the traditional J&T Banka CSI Olomouc parkour which manages to attract a stronger starting grid of contestants from year to year.

Poštová banka, as the general partner, continues to support Radošinské naivné divadlo and in 2016 managed to relocate the theatre into new premises. The Slovak national museum is also one of the long-term supported partner and also thanks to the contribution of Poštová banka, the museum managed to realize over 10 new projects and exhibitions and also restore several artefacts.

Poštová banka also traditionally supported three sport events – Športová rodina pre všetkých enabling children from orphanages to train canoeing , Plavecký klub SPK Bratislava supporting children in swimming training and Letný plavecký kemp Martiny Moravcovej where the excellent swimmer Martina Moravcová trained almost 200 young talents.

Financial operations report

The Group achieved a consolidated profit of EUR 61.8 million in 2016. This represents a decrease of 14.9% compared to prior year's EUR 72.6 million which was driven mainly by decline in interest income. On the other hand, JTFG managed to increase profits in areas of trading, fees and commissions.

Interest income decreased to EUR 282.6 million from EUR 308.0 million in 2015 (decrease by EUR 25.4 million, 8.2%). Most of the decrease is attributable to lower interest income from loans and advances to banks and customers (decrease by EUR 41.1 million) as well as interest income from bonds and other securities (decrease by EUR 14.5 million). On the expense side the Group managed to decrease its interest expenses by EUR 32.2 million which is attributable to both decline in deposits and lower deposit interest rates (Chart 1.).

The Group managed to offset most of the decrease in net interest income by higher net fee and commission income which increased by EUR 11.4 million (17.7%) to EUR 75.8 million from prior year's EUR 64.4 million. Most of the increase was driven by higher underwriting fees as J&T Banka participated on 11 new bond issues during 2016.

The Group managed to slightly decrease its total expenses excluding impairment of loans from EUR 237.5 million in 2015 to EUR 232.3 million in 2016 (2.2%). These savings also contributed to the fact that the profit before tax decreased only by EUR 4.5 million despite the significantly lower net interest income.

The consolidated equity of the Group increased by EUR 202.5 million (15.7%) and amounted to EUR 1,488.2 million as at 31 December 2016. The increase was caused mainly by the subscription of CEFC to the unsecured perpetuity certificates issued by JTFG SE in the amount of EUR 200 million. Based on a mutual agreement of original shareholders and CEFC the original shareholders decreased their share by EUR 72.4 million in order to optimize the shareholding structure. This resulted in an increase of the CEFC share to 9.9% from 8.8% in 2016 (Chart 2.).

Total assets of the Group decreased by EUR 513.4 million to EUR 10,052 million mainly due to cash and cash equivalents which was caused by reduction of client deposits (EUR 582.5 million). This decrease is fully attributable to the group of J&T Banka (EUR 665.4 million) which optimized its liquidity resources, while the group of Poštová banka slightly increased its deposits by EUR 62.9 million (Chart 3.).

The Group has further managed to increase its loan portfolio and the total loans and advances provided to clients increased to EUR 5,657.5 million from prior years EUR 5,360.7 million representing a growth of EUR 296.8 million (5.5%). Most of the growth was attributable to J&T FINANCE GROUP SE (Chart 4.).

CHART 3.
DEPOSITS AND LOANS FROM CUSTOMERS 2016 vs 2015 (mil. EUR)

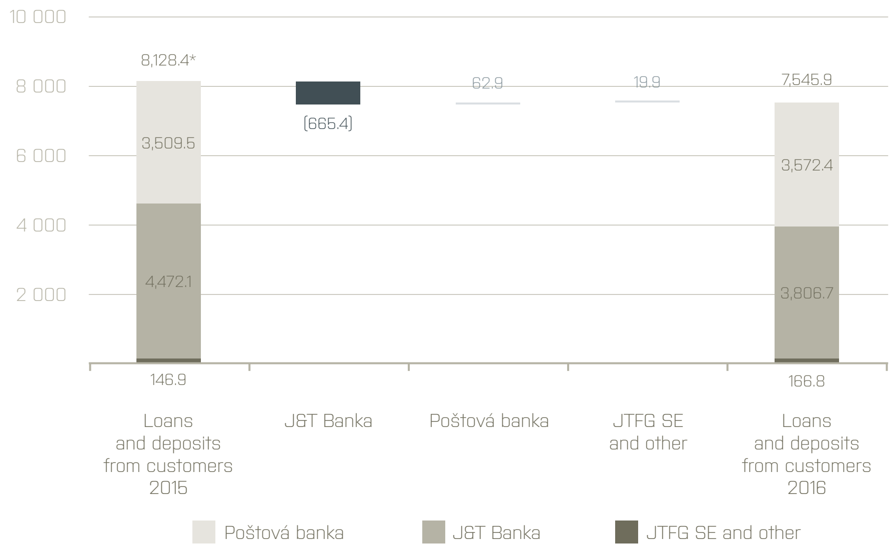
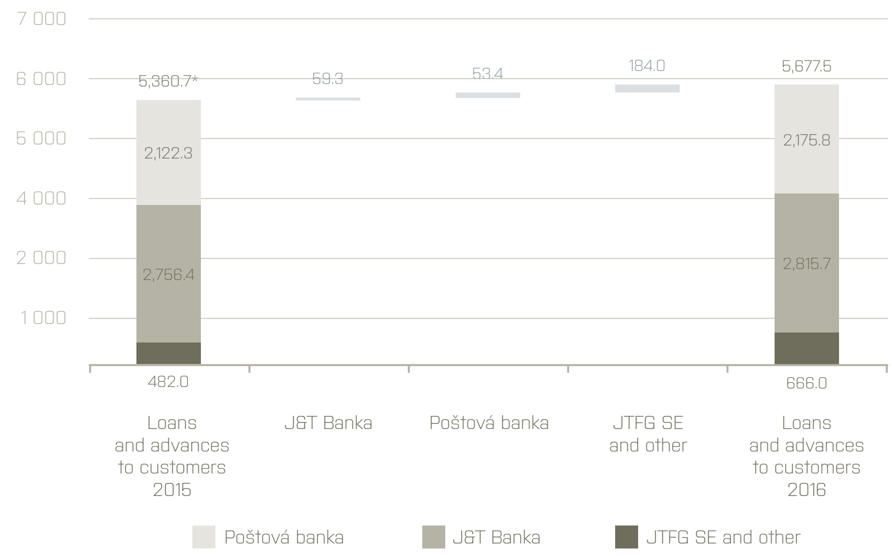


CHART 4.
LOANS AND ADVANCES TO CUSTOMERS 2016 vs 2015 (mil. EUR)



* Total loans and deposits from customers for 2015 do not include J&T Bank A.O. – refer to note 17. Disposal group held for sale for more detail.

Results and events of J&T Banka group

J&T Banka group achieved a consolidated profit of EUR 35.3 million (compared to prior year's profit of EUR 69.4 million) with total assets of EUR 4,926.5 million. The decrease was caused by foreign exchange rate losses, mainly the Russian ruble, most of which was however compensated in equity due to the effect of exchange rate derivatives and hedging. The total equity of J&T Banka group increased by EUR 80.8 million from EUR 627.1 million to EUR 707.9 million. The total capital adequacy ratio increased to 15.88% from prior year's 13.91% (17.75% from prior year's 15.83% on individual basis) which is in line with banks strategy to maintain a high mid-term capital adequacy ratio.

The net interest income of the group remained almost unchanged at EUR 119.1 million compared to EUR 121.5 million in 2015. Despite a decrease in interest income caused by continuing pressure on interest rates, the group managed to also decrease its interest expenses accordingly as a result of optimization of funding which lead to a decrease in client deposits from EUR 4,508.2 million in 2015 to EUR 3,814.0 million in 2016.

J&T Banka group managed to improve its net fee and commission income significantly from EUR 23.2 million in 2015 to EUR 38.4 million in 2016, which was driven primarily by fees from transactions with securities, mainly new bond emissions. The group had also significant success in its asset management business line, where the prevailing low interest rates on deposit accounts attracted new clients with investments of EUR 262 million and the total amount of assets under management at the end of the year was EUR 922 million. For the third time, J&T MONEY was awarded the title for the best mixed fund of the year by analysts from Fincentrum and Forbes thanks to its high yield and low volatility.

Operating expenses excluding risk costs of the group slightly decreased by 3.3% from EUR 85.3 million in 2015 to EUR 82.5 million in 2016. Most of the improvement is attributable to a one-off expenses related to decrease of goodwill in 2015. The group achieved a consolidated cost-income ratio of 47,83% (2015: 44,65%) which is still better than the market average.

In 2016, the group resumed in its success from past years and it placed a record amount of debt financing on behalf of corporate clients into the capital markets. During the past year, the group managed to place eleven bond emissions on the Prague and Bratislava stock exchanges in total volume of EUR 717 million which placed it in the first place amid bond traders on the Prague stock exchange.

Results and events of Poštová banka group

Poštová banka group achieved a profit of EUR 48.6 million which represents only a minor decrease from prior year's profit of EUR 48.9 million. Total assets of the group increased by EUR 80.9 million to EUR 4,261.5 million and the consolidated equity of the group was EUR 610.3 million. The group managed to improve its total capital adequacy ratio which increased from 16,49% in 2015 to 16,76% in 2016.

The net interest income of Poštová banka group decreased by EUR 20.1 million to EUR 170.2 million in 2016. This was caused mainly by the decrease in interest rates from provided loans which resulted in a decrease of EUR 27.6 million in interest income, partly offset by the improvement of interest expenses by EUR 7.5 million which was driven by lower deposit interest rates. The above described decrease in interest income was mainly driven by corporate loan portfolio. On the other hand, retail banking has recorded a 22% year to year growth in the volume of granted loans.

Pressure on fees for management of clients bank accounts and transactions lead to a decrease in income from fees and commission by EUR 5.7 million. On the expense side, the group managed to decrease its transaction and settlement fee expenses by EUR 2.6 million. Total net fee and commission income decreased to 33.8 million from prior year's EUR 36.9 million.

Operating expenses of the group increased by EUR 2.4 million as a result of new investments in development projects, modernization of products, infrastructure, expansion of branch network and redesigning of current branches.

The group managed to offset most of the decline in operating profit thanks to improvement of its risk costs represented by provisions for bad debt and other reserves which decreased by EUR 18.9 million to EUR 50.7 million compared to prior year. Through the investment funds of PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ the group managed assets in total amount of EUR 910 million which represented a 12.5% share on the Slovak market. During 2016 the funds attracted new investors with total investments of EUR 157 million. The fund KRÁTKODOBÝ DLHOPISOVÝ o.p.f. KORUNA placed first in the annual competition organized by Fincentrum and Forbes in the category of short-term investments.

Poštová poisťovňa continued its intensive growth and the number of insurance contracts increased over 150 thousand for the first time in its history and new production has recorded a 7% annual growth. During the year 2016 Poštová poisťovňa also started with changes in internal processes, risk management and portfolio of products which resulted in a decrease of expenses by 27%.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J&T FINANCE GROUP SE

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of J&T FINANCE GROUP SE

Opinion

We have audited the accompanying consolidated financial statements of J&T FINANCE GROUP SE ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at *31 December 2016*, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note *1* to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at *31 December 2016*, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodní rejstřík vedený Městským soudem v Praze oddíl C, vložka 24185

IČO 49619187
DIČ CZ699001996
ID datové schránky: 8h3gtra

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Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

- the other information describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

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

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of J&T FINANCE GROUP SE as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
2 May 2017

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner
Registration number 2332

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

In thousands of EUR	Note	2016	2015
Interest income	6	423,678	481,263
Interest expense	6	(141,107)	(173,273)
Net interest income		**282,571**	**307,990**
Fee and commission income	7	108,908	99,940
Fee and commission expense	7	(33,063)	(35,521)
Net fee and commission income		**75,845**	**64,419**
Net dealing profit	8	28,474	18,477
Total revenues		**386,890**	**390,886**
Other operating income	9	32,914	37,322
Total income		**419,804**	**428,208**
Personnel expenses	10	(90,960)	(90,718)
Depreciation and amortisation	25, 26	(28,363)	(29,543)
Goodwill impairment	25	–	(2,385)
Impairment of property, plant and equipment and intangible assets	25, 26	(2,536)	(559)
Net impairment losses on loans	20	(89,308)	(88,633)
Other operating expenses	11	(110,415)	(114,331)
Total expenses		**(321,582)**	**(326,169)**
Profit from operations		**98,222**	**102,039**
Loss from equity accounted investees		(1,844)	(1,141)
Profit before tax		**96,378**	**100,898**
Income tax expense	12	(34,549)	(28,347)
Profit for the period		**61,829**	**72,551**
ATTRIBUTABLE TO:			
Equity holders of the parent		62,701	72,175
Non-controlling interests		(872)	376
Profit for the period		**61,829**	**72,551**

The notes presented on page 26 to page 120 form an integral part of the consolidated financial statements.

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

In thousands of EUR	2016	2015
Profit for the period	**61,829**	**72,551**
OTHER COMPREHENSIVE INCOME – ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Foreign exchange translation differences	22,910	(21,991)
Net change in fair value of financial assets available for sale	(8,572)	10,928
Share of other comprehensive income of equity accounted investees	130	(99)
Other comprehensive income for the period, net of tax	**14,468**	**(11,162)**
Total comprehensive income for the period	**76,297**	**61,389**
ATTRIBUTABLE TO:		
Equity holders of the parent	77,155	59,620
Non-controlling interests	(858)	1 769
Total comprehensive income for the period	**76,297**	**61,389**

The consolidated financial statements were approved by the Board of Directors on 2 May 2017.

Signed on behalf of the Board of Directors:

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	13	935,178	1,019,854
Financial assets at fair value through profit or loss	14	189,245	110,412
Financial assets available for sale	15	1,277,400	1,447,101
Financial assets held to maturity	16	405,372	510,899
Disposal group held for sale	17	8,145	182,526
Loans and advances to banks	18	1,204,164	1,514,696
Loans and advances to customers	19, 20	5,657,515	5,360,740
Trade receivables and other assets	22	179,783	189,173
Current tax assets		4,870	18,164
Investments in equity accounted investees	23	1,024	1,249
Investment property	24	7,656	5,670
Intangible assets	25	132,246	145,364
Property, plant and equipment	26	43,951	54,264
Deferred tax assets	33	5,477	5,325
Total assets		**10,052,026**	**10,565,437**
LIABILITIES			
Financial liabilities at fair value through profit or loss	14	15,562	14,665
Liabilities associated with disposal group held for sale	17	–	108,188
Deposits and loans from banks	27	93,152	135,524
Deposits and loans from customers	28	7,545,923	8,128,421
Issued bonds	29	527,715	447,096
Subordinated debt	30	56,402	130,315
Other liabilities	31	284,630	267,291
Current tax liability		5,934	10,504
Provisions	32	23,564	24,941
Deferred tax liabilities	33	10,909	12,757
Total liabilities		**8,563,791**	**9,279,702**
EQUITY			
Share capital		574,138	646,584
Share premium		93,577	93,577
Retained earnings and other reserves		777,391	503,475
Equity attributable to equity holders of the parent	**34**	**1,445,106**	**1,243,636**
Non-controlling interests	35	43,129	42,099
Total equity		**1,488,235**	**1,285,735**
Total equity and liabilities		**10,052,026**	**10,565,437**

The notes presented on page 26 to page 120 form an integral part of the consolidated financial statements.

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

In thousands of EUR	Note	Share capital	Share premium
Balance at 1 January 2016		**646,584**	**93,577**
Profit for the period		–	–
Other comprehensive income for the period, net of tax – items that are or may be reclassified subsequently to profit or loss		–	–
Foreign exchange translation differences		–	–
Net change in fair value of financial assets available for sale		–	–
Share of other comprehensive income of equity accounted investees		–	–
Total comprehensive income for the period		**–**	**–**
Distribution to shareholders		(72,446)	–
Dividends		–	–
Withholding tax on dividends		–	–
Change in non-controlling interests without a change in control	35	–	–
Total transaction with owners of the Company, recognised directly in equity		**(72,446)**	**–**
Effect of disposals of subsidiaries	5.2	–	–
Issue of other capital instruments	34	–	–
Distributions related to other capital instruments	34	–	–
Transfer to legal reserve fund	34	–	–
Balance at 31 December 2016		**574,138**	**93,577**

See Note 34. Shareholders' equity and Note 35. Non-controlling interests.

Non-distributable reserves	Translation reserve	Other reserves and funds	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
18,215	**(72,455)**	**97,465**	**460,250**	**1,243,636**	**42,099**	**1,285,735**
–	–	–	62,701	62,701	(872)	61,829
–	23,032	(8,578)	–	14,454	14	14,468
–	22,902	–	–	22,902	8	22,910
–	–	(8,578)	–	(8,578)	6	(8,572)
–	130	–	–	130	–	130
–	**23,032**	**(8,578)**	**62,701**	**77,155**	**(858)**	**76,297**
–	–	–	(4,419)	(76,865)	–	(76,865)
–	–	–	–	–	(853)	(853)
–	–	–	(315)	(315)	–	(315)
(624)	292	(1,521)	(183)	(2,036)	3,164	1,128
(624)	**292**	**(1,521)**	**(4,917)**	**(79,216)**	**2,311**	**(76,905)**
–	(310)	–	–	(310)	(423)	(733)
–	–	220,595	–	220,595	–	220,595
–	–	–	(16,754)	(16,754)	–	(16,754)
5,881			(5,881)	–	–	–
23,472	**(49,441)**	**307,961**	**495,399**	**1,445,106**	**43,129**	**1,488,235**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

In thousands of EUR	Note	Share capital	Share premium
Balance at 1 January 2015		**518,389**	**–**
Profit for the period		–	–
Other comprehensive income for the period, net of tax – items that are or may be reclassified subsequently to profit or loss		–	–
Foreign exchange translation differences		–	–
Net change in fair value of financial assets available for sale		–	–
Share of other comprehensive income of equity accounted investees		–	–
Total comprehensive income for the period		**–**	**–**
Contribution of shareholders		128,195	93,577
Dividends	35	–	–
Change in non-controlling interests without a change in control		–	–
Total transaction with owners of the Company, recognised directly in equity		**128,195**	**93,577**
Effect of disposals of subsidiaries	5.2	–	–
Issue of other capital instruments	34	–	–
Distributions related to other capital instruments	34	–	–
Transfer to legal reserve fund	34	–	–
Balance at 31 December 2015		**646,584**	**93,577**

The notes presented on page 26 to page 120 form an integral part of the consolidated financial statements.

Non-distributable reserves	Translation reserve	Other reserves and funds	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
14,178	**(48,286)**	**56,318**	**396,305**	**936,904**	**95,087**	**1,031,991**
–	–	–	72,175	72,175	376	72,551
–	(22,849)	10,294	–	(12,555)	1,393	(11,162)
–	(22,750)	–	–	(22,750)	759	(21,991)
–	–	10,294	–	10,294	634	10,928
–	(99)	–	–	(99)	–	(99)
–	**(22,849)**	**10,294**	**72,175**	**59,620**	**1,769**	**61,389**
–	–	–	–	221,772	–	221,772
–	–	–	–	–	(3,008)	(3,008)
(77)	(1,320)	(41)	(191)	(1,629)	(51,613)	(53,242)
(77)	**(1,320)**	**(41)**	**(191)**	**220,143**	**(54,621)**	**165,522**
–	–	–	–	–	(136)	(136)
–	–	30,894	–	30,894	–	30,894
–	–	–	(3,925)	(3,925)	–	(3,925)
4,114	–	–	(4,114)	–	–	–
18,215	**(72,455)**	**97,465**	**460,250**	**1,243,636**	**42,099**	**1,285,735**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

In thousands of EUR	Note	2016	2015
OPERATING ACTIVITIES			
Profit before tax		96,378	100,898
Adjustments for:			
Depreciation and amortisation	25, 26	28,363	29,543
Impairment losses of property, plant and equipment and intangible assets	25, 26	2,536	559
Revaluation of financial instruments at FV		(1,015)	27,039
Change in fair value of investment property, net	24	–	–
Gain from revaluation from gold bar	9	(149)	(49)
Gain/Loss on disposal of property, plant and equipment and intangible assets		(283)	1,153
Amortisation of deferred acquisition costs for insurance and clients' contracts		2,006	2,728
(Profit) / loss on disposal of subsidiaries, equity accounted investees and non-controlling interests	9, 11	(477)	1,983
(Profit) / loss on disposal of financial assets		(28,015)	8,062
Net interest income	6	(282,571)	(307,990)
Dividends income	8	(10,965)	(22,076)
Increase in allowance for impairment of loans	20	89,308	88,633
Change in impairment of trade receivables and other assets	11	4,956	6,711
Expense from equity accounted investees		1,844	1,141
Changes in provisions	32	12,566	11,288
Goodwill impairment and negative goodwill	25	–	2,385
Unrealised foreign exchange (gains) / losses, net		15,575	(31,761)
Operating loss before changes in working capital		**(69,943)**	**(79,753)**
Change in loans and advances to customers and banks		(14,421)	(1,554,030)
Change in trade receivables and other assets		8,370	(2,831)
Change in deposits and loans from banks and customers		(780,706)	586,585
Change in trade payables and other liabilities		15,746	111,140
Cash generated from (used in) operations		**(840,954)**	**(938,889)**
Interest received		398,609	464,404
Interest paid		(141,657)	(161,806)
Income taxes paid		(29,128)	(59,693)
Cash flows generated from (used in) operating activities		**(613,130)**	**(695,984)**

In thousands of EUR	Note	2016	2015
INVESTING ACTIVITIES			
Purchase of financial instruments at fair value through profit or loss		(140,682)	(145,451)
Proceeds from sale of financial instruments at fair value through profit or loss		94,325	366,468
Purchase of financial instruments in available for sale portfolio		(358,133)	(444,466)
Proceeds from sale of financial instruments in available for sale portfolio		581,446	641,488
Purchase of financial instruments in held to maturity portfolio		(387,221)	(25,610)
Proceeds from financial instruments in held to maturity portfolio		489,994	114,818
Acquisition of property, plant and equipment, investment property and intangible assets		(19,254)	(16,437)
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		995	333
Acquisition of subsidiaries, net of cash acquired	5.1	–	6
Net cash (outflow) inflow from disposal of subsidiaries	5.2	2,131	(208)
Dividends received		11,420	1,446
Cash flows generated from investing activities		**275,021**	**492,387**
FINANCING ACTIVITIES			
(Distribution)/Contribution from/to share capital to/from shareholders		(1,125)	221,772
Proceeds from issued debt securities	29	184,739	158,639
Payments for buy-back of issued debt securities		(104,880)	–
Acquisition of non-controlling interests		–	(59,191)
Disposal of non-controlling interests		1,128	5,949
Subordinated debt issued	30	698	6,247
Subordinated debt paid	30	(74,274)	(457)
Payment for finance lease		(40)	–
Issue of other capital instruments		220,595	30,894
Bonus payments from issued other capital instruments		(16,754)	(3,925)
Dividends paid		(1,167)	(3,008)
Cash flows generated from financing activities		**208,920**	**356,920**
Net decrease/increase in cash and cash equivalents		**(129,189)**	**153,323**
Cash and cash equivalents at beginning of the year	**13**	**1,049,469**	**884,368**
Effect of exchange rate fluctuations on cash held		14,898	11,778
Cash and cash equivalents at end of the year	**13**	**935,178**	**1,049,469**

The notes presented on page 26 to page 120 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

J&T FINANCE GROUP SE (the "Parent Company" or "the Company") is a European joint-stock company (Societas Europaea) having its legal seat and domicile at Pobřežní 297/14, 186 00 Praha 8.

The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Parent Company, its subsidiaries and interests in associates and joint ventures (together referred to as "the Group"). A list of the Group entities is provided in Note 44. Group entities.

J&T FINANCE GROUP SE is the successor parent entity, taking over this role from J&T FINANCE GROUP, a.s., who was the parent of the Group until 31 December 2013. J&T FINANCE GROUP, a.s. was founded on 7 February 1995 and incorporated into the commercial register in Bratislava, Slovakia on 20 March 1995. The shareholder was TECHNO PLUS, a. s., a Slovak company owned by Jozef Tkáč and Ivan Jakabovič, its ultimate owners.

On 1 January 2014, J&T FINANCE GROUP, a.s. and TECHNO PLUS, a. s., its shareholder, were legally merged into J&T FINANCE, a.s., a Czech subsidiary of J&T FINANCE GROUP, a.s., all being part of the Regulated Consolidated Group - "RCG" (for the definition of RCG, refer to Note 39.5. Capital management). The legal cross-border merger was accounted for as a common control transaction at the book values of the merged entities on 1 January 2014. Intra-group transactions of the merged entities were eliminated through the merger accounting.

J&T FINANCE, a.s., a holding company, originally incorporated on 24 August 2006 in the Czech Republic, was renamed to J&T FINANCE GROUP SE after the cross-border merger took effect on 1 January 2014 and became the new Parent Company of the Group. The ultimate shareholders of the Group remain unchanged, i.e. Jozef Tkáč and Ivan Jakabovič.

The main reason of the merger was to simplify the structure of the financial holding group as owned by the ultimate shareholders and to maintain the continuity of supervision of the Czech National Bank over the activities of the RCG after the acquisition of Poštová banka, a.s. in 2013.

During the year 2016 there was a change in the shareholders' structure (refer to Note 34. Shareholders' equity) and the shareholders of the Company as at 31 December 2016 were as follows:

	Interest in share capital (In thousands of EUR)	Interest in share capital (%)	Voting rights (registered) (In million of CZK)	Voting rights (registered) (%)
Ing. Jozef Tkáč	258,649	45.05	7,109	45.05
Ing. Ivan Jakabovič	258,649	45.05	7,109	45.05
CEFC Shanghai International Group Limited	31,004	5.4	852	5.4
CEFC Hainan International Holdings CO., Ltd	25,836	4.5	711	4.5
Total	**574,138**	**100.0**	**15,780**	**100.0**

The shareholders of the Company as at 31 December 2015 were as follows:

	Interest in share capital (In thousands of EUR)	Interest in share capital (%)	Voting rights (registered) (In million of CZK)	Voting rights (registered) (%)
Ing. Jozef Tkáč	294,662	45.6	8,089	45.6
Ing. Ivan Jakabovič	294,662	45.6	8,089	45.6
CEFC Shanghai International Group Limited	30,958	4.8	852	4.8
CEFC Hainan International Holdings CO., Ltd	26,302	4.0	711	4.0
Total	**646,584**	**100.0**	**17,741**	**100.0**

In March 2016 the shareholders of the Group entered into several agreements with CEFC, whereby CEFC would ultimately acquire a 50% share in the Group. The transaction is subject to regulatory approval both in China and countries where the Group operates.

The Group, as a financial investor, actively takes positions in a diversified range of investment opportunities including investments in banks, investments in securities and structured investments, such as special project financing, acquisitions financing, restructuring and private equity funds. The Group also provides a comprehensive range of services to private individuals, financial institutions, privately-held and state companies, such as retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services. Investment banking services are represented by the areas of research, sales and trading, equity capital markets and debt capital markets. Asset management primarily consists of asset management in own funds, discretionary portfolio management services, as well as administration and custody. In the area of collective investment, client resources are managed through various types of investment funds representing a variety of investment approaches and strategies.

The members of the Board of Directors were as at 31 December 2016 and 31 December 2015 as follows:
Ing. Jozef Tkáč - chairman
Ing. Ivan Jakabovič – vice-chairman
Ing. Patrik Tkáč – vice-chairman
Ing. Dušan Palcr – vice-chairman
Ing. Gabriela Lachoutová

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU").

The consolidated financial statements were approved by the Board of Directors on 2 May 2017.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investment property, derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets available for sale, which are at fair value.

The consolidated financial statements are presented in Euro, rounded to the nearest thousand. The accounting policies have been consistently applied by the Group enterprises and are consistent with those used in the previous year.

Financial statements prepared in compliance with International Financial Reporting Standards require various judgements, assumptions, and estimates to be exercised that affect the reported amounts of assets, liabilities, income and expenses. Actual results will likely differ from these estimates. Critical accounting estimates and judgements made by management with a significant risk of material adjustment in the next year are discussed in Note 4. Critical accounting estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both current and future periods.

The following standards, amendments to standards and interpretations are effective for the first time for the year ended 31 December 2016, and have been applied in preparing the Group's consolidated financial statements:

- Amendments to IAS 19: Defined Benefit plans – Employee Contributions (effective for annual periods beginning on or after 1 February 2015) applies to the contribution from employees to defined benefit plans and simplifies accounting for contributions that are independent of the number of years of employee service. Since the Group has no defined benefit plans, there is no impact of this amendment on the consolidated financial statements.
- Annual Improvements to IFRSs 2010-2012 (effective for annual period beginning on or after1 February 2015) introduce minor amendments to total of eight standards. None of these amendments has a material impact on the Group's consolidated financial statements.
- Amendments to IAS 16 and IAS 41: Bearer Plants (effective for annual periods beginning on or after 1 January 2016; to be applied retrospectively) require bearer plants to be accounted for in accordance with IAS 16 Property, plant and equipment rather than being measured at fair value less cost to sell in accordance with IAS 41. Since the Group has no biological assets, there is no impact of these amendments on the consolidated financial statements.
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016; to be applied prospectively) require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. There is no significant impact of this amendment on the consolidated financial statements.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016; to be applied prospectively) explicitly state that the use of revenue-based methods of depreciation is inappropriate for property, plant and equipment. Its application for intangible assets is allowed in very limited circumstances. There is no significant impact of these amendments on the consolidated financial statements.
- Annual Improvements to IFRSs 2012-2014 (effective for annual periods beginning on or after 1 January 2016) introduce five

minor amendments to total of four standards. None of these amendments has a material impact on the Group's consolidated financial statements.

- Amendments to IAS 1: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016). The Amendments to IAS 1 include the following narrow-focus improvements to the disclosure requirements contained in the standard.

  The guidance on materiality in IAS 1 has been amended to clarify that:
  - immaterial information can detract from useful information;
  - materiality applies to the whole of the financial statements;
  - materiality applies to each disclosure requirement in an IFRS.

  The guidance on the order of the notes (including the accounting policies) have been amended to:
  - remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements;
  - clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

  These amendments do not have a material impact on the presentation of the Group's consolidated financial statements.

- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016; to be applied retrospectively) allows application of equity method of accounting for investment in subsidiaries, joint ventures and associates in separate financial statements. Since the Group prepares consolidated financial statements, there is no impact of this amendment on the consolidated financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016) clarify application of the consolidation exception to entities in group structures including investment entities with regard to three issues:
  - clarify which subsidiaries of an investment entity are consolidated;
  - application of exemption from preparing consolidated financial statements for an intermediate parent of an investment entity;
  - application of equity method by a non-investment entity investor to an investment entity.

None of these amendments has a material impact on the Group's consolidated financial statements.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2016, and have not been applied in preparing these financial statements:

- IFRS 9 – Financial Instruments (effective for annual reports beginning on or after 1 January 2018; to be applied retrospectively) originally issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes new requirements for the classification and measurement of financial liabilities and for derecognition and amendments from November 2013 include new hedge accounting model. Final version of the standard was issued in July 2014.

The key requirements are described below:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of the subsequent accounting periods.

- Gains and losses on remeasurement of financial assets measured at fair value are recognized in profit or loss or other comprehensive income. Financial assets held in a business model whose objective is both to collect contractual cash flows and for sale are measured through other comprehensive income. For an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income. The election is available on an individual share-by-share basis. No amount recognized in other comprehensive income is ever reclassified to profit or loss at a later date. Financial assets not mentioned above are measured at fair value through profit or loss.
- For financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- IFRS 9 replaces the ´incurred loss´ model in IAS 39 with a forward/looking ´expected credit loss´ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:
  - 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
  - Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.
- Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if the has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.
- The new hedge accounting model aligns the accounting requirements more closely with risk management practices and enhances disclosures about hedge accounting and risk management practices. When an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Group decided to apply the hedge accounting requirements of IAS 39.

Impact of the new standard is summarized below:

- Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.
  - The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

  - The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The Group, due to the complexity of the changes in the new Standard and ongoing implementation projects does not quantify the expected impact of the initial application of IFRS 9 on its financial statements at this time.
- The Group expects the main impact mainly to be an increase in allowances for impairment because the new standard requires the creation of allowances for impairment for expected losses for the assets when there is no objective evidence of impairment as at balance sheet date.
- Upon initial recognition as at 1 January 2018, the effect of the changes in the impairment of financial assets is going to be recognized against equity balances. Ongoing changes due to new requirements on impairment after 1 January 2018 are going to be reported in the Consolidated statement of comprehensive income.
- In the area of regulatory capital planning under Basel III standards (in the form of CRR Regulation issued by EU) a one-time reduction is expected as of 1 January 2018. This effect is caused by a one-off reduction of retained earnings from previous periods, which constitute one of the main components of CET 1 capital.

Note: Based on the Basel Committee on Banking Supervision (BCBS) documents issued in October 2016, the allocation of the new Standard´s impact on regulatory capital CET 1 is expected over an horizon of several years. The new proposal of CRR 2 from November 2016 is intended to set the allocation of the new standard´s impact to 5 years.

- IFRS 15 – Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively). The new standard substitutes all revenue standards including IAS 18 Revenue and IAS 11 Construction Contracts. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customer at an amount that the entity expects to be entitled to in exchange for those goods and services. Entities will follow a five-step approach to apply the standard:
  - identify the contract(s) with the customer;
  - identify the separate performance obligations in the contract;
  - determine the transaction price;
  - allocate the transaction price to separate performance obligations;
  - recognize revenue when (or as) each performance obligation is satisfied.

  Revenue from a transaction or event that does not arise from a contract with a customer is not within the scope of the revenue standard and should continue to be accounted for in accordance with other standards.

The Group currently analyzes the effect of this standard on its financial statements.
- IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on

or after 1 January 2017)

- Amendments to IAS 7: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018)
- Annual Improvements to IFRSs 2014-2016 (Amendments to IFRS 12 Disclosure of Interests in Other entities effective for annual periods beginning on or after 1 January 2017, Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures effective for annual periods beginning on or after 1 January 2018) introduce clarifications or minor amendments to these three standards. The Group expects that the amendments will not have a material impact on the Group's consolidated financial statements.
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018) clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The Group expects that the amendments will not have a material impact on the Group's consolidated financial statements.
- Amendments to IAS 40: Transfers to Investment Property (effective for annual periods beginning on or after 1 January 2018) introduce minor amendments to the standard. The Group expects that the amendments will not have a material impact on the Group's consolidated financial statements.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018) addresses foreign currency transactions or parts of transactions where:
  - there is consideration that is denominated or priced in a foreign currency;
  - the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
  - the prepayment asset or deferred income liability is non-monetary.

  The Group expects that the amendments will not have a material impact on the Group's consolidated financial statements.

Other new International Financial Reporting Standards and Interpretations not yet due

The Group has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Group elects to apply the standards prospectively from the date of transition. Management of the Group does not expect that these other new standards will have a significant effect on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Joint ventures

Joint ventures are arrangements in which the Group has joint control, established by contractual agreement, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

(iv) Consolidation scope

There are 39 companies included in the consolidation as at 31 December 2016 (2015: 42). All fully consolidated companies prepared their annual financial statements at 31 December 2016. The companies are listed in Note 44. Group entities and this list is based on the ownership hierarchy.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains (losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent of the recoverable amount.

(vi) Acquisition method of accounting

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the recognition criteria under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Any non-controlling interest in an acquiree is measured as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Goodwill arising in a business combination is recognised as an asset and is not amortised but is reviewed for impairment at least annually.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss.

(vii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available for sale financial asset depending on the level of influence retained.

(viii) Tax effect of inclusion of the consolidated subsidiaries' reserves

The consolidated financial statements do not include the tax effects that might arise from transferring the consolidated subsidiaries' reserves to the accounts of the Parent Company, since no distribution of profits, not taxed at the source, is expected in the foreseeable future, and the Group considers that these reserves will be used as self-financing resources at each consolidated subsidiary.

(ix) Unification of accounting principles

The accounting principles and procedures applied by the consolidated companies in their financial statements were unified in the consolidation, and agree with the principles applied by the Parent Company.

(b) Foreign currency

(i) Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate valid as at the statement of financial position date.

Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at the foreign exchange rates ruling at the dates the fair values are determined.

(ii) Financial statements of foreign operations

The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Euro at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated into Euro at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in other comprehensive income.

(iii) Embedded derivatives

Hybrid financial instruments are a combination of non-derivative host contracts and derivative financial instruments (embedded derivatives). Subject to certain conditions, IAS 39 Financial Instruments: Recognition and Measurement requires that embedded derivative components be separated from the host contracts and separately carried at fair value with changes recorded in the income statement.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are those that the Group holds for trading that is, with the purpose of short-term profit taking. These include investments and derivative contracts, hedging instruments and liabilities from short sales of financial instruments.

Loans and advances to banks and customers are non-derivative financial assets with fixed and determinable payments, not quoted in an active market, which are not classified as financial assets available for sale or held to maturity or as financial assets at fair value through profit or loss.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Financial assets available for sale are those non-derivative financial assets that are not designated as fair value through profit or loss, loans and advances to banks and customers or as held to maturity.

(ii) Recognition

Financial assets at fair value through profit or loss and assets available for sale are recognised on the date the Group commits to purchase the assets. Regular way purchases and sales of financial assets including held to maturity assets are accounted for on the settlement date.

Loans and advances to banks and customers are recognised on the day they are provided by the Group.

(iii) Measurement

Financial instruments are measured upon initial recognition at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

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

Subsequent to initial recognition, financial assets are measured at their fair value, except for loans and advances to customers, financial assets held to maturity, and certain non-quoted equity securities classified as available for sale the fair value of which cannot be measured reliably, which are measured at amortised cost or at cost. After initial recognition, financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. In measuring amortised cost, any difference between cost and redemption value is recognised in the income statement over the period of the asset or liability on an effective interest rate basis.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated by management using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in Note 36.

Loans and advances: Fair value is calculated based on discounted expected future principal and interest cash flows using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

Trade receivables and other assets/ liabilities: For receivables/ payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. Other receivables/ payables are discounted to determine the fair value.

Financial assets held to maturity: Fair value is based on quoted market prices traded in active markets at the statement of financial position date. If not available, the fair value is calculated based on discounted expected future principal and interest cash flows using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering credit risk and any indication of impairment. The estimated fair values of financial assets held to maturity reflect changes in credit status since they were acquired and changes in interest rates in the case of fixed rate instruments.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in fair value are recognised in the income statement for instruments at fair value through profit or loss and directly in other comprehensive income as a revaluation difference for assets available for sale. The cumulative gain or loss of available for sale assets previously recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment when the available for sale asset is derecognised. Interest income and expense from assets available for sale are recorded in the income statement by applying the effective interest rate method. Refer to accounting policy (c) vii for accounting for gains and losses on subsequent measurement of hedges.

(vi) Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled.

Assets available for sale and assets at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets.

Held to maturity assetsand loans and advances to banks and customers are derecognised on the day they are disposed of by the Group.

(vii) Hedge accounting

Hedging instruments that consist of derivatives associated with a currency risk are classified either as cash-flow hedges or fair value hedges.

From the inception of the hedge, the Group maintains a formal documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The Group also periodically assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.The Group considers hedging as highly effective, if the changes in fair value relating to the hedged risk during the period covered, compensate changes in the fair value of the hedging instrument in the range of 80% to 125%.

In case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

In case of a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognised 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 as the hedged item).

The Group uses fair value hedge to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees over the hedging period. The Group uses currency forwards as hedging instruments.

Furthermore, the Group uses hedging derivatives to hedge the fair value of recognized assets (bonds with fixed income denominated in Euros). The Group entered into interest rate swaps to hedge the changes in fair value caused by changes in risk-free interest rates.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and in banks, cash deposited with central banks and short-term highly liquid investments with original maturities of three months or less, including treasury bills and other bills eligible for rediscounting with central banks.

(e) Loans and advances to banks and customers

ns and advances originated by the Group are classified as originated loans and receivables. Loans and advances are reported net of impairment allowance to reflect the estimated recoverable amounts (refer to accounting policy (h)).

The Group classifies all its receivables from clients into the following five basic categories laid down by Regulation (EU) No 575/2013 of the European Parliament and Council Regulation (CRR) of 26 June 2013 and complementary legislation in the respective countries: receivables without obligor default divided into standard and watch receivables, and receivables with obligor default divided into non-standard, doubtful and loss receivables. In the evaluation of individual loans, the classification takes into account both qualitative and quantitative criteria.

The criteria mentioned include the following:

- major financial problems of the issuer or debtor;
- breach of a contract, e.g. delayed payment of interest or principal or failure to pay them;
- relief provided by the creditor to the debtor for economic or other legal reasons relating to debtor's financial problems, that the creditor would not have otherwise provided;
- likelihood of bankruptcy or other financial restructuring of the debtor;
- extinction of an active market for the given financial asset for financial reasons; or
- observable facts demonstrating a measurable decline of estimated future cash flow from the group of financial assets after their initial recognition despite the existing impossibility to detect the decrease for individual financial assets in the group; and
- others.

Forbearance

The Group treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with IFRS.

Forbearance is an exposure where the Group decides, due to the debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not a result of the debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Details regarding the structure and quality of the credit portfolio are given in Note 39. Risk management policies and disclosures.

Individually assessed allowances

Based on regular reviews of the outstanding balances, specific allowances for loan losses are made for the carrying amount of loans and advances that are identified as being impaired to reduce these loans and advances to the amounts recoverable.

The Group mainly uses the financial statements of the client and the Group's own analysis as the basis for assessment of the loan's collectibility.

Allowances made, less amounts released during the reporting period, are charged to the statement of comprehensive income. Outstanding loan exposures are written off only when there is no realistic prospect of recovery. If in a subsequent period the amount of an allowance for loan losses decreases and the decrease can be linked objectively to an event occurring after the allowance was booked, the allowance is reversed through the statement of comprehensive income.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Allowances are evaluated separately on a regularly basis within each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loan assessments.

In estimating the amount of allowances necessary, management evaluates the likelihood of repayment of individual loans and takes into account the value of collateral and the ability of the Group to realize the collateral.

Only Poštová banka, a.s. calculates collectively assessed allowances based on the probability of default (PD) and loss given default (LGD). Change in LGD parameter by +/-5% and +/-10% could have impact of EUR +/-8,326 thousand and EUR +/-16,653 thousand, respectively.

(f) Sale and repurchase agreements

Where securities are sold under a commitment to repurchase at a predetermined price (repos), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell (reverse repos) are not recorded on the statement of financial position and the consideration paid is recorded as a loan. The difference between the sale price and the purchase price is treated as interest and accrued evenly over the life of the transaction. Repos and reverse repos are recognised on a settlement date basis.

(g) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or to realise the asset and settle the liability simultaneously.

(h) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets (refer to accounting policy (v)) are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment as part of the cash generating unit to which they belong.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and advances are presented net of impairment allowances. Allowances for impairment are determined based on the credit standing, performance of the borrower and expected cash flow and take into account the value of any collateral or third-party guarantee. The allowances are proportionally allocated to the total outstanding amount of the receivables, i.e. principal, interest accrual and penalty interest, if any.

The recoverable amount of the Group's investment in held to maturity assets and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed upon initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their fair value less costs of diposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a held to maturity asset or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement. If the fair value of a debt instrument classified as available for sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement, then the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Assets held for sale and discontinued operations
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of disposal group, are remeasured in accordance with the Group´s other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax, employee benefits, investment property, which continue to be measured in accordance with the Group´s other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale, intangible assets and property, plant end equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

A discontinued operation is a component of the Group´s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:
- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

When an asset (or disposal group) previously classified as held for sale no longer meets the criteria for such classification, the Group ceases to classify such asset (or disposal group) as held for sale. Thus, the entity remeasures a non-current asset (or disposal group) at the lower of its carrying amount before the asset was classified as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell.

(j) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (h)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised if it is probable that the future economic benefits embodied in the part of property, plant and equipment will flow to the Group and its cost can be measured reliably. All other expenditures including the costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Aircraft	
– electronics	3 years
– interior	5 years
– auxiliary power unit	13 years
– airframe	23 years
Equipment	3 – 8 years
Fixtures, fittings and others	3 – 8 years

Depreciation methods and useful lives, as well as residual values, are reassessed annually at the reporting date.

The maintenance of the aircraft's engine is covered under an agreement with a third party, whereby the Company pays a determinable amount to the third party. For this reason the residual value of the engine is not lower than the carrying amount at the reporting date and the depreciation expense of the engine is zero.

(k) Intangible assets

(i) Goodwill and intangible assets acquired in a business combination

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included under intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying amount of investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill arising on an acquisition is reassessed and any excess remaining after the reassessment is recognised in the income statement.

Intangible assets acquired in a business combination are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recorded at cost less impairment. Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation and impairment.

(ii) Software and other intangible assets

Software and other intangible assets acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (h)).

The useful lives are usually finite. Those intangible assets that have an indefinite useful life are not amortised and are tested annually for impairment. Their useful life is reviewed at each period-end to assess whether events and circumstances continue to support an indefinite useful life.

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date the asset is available for use. The estimated useful lives are as follows:

Software	4 years
Other intangible assets	2 – 9 years
Customers relationships	3 – 20 years
Tradename	13 – 14 years

(l) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss.

Fair values of investment property are determined either by independent registered valuers or by management, in both cases based on current market values in an active market for similar properties in the same location and conditions.

Valuations reflect, where appropriate, the type of tenants in occupation or responsible for meeting lease commitments, or likely to be in occupation after letting vacant property, the general market's perception of tenants' creditworthiness and the remaining economic life of the properties.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss for the period in which it arises. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

The Group recognizes a provision related to a customer loyalty programme run by J&T BANKA, a.s. The provision decreases interest revenue when the first points are credited to the customer upon setting up a new bank account. The provision is then further built up as further points are credited to the customer depending on the use of services offered by the Group.

(n) Insurance contracts

A contract, under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, is classified as an insurance contract. Insurance premium is earned from the day of the acceptance of the risks and is recognized as revenue. For unearned premium, a provision is created. Insurance claims expenses are represented by claims for the events that have occurred during the accounting period and adjustment of provision for the insurance claims for previous and current accounting period.

Provision for insurance claims and benefits

The provision for outstanding claims and benefits represents an estimate of total costs for settling all claims from insured events that have occurred up to the end of the accounting period. Outstanding insurance claims are recognised by assessing individual events and creating provisions for claims reported but not settled (RBNS) and a provision for claims incurred but not reported (IBNR). Such provisions are created for both life and non-life insurance.

Provision for life insurance

The provision for life insurance is an actuarial estimate of the Group's liability from life insurance contracts. The provision is calculated separately for each insurance contract and considering all guaranteed insurance benefits and bonuses, applying the actuarial estimates used to calculate the insurance tariffs. Any adjustment to the provision is recognised in profit or loss in the period in which it arises.

(o) Employee benefits

For termination employee benefits, a provision is recognised for the amount expected to be paid under long or short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The benefit is classified as short term, if and only if the whole benefit category will be settled within one year; otherwise, it is disclosed as long term.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

(p) Financial guarantees

Financial guarantees are contracts that require the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of the debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Financial guarantee liabilities are subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities when future payment is considered probable and included in off-balance sheet when considered to be a possible obligation.

(q) Trade and other payables

Trade and other payables are stated at amortised cost.

(r) Interest income and expense

Interest income and expense is recognised in the income statement as it accrues. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. All borrowing costs are recognised in the income statement.

(s) Fee and commission income and expense

Fee and commission income arises on financial services provided by the Group, including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services. Assets under management comprising all client assets managed or held for investment purposes by the Group in its own name, but for the account of third parties, are not reported in its consolidated statement of financial position (refer to Note 40. Assets under management). Commissions received from such business are shown in fee and commission income.

Fee and commission income and expense are recognised when the corresponding services are provided or received.

(t) Dealing profits, net

Dealing profits, net include gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss and available for sale, gains and losses from foreign exchange trading, as well as realized and unrealized foreign exchange gains and losses.

(u) Rental income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

(v) Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities, in a transaction that is not a business combination, that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future since the parent is able to control the reversal of the temporary difference. No taxable temporary differences are recognised on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(w) Operating and finance lease

(i) Group as a lessee
Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Operating leases with an option to terminate the contract earlier than at the end of the agreed period are considered as non-cancellable for the time of the contracted notice period.

All other leases are operating leases and the assets are not recognized on the Group's statement of financial position.

Minimum lease payments for finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Group as a lessor
Leases under which the Group transfers substantially all the risks and rewards of ownership are classified as finance leases. A finance lease receivable is recognized over the leasing period in an amount equal to the net investment in the lease and presented within loans and advances to customers in the consolidated statement of financial position. Net investment in the lease is calculated as a present value of the minimum lease payments and any unguaranteed residual value, discounted at the interest rate implicit in the lease.

A recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Gains and losses on disposal of assets owned by the Group that were previously subject to finance lease agreements are presented net in Other opering income or expense.

(x) Revenue from goods sold and services rendered
Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the statement of financial position date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

(y) Dividends
Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1. BUSINESS COMBINATIONS AND PURCHASE PRICE ALLOCATIONS

In a business combination (see also Note 5.1. Acquisition and establishment of subsidiaries and associates), the acquiree's identifiable assets, liabilities and contingent liabilities are recognised and measured at their fair values at the acquisition date. Allocation of the total purchase price among the net assets acquired for financial statement reporting purposes is performed with the support of professional advisors.

The valuation analysis is based on historical and prospective information available as at the date of the business combination. Any prospective information that may impact the fair value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail in the future.

The results of the valuation analyses are used as well for determining the amortisation and depreciation periods of the values allocated to specific intangible and tangible fixed assets.

In 2016 and 2015 no business combinations and related purchase price allocations occurred.

4.2. GOODWILL AND IMPAIRMENT TESTING

The Group conducts impairment testing of goodwill arisen in a business combination during the current period and impairment testing of goodwill already recognised in prior years annually (see also Note 5.1. Acquisitions and establishment of subsidiaries and associates and Note 25. Intangible assets). The Group also conducts impairment testing of other intangible assets with indefinite useful lives and of cash-generating units (CGUs) where a trigger for impairment testing is identified. As at the acquisition date, goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows or on the basis of fair value less costs to sell.

Fair value measurements for impairment testing purposes were categorized as a Level 3 measurement based on the inputs used in the valuation technique. In the majority of cases the Group estimated the recoverable amounts of goodwill and the cash generating units based on value in use. Value in use was derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital ("WACC") of each CGU.

Poštová banka, a.s.

Upon acquisition of Poštová banka, a.s. and its subsidiaries (Poštová banka Group) goodwill in amount of EUR 20,033 thousand was recognized. The recoverable amount of the Poštová banka Group cash generating unit, with a carrying amount of EUR 676,737 thousand (share controlled by the Group) as at 31 December 2015 and of EUR 670,504 thousand as at 31 December 2016, was determined on the basis of value in use and the full amount of goodwill recognized upon acquisition was allocated to the Poštová banka Group cash generating unit. The cash flows were derived from the Poštová banka Group's long term business plan, the key assumptions being forecast of net interest income and loans provided to customers, and these were applied over a specific five-year forecast period. The growth rate used to extrapolate cash flows beyond this period was 2.2% (2015: 2.0%). Expected future cash flows were discounted using a WACC of 6.69% (2015: 7.2%).

There was no impairment loss identified as a result of this impairment test. Should net interest income decrease by 10%, the value in use would decrease and an impairment of EUR 116,330 thousand would have to be recognized (2015: EUR 27,665 thousand).

4.3. FINANCIAL INSTRUMENTS

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices of similar instruments) or indirectly (i.e. derived from such prices)
– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the market for a financial instrument is not active, fair value is estimated by using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information about estimates and assumptions that market participants would use in setting a price for the financial instrument.

Level 2 fair values are based on market values, but adjusted mainly by credit risk taking into account the credit risk of the Group and counterparty when appropriate.

If fair values had been higher or lower by 10% than quoted prices, the net carrying amount of financial instruments on Level 1 and Level 2, would have been EUR 135,956 thousand higher or lower than as disclosed as at 31 December 2016 (2015: EUR 135,843 thousand).

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

In the vast majority of cases, the fair value of Level 3 investments was estimated using comparative valuation methods and discounted cash flow ("DCF") models, with inputs coming from current real estate market prices for similar properties in the same location and condition, the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specificities of the industries and countries in which the investments operate and ranged from 5.08% to 9.72%

as at 31 December 2016 (2015: from 6.4% to 16.1%). The key assumptions used in the valuations were the expected cash flows, discount rates and current real estate market prices.

For more information, refer to the following notes:
- Note 14. Financial assets and liabilities at fair value through profit or loss
- Note 15. Financial assets available for sale
- Note 24. Investment property

4.4. DETERMINATION OF CONTROL OVER INVESTMENT FUNDS

Management applies its judgement to determine whether the control indicators set out in Note 3 (a) indicate that the Group controls an investment fund. The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, the Group has concluded that it acts as agent for the investors in all cases (except J&T REALITY otevřený podílový fond, refer to Note 44. Group entities) and therefore has not consolidated these funds.

5. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

5.1. ACQUISITION AND ESTABLISHMENT OF SUBSIDIARIES AND ASSOCIATES

(a) Acquisition of subsidiaries and associates

There were no acquisitions of subsidiaries and associates in 2016.

In 2015, the Group acquired the following investment:

In thousands of EUR	Date of acquisition	Cost	Cash outflow	Group's interest after acquisition (%)
31 DECEMBER 2015				
XT-Card a.s.	26.11.2015	237	(237)	32.00
Total	**–**	**237**	**(237)**	**–**

(b) Establishment of subsidiaries and associates

	Date of establishment	Group's interest after establishment (%)
31 DECEMBER 2016		
J&T Global Finance VI., s. r. o.	27.2.2016	100.00
J&T Global Finance VII., s. r. o.	18.7.2016	100.00

No subsidiaries and associates were established in 2015.

5.2. DISPOSALS

(a) Disposals of subsidiaries

The following disposals have occurred in 2016 and in 2015:

In thousands of EUR	Date of disposal	Sales price	Cash inflow	Gain (loss) on disposal/ liquidation
31 DECEMBER 2016				
J&T Global Finance I., B.V.	1.1.2016	17	17	13
J&T Global Finance II., B.V.	1.1.2016	18	18	(5)
J&T Cafe, s.r.o.	1.1.2016	4	4	(1)
ART FOND – Stredoeurópský fond súčasného umenia, a.s.	24.2.2016	281	281	11
ABS Property Limited	31.5.2016	2,173	2,173	459
Total		**2,493**	**2,493**	**477**
31 DECEMBER 2015				
Salve Finance, a.s.	24.6.2015	–	–	(1,996)
NÁŠ DRUHÝ REALITNÝ o.p.f. – PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a.s.	30.12.2015	58	58	5
FOND DLHODOBÝCH VÝNOSOV o.p.f – PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a.s.	30.12.2015	102	102	8
Total		**160**	**160**	**(1,983)**

On 1 January 2016 J&T Global Finance I., B.V., J&T Global Finance II., B.V. and J&T Cafe, s.r.o. entered into liquidation, which was completed in the course of the year 2016 by selling of the remaining assests of those companies.

(b) Effect of disposals

The disposals of subsidiaries had the following effect on the Group's assets and liabilities:

Effect of disposals in 2016

In thousands of EUR	ABS Property Limited	Other	Total effect
Cash and cash equivalents	16	346	362
Financial assets available for sale	–	103	103
Trade receivables and other assets	571	3	574
Current tax assets	–	3	3
Intangible assets	–	2	2
Property, plant and equipment	5,469	316	5,785
Deferred tax assets	948	–	948
Deposits and loans from banks	(2,281)	–	(2,281)
Deposits and loans from customers	(2,666)	–	(2,666)
Other liabilities	(73)	(10)	(83)
Non-controlling interests	–	(423)	(423)
Net assets and liabilities	**1,984**	**340**	**2,324**
Receivables sold in related transaction	**–**	**2**	**2**
Cumulative income and expense included in other comprehensive income reclassified to profit or loss	(270)	(40)	(310)
Sales price	2,173	320	2,493
Gain on disposal	**459**	**18**	**477**
Consideration received, satisfied in cash	2,173	320	2,493
Cash disposed of	(16)	(346)	(362)
Net cash inflow (outflow)	**2,157**	**(26)**	**2,131**

Effect of disposals in 2015

In thousands of EUR	Total effect
Cash and cash equivalents	368
Financial assets at fair value through profit or loss	12
Financial assets available for sale	5
Loans and advances to customers	113
Trade receivables and other assets	1 791
Current tax assets	16
Intangible assets	1 900
Property, plant and equipment	27
Deposits and loans from banks	(294)
Deposits and loans from customers	(21)
Other liabilities	(1,307)
Provisions	(182)
Non-controlling interests	(136)
Net assets and liabilities	**2,292**
Other assets acquired	149
Sales price	160
Loss on disposal	**(1,983)**
Consideration received, satisfied in cash	160
Cash disposed of	(368)
Net cash outflow	**(208)**

6. NET INTEREST INCOME

In thousands of EUR	2016	2015
INTEREST INCOME		
Loans and advances to banks and customers	347,803	388,894
Bonds and other fixed income securities	43,084	57,626
Bills of exchange	11,680	7,261
Repo transactions	8,295	13,438
Receivables from central banks	1,056	560
Other	11,760	13,484
Total interest income	**423,678**	**481,263**
INTEREST EXPENSE		
Deposits and loans from banks and customers	(108,195)	(140,842)
Bonds and other securities with fixed interest rate	(24,429)	(19,994)
Bills of exchange	(1,189)	(2,140)
Repo transactions	(48)	(108)
Hedging derivatives	(893)	–
Other	(6,353)	(10,189)
Total interest expense	**(141,107)**	**(173,273)**
Total net interest income	**282,571**	**307,990**

The interest income from loans classified as impaired and accrued in 2016 was in amount of EUR 18,541 thousand (2015: EUR 22,804 thousand).

Interest income from financial assets that are not at fair value through profit or loss in 2016 was EUR 416,833 thousand (2015: EUR 470,819 thousand). Interest expense from financial liabilities that are not at fair value through profit or loss in 2016 was EUR 141,107 thousand (2015: EUR 172,597 thousand).

Interest expense from hedging derivatives includes accrued interest from interest rate derivatives used to hedge interest rate risk.

7. NET FEE AND COMMISSION INCOME

In thousands of EUR	2016	2015
FEE AND COMMISSION INCOME		
Fees on administration and payment transactions	33,957	36,490
Fees on assets under management	22,434	20,340
Fees on financial instrument operations	12,445	9,610
Fees on bond issue	9,862	2,751
Fees on promises and guarantees	4,502	5,690
Fees on custody, administration and depositing of valuables	3,162	3,022
Intermediation fees	1,417	1,904
Other fees and commission income	21,129	20,133
Total fee and commission income	**108,908**	**99,940**
FEE AND COMMISSION EXPENSE		
Fees on payment transactions	(9,350)	(12,664)
Intermediation fees	(11,398)	(11,772)
Fees on financial instrument operations	(5,953)	(4,762)
Other fees and commission expenses	(6,362)	(6,323)
Total fee and commission expense	**(33,063)**	**(35,521)**
Total net fee and commission income	**75,845**	**64,419**

Other fees and commission income and expenses include a large number of sundry items that are not significant on an individual basis.

8. NET DEALING GAIN

In thousands of EUR	2016	2015
Realised and unrealised gains (losses) on financial instruments at fair value	49,171	(47,261)
Realised and unrealised gains (losses) from receivables	(11,054)	(5,073)
Dividend income	10,965	22,076
Exchange rate diferences	(20,608)	48,735
Total net dealing gain	**28,474**	**18,477**

The majority of gains on financial instruments in 2016 were generated from derivatives trading (EUR 14,888 thousand) and from sale of financial instruments of Energochemica in the amount of EUR 5,651 thousand, J&T Investments Pools EUR 6,981 thousand and VISA Europe EUR 3,148 thousand.

The majority of losses on financial instruments in 2015 were generated from the sale of Greek government bonds of EUR 24,416 thousand (refer to Note 16. Financial assets held to maturity), from shares of Best Hotel Properties a.s. in amount of EUR 20,580 thousand, which was compensated by income from the decrease in the share capital of Best Hotel Properties a.s. by EUR 21,245 thousand presented as dividend income, and from trading in currency derivatives of EUR 13,432 thousand.

Realised and unrealised gains (losses) on financial instruments at fair value include gains and losses from hedging.

The losses on the hedged items attributable to the hedged risks amount to EUR (3,723) thousand (2015: nil). The gains on the hedging instruments amount to EUR 3,685 thousand (2015: nil).

9. OTHER OPERATING INCOME

In thousands of EUR	2016	2015
Revenues from services and consulting	11,329	14,554
Revenues (premium) of insurance companies	8,075	6,743
Gain from receivables written off	5,026	5,850
Rental income from investment property	1,054	1,261
Income from rented aircraft and other operating leases	929	4,482
Gain on the disposal of subsidiaries, joint ventures and associates (Note 5)	477	–
Other rental income	290	398
Gain on disposal of property, plant and equipment and intangible assets, net	283	–
Other income	5,451	4,034
Total other operating income	**32,914**	**37,322**

Other income includes a large number of sundry items that are not significant on an individual basis.

10. PERSONNEL EXPENSES

In thousands of EUR	2016	2015
Wages and salaries	(69,522)	(70,234)
Compulsory social security contributions	(19,551)	(18,744)
Other social expenses	(1,887)	(1,740)
Total personnel expenses	**(90,960)**	**(90,718)**

The weighted average number of employees during 2016 was 2,335 (2015: 2,279), out of which executives represent 159 employees (2015: 182).

11. OTHER OPERATING EXPENSES

In thousands of EUR	2016	2015
Rent expenses	(15,030)	(15,698)
Change in provisions	(10,417)	(5,619)
Advertising expenses	(10,401)	(10,235)
Tax on financial transactions	(9,443)	(9,277)
Repairs and maintenance expenses	(9,131)	(9,563)
Mandatory fees paid by financial institutions	(7,723)	(9,635)
Consulting expenses	(6,628)	(7,212)
Communication expenses	(6,082)	(6,085)
Change in impairment of receivables and inventories	(4,956)	(6,711)
Insurance technical provisions and claims	(4,733)	(3,529)
Materials	(3,210)	(3,878)
Sponsoring and gifts	(2,600)	(2,740)
Transport and accommodation, travel expenses	(1,969)	(1,925)
Contractual penalties	(1,729)	(80)
Property and other taxes	(1,640)	(1,452)
Outsourcing	(1,215)	(1,719)
Training, courses and conferences	(1,215)	(1,175)
Energy	(363)	(213)
Loss on the disposal of subsidiaries	–	(1,983)
Handling and operation of aircraft	–	(931)
Other operating expenses	(11,930)	(14,671)
Total other operating expenses	**(110,415)**	**(114,331)**

Other operating expenses include a large number of sundry items that are not significant on an individual basis.

12. INCOME TAX

In thousands of EUR	2016	2015
CURRENT TAX EXPENSE		
Current year	(37,447)	(30,662)
Adjustments for prior periods	(242)	(147)
Withheld on interest	(40)	(42)
Total	**(37,729)**	**(30,851)**
DEFERRED TAX INCOME (EXPENSE)		
Origination and reversal of temporary differences	3,059	2,504
Change in tax rate	121	–
Total	**3,180**	**2,504**
Total income tax expense	**(34,549)**	**(28,347)**

The corporate income tax rate in the Czech Republic for 2016 and 2015 is 19%. The corporate income tax rate in Slovakia for 2016 and 2015 is 22% and has decreased to 21% in 2017.

(i) Reconciliation of the effective tax rate

In thousands of EUR	2016 (%)	2016	2015 (%)	2015
Profit before tax	**–**	**96,378**	**–**	**100,898**
Income tax at 19% (2015: 19%)	(19.0)	(18,321)	(19.0)	(19,171)
Effect of tax rates in foreign jurisdictions	(2.2)	(2,163)	(2.2)	(2,226)
Non-deductible expenses	(26.1)	(25,176)	(36.2)	(36,524)
Non-taxable income	13.4	12,954	31.9	32,166
Tax withheld on interest	(0.0)	(40)	(0.0)	(42)
Recognition of previously unrecognised tax losses	0.8	779	0.0	40
Current year tax losses for which no deferred tax asset was recognised	(2.5)	(2,402)	(2.4)	(2,443)
Change in temporary differences for which no deferred tax asset was recorded	(0.0)	(8)	–	–
Deffered tax – current period adjustment for DT recognized in prior period	(0.1)	(60)	–	–
Tax charges over provided in prior years	(0.3)	(242)	(0.1)	(147)
Change in tax rate	0.1	121	–	–
Total income tax expense	**(35.8)**	**(34,549)**	**(28.0)**	**(28,347)**

(ii) Income tax recognized in other comprehensive income

In thousands of EUR	2016 Before tax	2016 Tax benefit	2016 Net of tax	2015 Before tax	2015 Tax expense	2015 Net of tax
Foreign exchange translation differences	22,910	–	22,910	(21,991)	–	(21,991)
Change in fair value of financial assets available for sale	(9,668)	1,096	(8,572)	13,174	(2,246)	10,928
Share of other comprehensive income of equity accounted investees	130	–	130	(99)	–	(99)
Total	**13,372**	**1,096**	**14,468**	**(8,916)**	**(2,246)**	**(11,162)**

(iii) Movements in deferred tax balances during the year

In thousands of EUR	Balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange translation differences	Disposals	Transfer to/ from disposal group held for sale	Balance at 31 December 2016
Property, plant and equipment	(1,618)	686	–	1	640	1	(290)
Intangible assets	(20,922)	3,713	–	7	–	10	(17,192)
Investment property	(2,373)	(6)	–	(606)	–	–	(2,985)
Impairment of trade receivables and other assets	24	89	–	(3)	–	(37)	73
Financial assets available for sale	(4,910)	918	1,096	246	–	(277)	(2,927)
Financial assets held to maturity	(5,213)	1,487	–	(2)	–	(57)	(3,785)
Employee benefits (IAS 19)	696	239	–	–	–	–	935
Unpaid interest, net	(35)	10	–	–	–	–	(25)
Financial assets at fair value through profit or loss	–	(31)	–	(4)	–	–	(35)
Loans and borrowings	10,964	696	–	(402)	–	(2,266)	8,992
Provisions	4,527	(315)	–	11	–	(3,195)	1,028
Derivatives	–	91	–	19	–	19	129
Tax losses	9,181	(3,459)	–	85	(1,588)	–	4,219
Other temporary differences	2,247	(938)	–	(2)	–	5 124	6,431
Total	**(7,432)**	**3,180**	**1,096**	**(650)**	**(948)**	**(678)**	**(5,432)**

In thousands of EUR	Balance at 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange translation differences	Disposals	Transfer to/ from disposal group held for sale	Balance at 31 December 2015
Property, plant and equipment	(1,491)	(46)	–	(80)	–	(1)	(1,618)
Intangible assets	(23,783)	2,881	–	(10)	–	(10)	(20,922)
Investment property	(2,891)	261	–	257	–	–	(2,373)
Impairment of trade receivables and other assets	107	(127)	–	7	–	37	24
Financial assets available for sale	(4,436)	104	(2,246)	1,391	–	277	(4,910)
Financial assets held to maturity	(11,752)	6,472	–	10	–	57	(5,213)
Employee benefits (IAS 19)	717	(22)	–	1	–	–	696
Unpaid interest, net	(57)	(131)	–	–	–	153	(35)
Financial assets at fair value through profit or loss	250	(265)	–	15	–	–	–
Loans and borrowings	16,068	(5,685)	–	100	–	481	10,964
Provisions	3,342	1 109	–	76	–	–	4,527
Tax losses	13,378	(4,191)	–	147	–	(153)	9,181
Other temporary differences	250	2,144	–	(15)	–	(132)	2,247
Total	**(10,298)**	**2,504**	**(2,246)**	**1,899**	**–**	**709**	**(7,432)**

13. CASH AND CASH EQUIVALENTS

In thousands of EUR	31 December 2016	31 December 2015
CASH AND CASH EQUIVALENTS AT AMORTISED COST		
Cash on hand	42,513	41,323
Current accounts with banks	84,348	118,414
Current accounts with central banks	49,700	8,705
Loans and advances to central banks	719,664	842,247
Loans and advances to other banks	38,953	9,165
Total cash and cash equivalents	**935,178**	**1,019,854**

Term deposits with an original maturity of up to three months are classified as cash equivalents.

The weighted average interest rate on loans and advances to banks was 0.06% as at 31 December 2016 (2015: 0.09%).

14. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

14.1. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of EUR	31 December 2016	31 December 2015
NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Bonds	151,727	85,842
Shares	21,151	13,461
Other financial assets	1,368	33
Total trading portfolio	**174,246**	**99,336**
Bonds	–	–
Shares	437	437
Other financial assets	4,088	3,614
Total investing portfolio	**4,525**	**4,051**
Total	**178,771**	**103,387**
TRADING DERIVATIVES		
Currency contracts	5,717	2,738
Option contracts for share purchase	4,754	3,018
Option contracts for commodity purchase	–	27
Interest rate swaps	–	1,242
Total	**10,471**	**7,025**
HEDGING DERIVATIVES		
Forward currency contracts	3	–
Total	**3**	**–**
Total financial assets at fair value through profit or loss	**189,245**	**110,412**

Debentures for trading as at 31 December 2016 comprises mainly Czech government bonds of EUR 68,085 thousand (2015: EUR 13,139 thousand), Russian government bonds of EUR 14,762 thousand (2015: nil) and EUROVEA, a.s. bonds of EUR 30,818 thousand (2015: nil).

Income from debt and other fixed-rate instruments is recognised in interest income. At 31 December 2016 the weighted average interest rate on bonds was 4.68% (2015: 6.25%).

The Group uses fair value hedge to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees over the hedging period. The Group uses currency forwards as hedging instruments.

Furthermore, the Group uses hedging derivatives to hedge the fair value of recognized assets (bonds with fixed income denominated in euros). The Group entered into interest rate swaps to hedge the changes in fair value caused by changes in risk-free interest rates.

(i) Fair value measurement of financial assets at fair value through profit or loss

As at 31 December 2016

In thousands of EUR	Shares	Bonds	Other financial assets	Total
FAIR VALUE OF NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Level 1 – quoted market prices	20,881	150,017	3,804	174,702
Level 2 – derived from quoted prices	–	–	565	565
Level 3 – calculated using valuation techniques	707	1,710	1,087	3,504
Total	**21,588**	**151,727**	**5,456**	**178,771**
FAIR VALUE OF DERIVATIVES				
Level 2 – derived from quoted prices				10,474
Total				**10,474**
Total financial assets at fair value through profit or loss				**189,245**

As at 31 December 2015

In thousands of EUR	Shares	Bonds	Other financial assets	Total
FAIR VALUE OF NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Level 1 – quoted market prices	13,321	82,250	754	96,325
Level 2 – derived from quoted prices	–	–	2,107	2,107
Level 3 – calculated using valuation techniques	577	3,592	786	4,955
Total	**13,898**	**85,842**	**3,647**	**103,387**
FAIR VALUE OF DERIVATIVES				
Level 2 – derived from quoted prices				7,025
Total				**7,025**
Total financial assets at fair value through profit or loss				**110,412**

(ii) Detail of fair value measurement in Level 3

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

In thousands of EUR	Shares	Bonds	Other financial assets	Total
Balance at 1 January 2016	577	3,592	786	4,955
Total gains (losses) recognized in profit or loss	93	12	46	151
Additions	37	1,709	–	1,746
Disposals	–	(2,004)	–	(2,004)
Transfer to Level 1	–	(1,305)	(844)	(2,149)
Transfer from Level 2	–	–	1,071	1,071
Effect of movements in foreign exchange	–	(294)	28	(266)
Balance at 31 December 2016	**707**	**1,710**	**1,087**	**3,504**
Balance at 1 January 2015	21,661	18,197	1,690	41,548
Total gains (losses) recognized in profit or loss	(21,103)	(1,318)	34	(22,387)
Additions	59	2,687	16	2,762
Disposals	(53)	(15,344)	–	(15,397)
Transfer to Level 1	–	(1,541)	(1,031)	(2,572)
Interest income less interest received	–	(112)	–	(112)
Effect of movements in foreign exchange	13	1,023	77	1,113
Balance at 31 December 2015	**577**	**3,592**	**786**	**4,955**

Based on changes in market conditions for some financial instruments, market prices for these instruments became available as at 31 December 2016. These bonds amounting to EUR 1,305 thousand (2015: EUR 1,541 thousand) and other financial assets amounting in 2016 to EUR 844 thousand (2015: EUR 1,031 thousand) were therefore transferred from Level 3 to Level 1 during the year.

Further, allotment certificates totaling EUR 1,071 were transferred from Level 2 to Level 3 (2015: nil).

14.2. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of EUR	31 December 2016	31 December 2015
NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Other financial liabilities at fair value	4,328	6,222
Total	**4,328**	**6,222**
TRADING DERIVATIVES		
Forward currency contracts	5,660	2,859
Commodity derivatives	154	5
Cross currency swaps	14	–
Put share options	–	5,267
Interest rate swaps	–	312
Total	**5,828**	**8,443**
HEDGING DERIVATIVES		
Interest rate swaps	5,063	–
Forward currency contracts	343	–
Total	**5,406**	**–**
Total financial liabilities at fair value through profit or loss	**15,562**	**14,665**

The Group uses fair value hedge to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees over the hedging period. The Group uses currency forwards as hedging instruments.

Furthermore, the Group uses hedging derivatives to hedge the fair value of recognized assets (bonds with fixed income denominated in euros). The Group entered into interest rate swaps to hedge the changes in fair value caused by changes in risk-free interest rates.

(i) Fair value measurement of financial liabilities at fair value through profit or loss

In thousands of EUR	31 December 2016	31 December 2015
FAIR VALUE OF NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Level 1 – quoted market prices	4,328	6,222
Total	**4,328**	**6,222**
FAIR VALUE OF DERIVATIVES		
Level 2 – derived from quoted prices	11,234	8,443
Total	**11,234**	**8,443**
Total financial liabilities at fair value through profit or loss	**15,562**	**14,665**

There were no transfers of financial liabilities at fair value through profit or loss between Level 1, Level 2 or Level 3 of the fair value hierarchy for the years ended 31 December 2016 and 2015.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of EUR	31 December 2016	31 December 2015
Shares	21,668	46,291
Investments funds units	365,320	359,051
Bonds	890,412	1,041,656
Bills of exchange	–	103
Total financial assets available for sale	**1,277,400**	**1,447,101**

At 31 December 2016 EUR 760,835 thousand (2015: EUR 919,631 thousand) of financial assets available for sale are expected to be recovered more than 12 months after the reporting date.

(i) Fair value measurement of financial assets available for sale

31 December 2016

In thousands of EUR	Shares	Investment funds units	Bonds	Bills of exchange	Total
Level 1 – quoted market prices	11,321	4,172	731,491	–	746,984
Level 2 – derived from quoted prices	5,243	360,921	76,235	–	442,399
Level 3 – calculated using valuation techniques	5,104	227	82,686	–	88,017
Total	**31,688**	**355,300**	**890,412**	**–**	**1,277,400**

31 December 2015

In thousands of EUR	Shares	Investment funds units	Bonds	Bills of exchange	Total
Level 1 – quoted market prices	5,993	166,983	867,105	–	1,040,081
Level 2 – derived from quoted prices	4,229	192,068	31,163	103	227,563
Level 3 – calculated using valuation techniques	36,069	–	143,388	–	179,457
Total	**46,291**	**359,051**	**1,041,656**	**103**	**1,447,101**

Financial assets available for sale comprise primarily bonds, investment funds units and shares as at 31 December 2016 and 2015. Bonds as at 31 December 2016 comprise Slovak government bonds in amount of EUR 171,091 thousand (2015: EUR 212,929 thousand), Polish government bonds of EUR 124,382 thousand (2015: EUR 129,191 thousand), bonds of Tatry mountain resorts, a.s. of EUR 72,830 thousand (2015: EUR 94,987) and Czech government bonds in amount of EUR 72,813 thousand (2015: EUR 198,741).

The weighted average interest rate on bonds was 3.72% (2015: 3.32 %). The maturity of the bonds is between 2017 and 2042. Bonds with maturity in 2042 are in amount of EUR 671 thousand (2015: nil).

Shares as at 31 December 2016 comprise primarily ČEZ, a.s. of EUR 5,253 thousand (2015: EUR 5,424 thousand) and shares of Tatry mountain resorts, a.s. in amount of EUR 4,686 thousand (2015: EUR 4,435 thousand). As at 31 December 2015, shares available for sale comprised also shares of J&T Investment Pool - I - SKK, a.s. of EUR 17,660 thousand and J&T Investment Pool - I - CZK, a.s. of EUR 10,286 thousand, which were sold during 2016.

Investment fund units as at 31 December 2016 and 2015 comprise primarily funds that focus on the real estate development.

(ii) Detail of fair value measurement in Level 3

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

In thousands of EUR	Equity instruments	Bonds	Total
Balance at 1 January 2016	36,069	143,388	179,457
Total gains (losses) recognized in other comprehensive income	(3,897)	1,188	(2,709)
Total gains (losses) for the period recognised in profit or loss	8,183	(472)	7,711
Additions	6,120	4,723	10,843
Disposals	(41,148)	(41,779)	(82,927)
Transfer from Level 1	4	67,677	67,681
Transfer to Level 1	–	(91,079)	(91,079)
Interest income less interest received	–	210	210
Effect of movements in foreign exchange	–	(1,170)	(1,170)
Balance at 31 December 2016	**5,331**	**82,686**	**88,017**

In thousands of EUR	Equity instruments	Bonds	Total
Balance at 1 January 2015	35,067	243,053	278,120
Total gains (losses) recognised in other comprehensive income	(1,283)	2,410	1,127
Total gains (losses) for the period recognised in profit or loss	2,583	(1,302)	1,281
Additions	8,723	4,493	13,216
Disposals	(9,095)	(106,382)	(115,477)
Interest income less interest received	–	(1,610)	(1,610)
Effect of movements in foreign exchange	74	2,726	2,800
Balance at 31 December 2015	**36,069**	**143,388**	**179,457**

Based on changes in market conditions for some financial instruments, quoted market prices for these instruments were not available as at 31 December 2016. Financial instruments amounting to EUR 67,681 thousand were therefore transferred from Level 1 to Level 3 as at that date.

During the year ended 31 December 2016, due to changes in market conditions for some instruments, market prices from active markets became available and bonds amounting to EUR 91,079 thousand were therefore transferred from Level 3 to Level 1.

There were no transfers of available for sale financial assets between Level 1, Level 2 or Level 3 of the fair value hierarchy during the year ended 31 December 2015.

The majority (81%) of the bonds presented under Level 3 comprise bonds of an issuer owning real estate properties (mainly land), for which comparative valuation methods based on current land market prices were used.

16. FINANCIAL ASSETS HELD TO MATURITY

In thousands of EUR	31 December 2016	31 December 2015
Slovak government bonds	342,975	465,965
Government bonds of other European Union countries	7,513	6,882
Financial institution and corporate bonds	48,306	38,052
Bills of exchange	6,578	–
Total financial assets held to maturity	**405,372**	**510,899**

Government bonds of other European Union countries as at 31 December 2016 comprise mainly Italian government bonds in amount of EUR 5,105 thousand (2015: EUR 5,142 thousand). Bonds of Financial institution and corporate bonds comprise mainly bonds listed on stock exchanges - MOL Hungarian Oil and Gas in amount of EUR 22,820 thousand (2015: EUR 22,537 thousand), Tatra banka, a.s. in amount of EUR 14,991 thousand (2015: EUR 15,008 thousand) and Slovenská sporiteľňa, a.s. in amount of EUR 6,004 thousand (2015: nil).

At 31 December 2016 EUR 299,559 thousand (2015: EUR 379,167 thousand) of financial assets held to maturity are expected to be recovered more than 12 months after the reporting date.

The weighted average interest rate on bonds was 4.10% (2015: 3.32 %). The maturity of the bonds is between 2017 and 2039. Bonds with maturity in 2039 are in amount of EUR 918 thousand (2015: nil). The weighted average interest rate on bills of exchange was 6.50% (2015: not applicable).

As at 31 December 2014 Government Bonds comprised also Greek government bonds in amount of EUR 78,095 thousand acquired by the Group as at 1 July 2013 through the acquisition of Poštová banka, a.s., holder of the bonds. In 2015, following the political crisis in Greece and at that time the Greek government's inability to conclude an agreement with the EU, the Group decided to reclassify these bonds from Financial instruments held to maturity to Financial assets available for sale. The reclassification resulted from a detailed analysis of the economic situation in Greece, characterized by the following:

- inability of Greece to repay its debt to the International Monetary Fund,
- establishment of capital controls,
- closing of banks, limitation of cash withdrawals and foreign payments,
- closing of the Athens Stock Exchange,
- increase of bonds credit spreads,
- unchanged limit in emergency liquidity assistance (ELA) for Greek banks,
- further decrease in Greece's credit rating.

These factors confirmed a significant deterioration in the creditworthiness of Greece and increased the probability of the country's default, which as an isolated event could not have been anticipated by the Group. Therefore the Group changed its intent from held to maturity to sale of the Greek government bonds and in accordance with IAS 39 reclassified these bonds with a carrying amount of EUR 78,774 thousand into Financial assets available for sale and re-measured them at fair value as at 30 June 2015. The fair value of such bonds at the date of reclassification amounted to EUR 62,476 thousand and a loss of EUR 16,298 thousand was recognized in other comprehensive income as a result of the reclassification.

During July 2015 all Greek government bonds reclassified into Financial assets available for sale were sold. The fair value of these bonds as at the sale date amounted to EUR 54,698 thousand. A total loss of EUR 24,076 thousands previously recognized in other comprehensive income was subsequently reclassified to profit or loss.

17. DISPOSAL GROUP HELD FOR SALE

In thousands of EUR	31 December 2016
Financial assets available for sale	3,978
Property, plant and equipment	4,167
Total assets	**8,145**

Property, plant and equipment is represented by collateralized assets provided to secure loan receivables. Such assets are to be sold within one year to satisfy receivables from the defaulted loans.

Financial assets available for sale classified as held for sale stand for equity instruments of J&T Ostravice Active Life UPF. Sale of J&T Ostravice Active Life UPF was delayed by approval process of land plan that is out of the Group's control. Approving of the land plan is an inevitable condition to run the entity's activities and commence the sale.

The Group recognized no cumulative expense accumulated in other comprehensive income relating to the disposal group held for sale (2015: EUR 42,605 thousand).

During the year 2015, the Group signed an agreement with a third party on sale of 50% interest in J&T Bank, a.o. (Moscow), therefore the Group classified this subsidiary as a disposal group held for sale as at 31 December 2015.

In 2016, however, the agreement was cancelled and the Group does not intend to sell its interest in J&T Bank, a.o. anymore. Therefore, the assets and liabilities classified as held-for-sale as at 31 December 2015 do not meet the criteria for such classification as at 31 December 2016.

The reclassification of the disposal group to held-for-use in 2016 does not have any impact on profit or loss of 2015. This is due to the fact that the classification as held-for-sale was made as at 31 December 2015 and thus all relevant depreciation had been accounted for through profit or loss in 2015. Depreciation for 2016 is accounted for through profit or loss in accordance with IAS 16.

The detailed structure of the assets and liabilities of the disposal group as at 31 December 2015 was as follows:

In thousands of EUR	J&T Bank, a.o.	Other assets held for sale	Total
Cash and cash equivalents	29,615	–	29,615
Financial assets at fair value through profit or loss	21,717	–	21,717
Financial assets available for sale	22,511	3,978	26,489
Financial assets held to maturity	1,644	–	1,644
Loans and advances to banks	1,699	–	1,699
Loans and advances to customers	98,094	–	98,094
Trade receivables and other assets	461	–	461
Intangible assets	33	–	33
Property, plant and equipment	1,081	1,693	2,774
Total assets	**176,855**	**5,671**	**182,526**
Financial liabilities at fair value through profit or loss	17	–	17
Deposits and loans from customers	106,687	–	106,687
Other liabilities	692	–	692
Current tax liability	40	–	40
Provisions	43	–	43
Deferred tax liabilities	709	–	709
Total liabilities	**108,188**	**–**	**108,188**

The Group recognized cumulative expense accumulated in other comprehensive income relating to the disposal group held for sale in amount of EUR 42,605 thousand as at 31 December 2015 (mainly change in translation reserve).

The detailed structure of the assets and liabilities classified as held-for-sale if the criteria for such classification had not been met as at 31 December 2015, would have been as:

In thousands of EUR	J&T Bank, a.o.	Other assets held for sale	Total
Cash and cash equivalents	–	–	–
Financial assets at fair value through profit or loss	–	–	–
Financial assets available for sale	–	3,978	3,978
Financial assets held to maturity	–	–	–
Loans and advances to banks	–	–	–
Loans and advances to customers	–	–	–
Trade receivables and other assets	–	–	–
Intangible assets	–	–	–
Property, plant and equipment	891	1,693	2,584
Total assets	**891**	**5,671**	**6,562**
Financial liabilities at fair value through profit or loss	–	–	–
Deposits and loans from customers	–	–	–
Other liabilities	–	–	–
Current tax liability	–	–	–
Provisions	–	–	–
Deferred tax liabilities	–	–	–
Total liabilities	**–**	**–**	**–**

No cumulative expense accumulated in other comprehensive income relating to the disposal group held for sale would have been recognized as at 31 December 2015.

The property, plant and equipment totaling EUR 891 thousand meets the criteria for classification as held-for-sale as at 31 December 2015 regardless of the cancellation of the agreement.

The assets and liabilities would increase by the following amounts as at 31 December 2015 if J&T Bank, a.o. was not classified as held-for-sale:

In thousands of EUR	J&T Bank, a.o.
Cash and cash equivalents	29,615
Financial assets at fair value through profit or loss	21,717
Financial assets available for sale	22,511
Financial assets held to maturity	1,644
Loans and advances to banks	1,699
Loans and advances to customers	98,094
Trade receivables and other assets	461
Intangible assets	33
Property, plant and equipment	190
Total increase in assets	**175,964**
Financial liabilities at fair value through profit or loss	17
Deposits and loans from customers	106,687
Other liabilities	692
Current tax liability	40
Provisions	43
Deferred tax liabilities	709
Total increase in liabilities	**108,188**

As noted above, there would be no change in the statement of profit or loss and other comprehensive income.

In 2016, all relevant assets and liabilities originally classified as held-for-sale but ceasing to meet the criteria for such classification were accounted for at the lower of their recoverable amount and the carrying amount that would have been recognized had the disposal group never been classified as held-for-sale.

18. LOANS AND ADVANCES TO BANKS

In thousands of EUR	31 December 2016	31 December 2015
Obligatory minimum reserves deposited in central banks	93,914	108,242
Other deposits in central banks	327,150	203,554
Term deposits	4,892	3,021
Other loans and advances to banks	778,208	1,199,879
Total loans and advances to banks	**1,204,164**	**1,514,696**

At 31 December 2016 no (2015: EUR 2,430 thousand) loans to banks are expected to be recovered more than 12 months after the reporting date.

The weighted average interest rate of loans to banks as at 31 December 2016 was 0.32% (2015: 0.23%).

Obligatory minimum reserves represent the obligatory minimum reserves maintained by J&T BANKA, a.s., J&T Bank, a.o., Poštová banka, a.s. and VABA d.d. banka Varaždin under regulations of the relevant regulatory authorities.

The obligatory minimum reserve for J&T BANKA, a.s. is calculated as 2% of primary deposits with a maturity of less than two years. These obligatory minimum reserves are interest earning.

The obligatory minimum reserve for J&T Bank, a.o. is calculated as 5% of nonresidents' corporate deposits denominated in RUB, as 7% of nonresidents' corporate deposits nominated in foreign currency, as 5% of residents' individual deposits denominated in RUB, as 6% of residents' individual deposits denominated in foreign currency, as 5% of other liabilities in RUB and as 7% of other liabilities in foreign currency minus average balances of deposits and accrued interest multiplied by 0.6. In the case of J&T Bank, a.o., the obligatory minimum reserve is not bearing any interest. As at 31 December 2015 obligatory minimum reserve of J&T Bank, a.o. is presented within Disposal group held for sale.

The obligatory minimum reserve for Poštová banka, a.s. is calculated as 1% of primary deposits with maturity of less than two years and is interest bearing.

The obligatory minimum reserve for VABA d.d. banka Varaždin is calculated on average daily balances of deposits and loans, issued debt securities, subordinated instruments and financial liabilites excluding balances with specified banks. The obligatory reserve is calculated as 12% of the above and is not bearing any interest.

19. LOANS AND ADVANCES TO CUSTOMERS

In thousands of EUR	31 December 2016	31 December 2015
Loans and advances to customers	5,903,281	5,522,061
Less allowance for impairment of loans	(245,766)	(161,321)
Net loans and advances to customers	**5,657,515**	**5,360,740**

At 31 December 2016 EUR 3,113,626 thousand (2015: EUR 3,390,720 thousand) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

Loans and advances to customers include 464 loans and advances with carrying amount over EUR 100 thousand, which represent 84.77% of total loans and advances to customers (2015: 413 representing 83.42%).

In 2016 the Group had loans to four customers with an aggregated balance of EUR 847,105 thousand (2015: four customers with aggregated balance of EUR 730,929 thousand).

A significant part of the loans provided to customers relate to financing of projects and, as such, the repayment is dependent on realisation of the assets acquired by the customers financed by these loans as part of the projects. The assets are, in many cases, pledged in favour of the Group. Management believes that these receivables will be repaid in full.

The amount of non-interest bearing loans as at 31 December 2016 totaled EUR 9,398 thousand (2015: EUR 7,717 thousand). Receivables from these loans are fully provided for.

The weighted average interest rate of loans to customers as at 31 December 2016 was 5.10% (2015: 4.72%).

The loans and advances from finance leases are analyzed in Note 38.2. Finance lease.

20. IMPAIRMENT OF LOANS

In thousands of EUR	Individually assessed	Collectively assessed	Total
Balance at 1 January 2016	96,148	65,173	161,321
Creation	85,680	40,623	126,303
Release	(27,228)	(9,767)	(36,995)
Use	(6,208)	(4,198)	(10,406)
Transfer (to)/from disposal group held for sale	4,299	28	4,327
Effect of movements in foreign exchange	1,205	11	1,216
Balance at 31 December 2016	**153,896**	**91,870**	**245,766**

In thousands of EUR	Individually assessed	Collectively assessed	Total
Balance at 1 January 2015	96,997	40,300	137,297
Creation	80,821	41,502	122,323
Release	(25,222)	(8,468)	(33,690)
Use	(52,211)	(8,128)	(60,339)
Transfer (to)/from disposal group held for sale	(4,299)	(28)	(4,327)
Changes due to outgoing entities	(20)	–	(20)
Effect of movements in foreign exchange	82	(5)	77
Balance at 31 December 2015	**96,148**	**65,173**	**161,321**

21. REPURCHASE AND RESALE AGREEMENTS

21.1. REPURCHASE AGREEMENTS

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price, plus interest at a predetermined rate. At 31 December 2016 and 2015, total assets sold under repurchase agreement were as follows:

31 December 2016

In thousands of EUR	Fair value of underlying asset	Carrying amount of liability	Repurchase price
LOANS AND ADVANCES FROM CUSTOMERS			
– maturity up to 1 month	856	854	852
– maturity 1–6 months	–	–	–
– maturity 6–12 months	662	662	671
LOANS AND ADVANCES FROM BANKS			
– maturity up to 1 month	–	–	–
– maturity over 12 months	3,360	3,360	3,549
Total	**4,878**	**4,876**	**5,072**

31 December 2015

In thousands of EUR	Fair value of underlying asset	Carrying amount of liability	Repurchase price
LOANS AND ADVANCES FROM CUSTOMERS			
– maturity up to 1 month	1,837	1,806	1,805
– maturity 1–6 months	2,391	2,392	2,392
– maturity 6–12 months	656	656	656
LOANS AND ADVANCES FROM BANKS			
– maturity up to 1 month	2,097	2,106	2,104
– maturity over 12 months	–	–	–
Total	**6,981**	**6,960**	**6,957**

21.2. REVERSE REPURCHASE AGREEMENTS

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). Reverse repurchases are entered into as a facility to provide funds to customers. At 31 December 2016 and 2015, total assets purchased subject to agreements to resell them were as follows:

31 December 2016

In thousands of EUR	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase price
LOANS AND ADVANCES TO CUSTOMERS			
– maturity up to 1 month	59,554	43,070	42,047
– maturity 1–6 months	178,269	107,665	108,645
– maturity 6–12 months	–	–	–
LOANS AND ADVANCES TO BANKS AND CASH AND CASH EQUIVALENTS			
– maturity up to 1 month	767,316	776,761	777,672
– maturity 1–6 months	–	–	–
Total	**1,005,139**	**927,496**	**928,364**

31 December 2015

In thousands of EUR	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase price
LOANS AND ADVANCES TO CUSTOMERS			
– maturity up to 1 month	105,104	84,210	84,692
– maturity 1–6 months	77,712	31,749	31,963
– maturity 6–12 months	716	716	716
LOANS AND ADVANCES TO BANKS AND CASH AND CASH EQUIVALENTS			
– maturity up to 1 month	1,249,743	1,196,585	1,196,736
– maturity 6–12 months	3,365	2,801	2,816
Total	**1,436,640**	**1,316,061**	**1,316,923**

Loans and advances to banks with an original maturity up to three months are disclosed as cash and cash equivalents.

22. TRADE RECEIVABLES AND OTHER ASSETS

In thousands of EUR	31 December 2016	31 December 2015
Purchased receivables	34,926	32,970
Trade receivables	20,744	20,178
– brutto	26,021	23,930
– allowance	(5,277)	(3,752)
Securities settlement balances	42,608	20,133
Settlement with post offices	5	9,552
Receivables from sale and partial sale of investments and subsidiaries	5,400	8,745
Expected proceeds from liquidation	8,506	8,431
– brutto	9,661	9,575
– allowance	(1,155)	(1,144)
Receivables from insurance and reinsurance	754	636
– brutto	1,338	1,104
– allowance	(584)	(468)
Other tax receivables	1,101	525
Other receivables	44,037	63,661
– brutto	44,818	64,323
– allowance	(781)	(662)
Total receivables presented under risk management (see Note 39)	**158,081**	**164,831**
Prepayments	18,064	19,413
Advance payments	2,925	4,388
– gross	2,926	4,389
– allowance	(1)	(1)
Inventories	713	541
Total non-financial receivables and other assets	**21,702**	**24,342**
Total trade receivables and other assets	**179,783**	**189,173**

At 31 December 2016, EUR 3,139 thousand (2015: EUR 575 thousand) of trade receivables and other assets are expected to be recovered more than 12 months after the reporting date.

Other receivables as at 31 December 2016 include other individually insignificant items, such as collateral received for the purposes of derivative trading etc. As at 31 December 2015 other receivables included receivable in amount of EUR 21,245 thousand related to the compensation for the decrease of the share capital of Best Hotel Properties, a.s. (refer to note 8. Net dealing gain).

23. INVESTICE DO JEDNOTEK ÚČTOVANÝCH EKVIVALENČNÍ METODOU

In thousands of EUR	31 December 2016	31 December 2015
Interests in joint ventures	644	896
Interest in associate	380	353
Total interests in equity accounted investees	**1,024**	**1,249**

Joint ventures

The Group has interest in two individually immaterial joint ventures established by contractual agreement. The Group has a residual interest in the net assets of these joint ventures.

The table analyses, in aggregate, the share of profit and other comprehensive income of these joint ventures:

In thousands of EUR	31 December 2016	31 December 2015
SHARE OF:		
Loss from continuing operations	(1,844)	(1,141)
Other comprehensive income	130	(99)
Total share of comprehensive income from joint ventures	**(1,714)**	**(1,240)**

Reconciliation of summarised financial information:

In thousands of EUR	2016	2015
Opening net assets value (100%)	**1,791**	**3,324**
Effect of additional investment	2,925	965
Loss for the period	(3,688)	(2,299)
Other comprehensive income	260	(199)
Closing net assets value (100%)	**1,288**	**1,791**
Interests in joint ventures (50%)	**644**	**896**

24. INVESTMENT PROPERTY

In thousands of EUR	2016	2015
Balance at 1 January	5,670	6,458
Additions	814	–
Change in fair value	–	–
Transfer to property, plant and equipment	(344)	(143)
Disposals	–	–
Disposals of subsidiaries	–	–
Effect of movement in foreign exchange	1,516	(645)
Balance at 31 December	**7,656**	**5,670**

Investment property as at 31 December 2016 includes buildings in amount of EUR 7,656 thousand (2015: buildings in amount of EUR 5,670 thousand).

No investment property was subject to pledges as at 31 December 2016 and 2015.

The investment property was insured in the amount of EUR 6,718 thousand as at 31 December 2016 (2015: insured in full), an apartment totaling EUR 938 thousand was not insured.

25. INTANGIBLE ASSETS

In thousands of EUR	Goodwill	Contracts and brand	Customer relationships	Software and other intangible assets	Total
COST					
Balance at 1 January 2015	45,873	89,318	80,191	48,503	263,885
Additions	–	–	–	9,849	9,849
Transfers (to)/from disposal group held for sale	(2,389)	–	–	(181)	(2,570)
Disposals	–	–	–	(2,779)	(2,779)
Disposals of subsidiaries	(1,900)	–	–	–	(1,900)
Effect of movements in foreign exchange	173	–	4,746	402	5,321
Balance at 31 December 2015	**41,757**	**89,318**	**84,937**	**55,794**	**271,806**
Balance at 1 January 2016	41,757	89,318	84,937	55,794	271,806
Additions	–	–	–	11,874	11,874
Transfers (to)/from disposal group held for sale	2,389	–	–	181	2,570
Disposals	–	–	–	(2,716)	(2,716)
Disposals of subsidiaries	(9,028)	–	–	–	(9,028)
Effect of movements in foreign exchange	2,314	–	1,470	327	4,111
Balance at 31 December 2016	**37,432**	**89,318**	**86,407**	**65,460**	**278,617**
AMORTIZATION AND IMPAIRMENT LOSSES					
Balance at 1 January 2015	(20,201)	(9,925)	(51,336)	(19,138)	(100,600)
Amortization charge for the year	–	(6,616)	(5,976)	(8,817)	(21,409)
Impairment	(2,385)	–	–	424	(1,961)
Transfers (to)/from disposal group held for sale	2,389	–	–	148	2,537
Disposals	–	–	–	40	40
Disposals of subsidiaries	–	–	–	–	–
Effect of movements in foreign exchange	(114)	–	(4,712)	(223)	(5,049)
Balance at 31 December 2015	**(20,311)**	**(16,541)**	**(62,024)**	**(27,566)**	**(126,442)**
Balance at 1 January 2016	(20,311)	(16,541)	(62,024)	(27,566)	(126,442)
Amortization charge for the year	–	(6,616)	(5,981)	(8,335)	(20,932)
Impairment	–	–	(1,521)	–	(1,521)
Transfers to/(from) disposal group held for sale	(2,389)	–	–	(148)	(2,537)
Disposals	–	–	–	103	103
Disposals of subsidiaries	9,028	–	–	–	9,028
Effect of movements in foreign exchange	(2,292)	(1)	(1,469)	(308)	(4,070)
Balance at 31 December 2016	**(15,964)**	**(23,158)**	**(70,995)**	**(36,254)**	**(146,371)**
CARRYING AMOUNT					
At 1 January 2015	25,672	79,393	28,855	29,365	163,285
At 31 December 2015	**21,446**	**72,777**	**22,913**	**28,228**	**145,364**
At 1 January 2016	21,446	72,777	22,913	28,228	145,364
At 31 December 2016	**21,468**	**66,160**	**15,412**	**29,206**	**132,246**

In 2016 no impairment loss was recorded for goodwill. In 2015, impairment loss recognized for goodwill represented impairment loss allocated to cash-generating unit ATLANTIK finanční trhy, a.s. in amount of EUR 2,385 thousand.

Assets under development and borrowing costs

As at 31 December 2016 the cost of intangible assets under development (included in Other intangible assets) was EUR 771 thousand (2015: EUR 378 thousand).

There were no capitalised borrowing costs related to the acquisition of intangible assets during the year (2015: nil).

26. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Aircraft and related flight equipment	Fixtures, fittings and equipme	Total
COST				
Balance at 1 January 2015	37,928	10,183	28,047	76,158
Additions	6,262	–	4,724	10,986
Transfers	53	–	(53)	–
Transfers from investment property	143	–	–	143
Transfers (to)/from disposal group held for sale	(1,698)	–	(314)	(2,012)
Disposals	(2,180)	–	(2,823)	(5,003)
Disposals of subsidiaries	–	–	(27)	(27)
Effect of movements in foreign exchange	(1,240)	1,173	125	58
Balance at 31 December 2015	**39,268**	**11,356**	**29,679**	**80,303**
Balance at 1 January 2016	39,268	11,356	29,679	80,303
Additions	1,603	–	4,963	6,566
Transfers from investment property	344	–	–	344
Transfer (to)/from disposal group held for sale	(4,672)	–	314	(4,358)
Disposals	(1,196)	–	(2,469)	(3,665)
Disposals of subsidiaries	–	(11,356)	(316)	(11,672)
Effect of movements in foreign exchange	2,918	–	245	3,163
Balance at 31 December 2016	**38,265**	**–**	**32,416**	**70,681**
DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2015	(2,997)	(4,180)	(12,930)	(20,107)
Depreciation charge for the year	(1,643)	(488)	(6,003)	(8,134)
Impairment	(669)	(314)	–	(983)
Transfers (to)/from disposal group held for sale	–	–	124	124
Disposals	894	–	2,629	3,523
Effect of movements in foreign exchange	90	(497)	(55)	(462)
Balance at 31 December 2015	**(4,325)**	**(5,479)**	**(16,235)**	**(26,039)**
Balance at 1 January 2016	(4,325)	(5,479)	(16,235)	(26,039)
Depreciation charge for the year	(2,293)	(125)	(5,013)	(7,431)
Impairment	(732)	(283)	–	(1,015)
Transfers to/(from) disposal group held for sale	–	–	(124)	(124)
Disposals	6	–	2,391	2,397
Disposals of subsidiaries	–	5,887	–	5,887
Effect of movements in foreign exchange	(205)	–	(200)	(405)
Balance at 31 December 2016	**(7,549)**	**–**	**(19,181)**	**(26,730)**
CARRYING AMOUNT				
At 1 January 2015	34,931	6,003	15,117	56,051
At 31 December 2015	**34,943**	**5,877**	**13,444**	**54,264**
At 1 January 2016	34,943	5,877	13,444	54,264
At 31 December 2016	**30,716**	**–**	**13,235**	**43,951**

As at 31 December 2016 no property, plant and equipment is subject to pledges (2015: nil).

As at 31 December 2016 the insured amount of the Group's property, plant and equipment totals EUR 97,544 thousand (2015: EUR 94,144 thousand).

Assets under construction and borrowing costs
As at 31 December 2016 the cost of property, plant and equipment under construction (included in Fixtures, fittings and equipment) was EUR 869 thousand (2015: EUR 100 thousand).

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2015: nil).

Idle assets
As at 31 December 2016 the Group had no material idle assets (2015: nil).

27. DEPOSITS AND LOANS FROM BANKS

In thousands of EUR	31 December 2016	31 December 2015
Term deposits from banks	21,915	63,170
Received loans from repurchase agreements	3,360	2,106
Other received loans	67,877	70,248
Total deposits and loans from banks	**93,152**	**135,524**

As at 31 December 2016 EUR 6,208 thousand (2015: EUR 1,575 thousand) of deposits and loans from banks are expected to be settled more than 12 months after the reporting date.

The weighted average interest rate of deposits and loans from banks as at 31 December 2016 was 2.31% (2015: 2.24%).

For more information about repurchase agreements see Note 21. Repurchase and resale agreements.

28. DEPOSITS AND LOANS FROM CUSTOMERS

In thousands of EUR	31 December 2016	31 December 2015
DEPOSITS AND LOANS FROM CUSTOMERS		
Term and escrow deposits	4,917,650	5,605,828
Deposits payable on demand	2,538,431	2,423,036
Received loans from repurchase agreements	1,516	4,854
Other received loans	19,267	23,510
Total	**7,476,864**	**8,057,228**
Issued debt securities at amortised cost		
Issued bills of exchange and loan notes	69,059	71,193
	69,059	**71,193**
Total	**7,545,923**	**8,128,421**

As at 31 December 2016 EUR 1,241,273 thousand (2015: EUR 1,564,217 thousand) of deposits and loans from customers are expected to be settled more than 12 months after the reporting date.

The weighted average interest rate of deposits and loans from customers as at 31 December 2016 was 1.17% (2015: 1.41%).

For more information about repurchase agreements see Note 21. Repurchase and resale agreements.

29. ISSUED BONDS

In thousands of EUR	Original currency	Interest rate	Maturity date	31 December 2016	31 December 2015
Bonds listed on Bratislava Stock Exchange	EUR	6.00 %	21.6.2016	41	98,585
Bonds listed on Prague Stock Exchange	CZK	5.20 %	15.9.2017	196,556	195,714
Bonds listed on Bratislava Stock Exchange	EUR	5.25 %	12.12.2018	145,495	142,777
Bonds listed on Bratislava Stock Exchange	EUR	3.80 %	29.10.2019	75,982	–
Bonds listed on Bratislava Stock Exchange	CZK	3.00 %	25.11.2019	109,641	–
Bonds not listed	EUR	6.00 %	20.12.2016	–	10,020
Total issued bonds				**527,715**	**447,096**

In June 2013 the Group issued 100,000 pieces of bonds with a nominal value of EUR 1,000 per piece. The bonds were listed and traded on the Bratislava Stock Exchange. These bonds were repaid in June 2016, the remaining amount of EUR 41 thousand comprises unclaimed amount of bonds.

Furthermore in December 2013 the Group issued another 10,000 pieces of bonds with nominal value of EUR 1,000 per piece that were placed privately and were not traded on any regulated market. These bonds were fully repaid in December 2016.

In September 2014 the Group issued 1,481 pieces of bonds with nominal value of CZK 3,000 thousand per piece, that are traded on the Prague Stock Exchange and in December 2014 another 150,000 pieces of bonds with nominal value of EUR 1,000 per piece that are traded on the Bratislava Stock Exchange.

In April 2016 the Group issued another 100,000 pieces of bonds with nominal value of EUR 1,000 per piece that are traded on the Bratislava Stock Exchange and in November 2016 another 1,000 pieces of bonds with nominal value of CZK 3,000 thousand per piece, that are traded on the Prague Stock Exchange.

The interest from all issues is paid regularly twice a year.

The Group has not had any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 December 2016 and 2015.

The total carrying amount of the bonds issued does not include the amount of the bonds held by companies within the Group.

30. SUBORDINATED DEBT

In thousands of EUR	31 December 2016	31 December 2015
Subordinated debt at amortised cost	56,402	130,315

As at 31 December 2016 subordinated debt includes floating rate subordinated notes issued by J&T BANKA, a.s. with initial amount of EUR 25 million (2015: EUR 25 million) with maturity in 2022, floating rate subordinated notes issued by J&T FINANCE GROUP SE with initial amount of EUR 3 million (2015: EUR 3 million) with maturity in 2022. As at 31 December 2015 subordinated debt included also fixed interest subordinated deposits (initial amount of EUR 71.5 million) with maturity in 2023 which were prematurely repaid in the first half of 2016.

Other subordinated debt as at 31 December 2016 includes fixed interest subordinated term deposits in total initial amount of EUR 28 million (2015: EUR 27 million) with maturity between years 2019 - 2025 (2015: 2019 – 2025).

Floating rate subordinated notes are based on 3 months EURIBOR. The weighted average interest rate on the subordinated debt as at 31 December 2016 was 4.83% (2015: 5.29%).

31. OTHER LIABILITIES

In thousands of EUR	31 December 2016	31 December 2015
Payables to clients from securities trading	136,312	162,560
Employee benefits	35,684	32,474
Trade payables	9,366	6,379
Uninvoiced supplies	6,067	7,713
Securities settlement balances	26,041	23,612
Other liabilities	35,307	31,625
Total other liabilities under risk management (see Note 39)	**248,777**	**264,363**
Advance payments received	33,358	552
Deferred income	2,495	2,376
Total non-financial other liabilities	**35,853**	**2,928**
Total	**284,630**	**267,291**

At 31 December 2016 EUR 817 thousand (2015: EUR 421 thousand) of other liabilities are expected to be paid more than 12 months after the reporting date.

Other liabilities include a large number of sundry items that are not significant on an individual basis.

32. PROVISIONS

In thousands of EUR	Insurance contracts	Other	Total
Balance at 1 January 2015	8,806	23,910	32,716
Provisions recorded during the period	8,874	10,789	19,663
Provisions used during the period	(1,314)	(17,686)	(19,000)
Provisions reversed during the period	(5,267)	(3,108)	(8,375)
Decrease from outgoing entities	–	(182)	(182)
Foreign exchange gain	–	119	119
Balance at 31 December 2015	**11,099**	**13,842**	**24,941**
Balance at 1 January 2016	11,099	13,842	24,941
Provisions recorded during the period	11,261	14,081	25,342
Provisions used during the period	(2,668)	(11,365)	(14,033)
Provisions reversed during the period	(5,894)	(6,882)	(12,776)
Decrease from outgoing entities	–	–	–
Foreign exchange gain	–	90	90
Balance at 31 December 2016	**13,798**	**9,766**	**23,564**

As at 31 December 2016 provisions in amount of EUR 16,888 thousand (2015: EUR 14,991 thousand) are expected to be used later than 12 months after the reporting date. These include mainly provision for life insurance in amount of EUR 12,163 thousand (2015: EUR 9,684 thousand), provisions for commitments and granted guarantees in the amount of EUR 4,212 thousand (2015: EUR 4,718 thousand) and provision for unearned premiums of EUR 494 thousand (2015: EUR 478 thousand).

Current provisions include mainly provision for commitments and granted guarantees of EUR 2,342 thousand (2015: EUR 2,748 thousand) and provision for a clients benefit programme (Magnus) of EUR 1,154 thousand (2015: EUR 4,421 thousand).

33. DEFERRED TAX ASSETS AND LIABILITIES

33.1. UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following item:

In thousands of EUR	31 December 2016	31 December 2015
Tax losses carried forward	2,435	2,793

An estimation of the expiry of unrecognized tax losses is as follows:

In thousands of EUR	2017	2018	2019	2020	After 2020
Tax losses	333	526	1,136	0	440

A deferred tax asset is recognised for the carry forward of unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Tax losses expire over a period of five years for losses arisen after 1 January 2004 in the Czech Republic. In Slovakia, tax losses arisen after 1 January 2010 can be amortised in the next four years equally each year. Some deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these assets, it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

33.2. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

The following deferred tax assets and liabilities have been recognised:

In thousands of EUR	Assets 31. prosinec 2016	Liabilities 31. prosinec 2016	Assets 31. prosinec 2015	Liabilities 31. prosinec 2015
Property, plant and equipment	272	562	130	1,748
Intangible assets	217	17,409	369	21,291
Investment property	–	2,985	–	2,373
Impairment of trade receivables and other assets	73	–	24	–
Financial assets available for sale	709	3,636	1	4,911
Financial assets held to maturity	14	3,799	–	5,213
Employee benefits (IAS 19)	935	–	696	–
Unpaid interest, net	–	25	–	35
Financial assets at fair value through profit or loss	–	35	–	–
Loans and borrowings	11,688	2,696	10,964	–
Provisions	1,028	–	4,527	–
Derivates	129	–	–	–
Tax losses	4,219	–	9,181	–
Other temporary differences	6,431	–	2,262	15
	25,715	31,147	28,154	35,586
Netting[1]	(20,238)	(20,238)	(22,829)	(22,829)
Total	**5,477**	**10,909**	**5,325**	**12,757**

[1] Netting - gross deferred tax assets and liabilities were netted for each individual subsidiary of the Group when applicable.

Many parts of Slovak, Czech and Russian tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

34. SHAREHOLDERS' EQUITY

(i) Share capital and share premium

As a result of the change of the Parent Company described in Note 1. General information, the structure of equity has changed as at 1 January 2014 after the merger, including the amount of share capital and share premium representing the amounts corresponding to the successor company's share capital. The authorized, issued and fully paid share capital of J&T FINANCE GROUP SE as at 31 December 2014 consisted of 10 ordinary shares with a par value of CZK 200 thousand, 13,778,752 ordinary shares with a par value of CZK 1 thousand and 437,110,104 ordinary shares with a par value of CZK 1.

On 16 February 2015 the shareholders of the Group decided on an increase of the share capital of J&T FINANCE GROUP SE by CZK 1,960,000 thousand (approximately EUR 70,912 thousand) to CZK 16,177,862 thousand (EUR 589,301 thousand) by a specific mechanism allowed by Czech law according to which the newly subscribed shares were paid by the current shareholders from funds received through a loan from J&T FINANCE GROUP SE. This mechanism is allowed as well based on J&T FINANCE GROUP SE's articles of association and also under the Czech legislation. J&T FINANCE GROUP SE recognised a receivable due from its shareholders in the total amount of CZK 1,960,000 thousand (EUR 70,912 thousand). The receivable was interest bearing.

In 2014 J&T FINANCE GROUP SE and its shareholders signed an agreement about strategic cooperation with the company CEFC China Energy Company Limited (CEFC China).

Consequently, on 23 February 2015 the shareholders of J&T FINANCE GROUP SE agreed on another increase of the share capital of the Company by CZK 852,138 thousand (approximately EUR 30,981 thousand). 637,896 shares with a nominal value of CZK 1 were subscribed by the original shareholders. The subscription price of CZK 638 thousand was paid on 10 March 2015. On 6 March 2015 a contract on the subscription of shares was signed between the Group and CEFC Shanghai International Group Limited (CEFC Shanghai) – a subsidiary of CEFC China, which subscribed 851,500,000 shares with nominal value of CZK 1 for EUR 78,950 thousand (CZK 2,171,520 thousand). The subscription price was paid by CEFC Shanghai on 17 March 2015. The share capital of the Company was thus increased to CZK 17,030,000 thousand (approximately EUR 620,282 thousand) and CEFC Shanghai acquired a 4.8% share in the Group. The difference between the nominal value of the shares and the subscription price in amount of CZK 1,320,020 thousand (approximately EUR 47,992 thousand) was recognised in the equity of J&T FINANCE GROUP SE as share premium.

Another increase of the share capital was agreed by the shareholders of J&T FINANCE GROUP SE on 29 September 2015. The share capital of the Company increased by CZK 710,750 thousand (approximately EUR 26,302 thousand). 710,750,488 shares with nominal value of CZK 1 were subscribed by CEFC Hainan International Holdings Co., Ltd. (CEFC Hainan) – a subsidiary of CEFC China. Subsequently, the subscription price was paid and thus CEFC Hainan acquired a 4.0% share in the Group. The structure of voting rights held by the current shareholders decreased proportionately as a result of the increase by CEFC Hainan. The difference between the nominal value of the shares and the subscription price in amount of CZK 1,231,746 thousand (approximately EUR 45,585 thousand) was recognized as share premium.

In 2016 J&T FINANCE GROUP SE bought back its own shares from its majority shareholders in the total nominal value of CZK 1,960,442,300. The difference between the purchase price and the nominal value was recorded in retained earnings. The purchase price was partially netted with the outstanding balance of the loan previously provided to the shareholders by J&T FINANCE GROUP SE (see above).

After the purchase the shares were withdrawn by the Company and the share capital decreased from CZK 17,740,750,488 to CZK 15,780,308,188. The reason for the transaction was the optimalization of the shareholders' structure of J&T FINANCE GROUP SE according to business agreements between the original shareholders and the CEFC group. The transaction lead to a change in the ownership structure as presented in the table below.

The structure of the shareholders as at 31 December 2016 was as follows:

	Ownership %	Voting rights %
Ing. Jozef Tkáč	45.05	45.05
Ing. Ivan Jakabovič	45.05	45.05
CEFC Shanghai International Group Limited	5.40	5.40
CEFC Hainan International Holdings Co., Ltd.	4.50	4.50
Total	**100,00**	**100,00**

The structure of the shareholders as at 31 December 2015 was as follows:

	Ownership %	Voting rights %
Ing. Jozef Tkáč	45.60	45.60
Ing. Ivan Jakabovič	45.60	45.60
CEFC Shanghai International Group Limited	4.80	4.80
CEFC Hainan International Holdings Co., Ltd.	4.00	4.00
Total	**100.00**	**100.00**

The authorized, issued and fully paid share capital of J&T FINANCE GROUP SE as at 31 December 2016 consists of 10 ordinary shares with a par value of CZK 200 thousand, 13,778,752 ordinary shares with a par value of CZK 1 thousand and 1,999,556,188 ordinary shares with a par value of CZK 1. The shareholders are entitled to receive dividends and to one vote per share at meetings of the Company's shareholders.

(ii) Non-distributable reserves

Non-distributable reserves include the legal reserve fund of the Parent Company and post-acquisition increases in subsidiaries' legal reserves. The legal reserve fund can only be used to cover losses of the Company and it may not be distributed as a dividend. The calculation of the legal reserve is based on local statutory regulations.

Since 1 January 2014, the creation of a legal reserve fund in the Czech Republic is not required.

In Slovakia creation of a legal reserve fund is required at a minimum of 10% of net profit (annually) and up to a minimum of 20% of the registered share capital (cumulative balance).

In Russia creation of a legal reserve fund is required at a minimum of 5% of net profit (annually) up to a minimum of 5% of the registered share capital.

In Croatia creation of a legal reserve fund is required at a minimum of 20% of net profit (annually) and up to a minimum of 5% of the registered share capital.

(iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Parent Company.

(iv) Other reserves and funds

Other reserves comprise changes in the fair value of financial assets available for sale.

In 2016, J&T BANKA, a.s. sold to its investors subordinated unsecured certificates with nominal value of EUR 5 thousand and CZK 100 thousand and no maturity date in the amount of EUR 20,595 thousand (31 December 2015: EUR 30,894 thousand). These instruments are disclosed as Other capital instruments in the condensed consolidated statement of changes in equity. These certificates bear 9% or 10% annual yield, subject of approval, distributed quarterly from retained earnings, and are listed on the Prague Stock Exchange. The amount of issue, that combines characteristics of equity and debt instruments is following: issue I approved by the Czech National Bank ("CNB") on 19 June 2014 is CZK 1,000,000 thousand (EUR 37,006 thousand), issue II approved by CNB on 12 September 2015 is CZK 1,000,000 thousand (EUR 37,006 thousand) and issue III approved on 11 December 2015 is EUR 50,000 thousand. CNB stipulated that these instruments are equity instruments and thus they comply with the requirements to be recognised as additional capital AT1, part of regulatory capital tier 1 (see also Note 35. Capital management).

J&T FINANCE GROUP SE also issued and sold subordinated unsecured certificates with nominal value of EUR 100 thousand and no maturity date in the amount of EUR 200,000 thousand (31 December 2015: nil). The whole emission was purchased by CEFC Hainan International Holdings CO., Ltd. These certificates bear 9% (first 2 years) and 5% (subsequently) annual yield, subject of approval, distributed semi-annually from retained earnings. Following the approval by the Czech National Bank (CNB) on 21 April 2016, these instruments also comply with the requirements to be recognized as additional capital AT1.
In 2014, the Board of Directors of J&T Banka, a.s. approved new special purpose capital fund (Perpetuity fund), covering distribution of yield generated by the certificates described above. In 2016, another Perpetuity fund for distribution of yield from similar certificates was created by J&T FINANCE GROUP SE in amount of EUR 18,000 thousand as well. Both funds are part of retained earnings and distribution of income from the funds complies with the prospectus of the capital instruments. Total amount of yield paid in 2016 was EUR 16,754 thousand (2015: EUR 3,925 thousand) and is presented as distribution of retained earnings in the consolidated statement of changes in equity.

35. NON-CONTROLLING INTERESTS

In thousand of EUR	31 December 2016	31 December 2015
Equity Holding, a.s.	19,568	18,813
Poštová banka, a.s.	9,740	9,034
J&T REALITY otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST, a. s.	5,097	5,307
Vaba d.d. banka Varaždin	3,453	4,981
Poštová poisťovňa, a. s.	3,189	3,511
PBI, a.s.	2,054	–
Other	28	453
Total non-controlling interests	**43,129**	**42,099**

The following table summarizes the information relating to Equity Holding, a.s. and Poštová banka, a.s., the Group's subsidiaries that have material non-controlling interests before any intra-group eliminations:

31 December 2016

In thousand of EUR	Equity Holding, a.s.	Poštová banka, a.s.	Other individually immaterial subsidiaries	Total
Assets	52,418	4,306,941		
Liabilities	42	3,671,080		
Goodwill attributable to the Group	–	20,033		
Net assets excluding Goodwill attributable to the Group	**52,376**	**615,828**		
Non-controlling interest's percentage	37.36%	3.28%		
Non-controlling interest		**20,223**		
Indirect non-controlling interest[1]		**(10,483)**		
Carrying amount of non-controlling interest	**19,568**	**9,740**	**13,821**	**43,129**
Revenue	2,501	189,988		
Profit	2,016	31,861		
Other comprehensive income	5	(3,391)		
Total comprehensive income	2,021	28,470		
Non-controlling interest's percentage	37.36%	1.54–3,28%		
Profit (loss) allocated to non-controlling interest	**753**	**620**	**(2,245)**	**(872)**
Other comprehensive income allocated to non-controlling interest	**2**	**(113)**	**125**	**14**
Cash flows used in operating activities	(10)	(76,345)		
Cash flows from investing activities	0	129,298		
Cash flows used in financing activities	0	(38,422)		
Net increase (decrease) in cash and cash equivalents	**(10)**	**14,531**		

[1]The Group owns a 64.46% share in Poštová banka., a.s. through J&T FINANCE GROUP SE and another 32.26% share through the subsidiary PBI, a.s. The group owns a 94.88% share in PBI, a.s. Indirect non-controlling interest in Poštová banka, a.s. relates to the investment of PBI, a.s. in Poštová banka, a.s. held by minority shareholders of PBI, a.s. which is shown as part of non-controlling interest in PBI, a.s.

The non-controlling interest's percentage in Poštová banka, a.s. changed in May 2016. Therefore the profit allocated to the non-controlling interest and other comprehensive income allocated to the non-controlling interest was calculated using both percentages before and after acquisition.

31 December 2015

In thousand of EUR	Equity Holding, a.s.	Poštová banka, a.s.	Ostatní samostatně nevýznamné dceřiné společnosti	Celkem
Assets	50,487	4,224,461		
Liabilities	128	3,617,833		
Goodwill attributable to Group	–	20,033		
Net assets excluding Goodwill atributable to the Group	**50,359**	**586,595**		
Non-controlling interest's percentage	37.36%	1.54%		
Carrying amount of non-controlling interest	**18,813**	**9,034**	**14,252**	**42,099**
Revenue	2,475	130,717		
Profit	1,489	12,979		
Other comprehensive income	1,267	6,577		
Total comprehensive income	2,756	19,556		
Non-controlling interest's percentage	37.36%	9.99%–1.54%		
Profit allocated to non-controlling interest	**556**	**1,297**	**(1,477)**	**376**
Other comprehensive income allocated to non-controlling interest	**473**	**657**	**263**	**1 393**
Cash flows from (used in) operating activities	11	(72,475)		
Cash flows from investing activities	–	99,241		
Cash flows used in financing activities	–	(30,109)		
Net increase (decrease) in cash and cash equivalents	**11**	**(3,343)**		

The non-controlling interest's percentage in Poštová banka, a.s. changed in December 2015 therefore the profit allocated to non-controlling interest and other comprehensive income allocated to non-controlling interest was calculated using both percentages before and after acquisition.

Changes in non-controlling interests without a change in control

In May 2016, the Group sold a 5.12% share of its subsidiary PBI, a.s. The Group's interest in Poštová banka, a.s. held through the subsidiary PBI, a.s. has decreased as a result of the transaction.The total ownership interest in Poštová banka, a.s. has changed from 98.46% to 96.72%.

In July 2016, the Group increased the share capital of Vaba d.d. banka Varazdin by HRK 76,000 thousand (EUR 10,159 thousand). As a result the ownership share increased from 76.81% to 82.55%.

The table below summarizes changes of non-controlling interests in those companies where no change in control occurred and does not include effect from disposed, newly purchased or established entities with non-controlling interests.

In thousand of EUR	Poštová banka, a.s.	Other immaterial	Total
Non-controlling interest at 1 January 2016	9,034	x	x
Change in Company's ownership interest	653	2,511	3,164
Dividends	(454)	(399)	(853)
Share of comprehensive income	507	(2.121)	(1.614)
Non-controlling interest at 31 December 2016	**9,740**	**x**	**x**

In February 2015, the Group contributed through J&T BANKA, a.s. to its subsidiary VABA d.d. banka Varaždin HRK 37,500 thousand (EUR 4,937 thousand), increasing its ownership from 58.33% to 67.74%. In September 2015, J&T BANKA, a.s. contributed another HRK 65,000 thousand (EUR 8,558 thousand) and the ownership interest increased to 76.81%.

In May 2015, the Group sold through Poštová banka, a.s. a 20% share of its subsidiary Poštová poisťovňa, a.s.

In December 2015, the Group purchased an additional interest of 8.45% in Poštová banka, a.s. The ownership interest increased from 90.01% to 98.46%.

The table below summarizes changes in non-controlling interests in those companies where no change in control occurred and does not include the effect from newly purchased or established entities with non-controlling interests.

In thousand of EUR	Poštová banka, a.s.	Other	Total
Non-controlling interest at 1 January 2015	65,347	x	x
Change in Company's ownership interest	(56,027)	4,414	(51,613)
Dividends	(2,240)	(768)	(3,008)
Effect of disposals	–	(136)	(136)
Share of comprehensive income	1.954	(185)	1,769
Non-controlling interest at 31 December 2015	**9,034**	**x**	**x**

36. FAIR VALUE INFORMATION

The following table is a comparison of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value:

31 December 2016

In thousands of EUR	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
FINANCIAL ASSETS					
Cash and cash equivalents	935,178	–	935,178	–	935,178
Financial assets held to maturity	405,372	395,511	30,271	1,919	427,701
Loans and advances to banks	1,204,164	–	1,203,721	–	1,203,721
Loans and advances to customers	5,657,515	–	–	5,795,701	5,795,701
Trade receivables and other financial assets under risk management	158,081	–	157,803	278	158,081
FINANCIAL LIABILITIES					
Deposits and loans from banks	93,152	–	93,197	–	93,197
Deposits and loans from customers	7,545,923	–	7,539,018	–	7,539,018
Issued bonds	527,715	531,911	–	–	531,911
Subordinated debt	56,402	–	53,133	–	53,133
Other financial liabilities under risk management	248,777	–	248,777	–	248,777

31 December 2015

In thousands of EUR	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
FINANCIAL ASSETS					
Cash and cash equivalents	1,019,854	–	1,019,678	–	1,019,678
Financial assets held to maturity	510,899	543,691	–	–	543,691
Loans and advances to banks	1,514,696	–	1,513,247	–	1,513,247
Loans and advances to customers	5,360,740	–	5,272,013	601,529	5,873,542
Trade receivables and other financial assets under risk management	164,831	–	164,594	237	164,831
FINANCIAL LIABILITIES					
Deposits and loans from banks	135,524	–	135,144	–	135,144
Deposits and loans from customers	8,128,421	–	8,100,994	–	8,100,994
Issued bonds	447,096	453,179	–	–	453,179
Subordinated debt	130,315	–	131,603	–	131,603
Other financial liabilities under risk management	264,363	–	264,363	–	264,363

In 2016, the Loans and advances to customers were reclassified from Level 2 to Level 3. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years.

37. FINANCIAL COMMITMENTS AND CONTINGENCIES

In thousands of EUR	31 December 2016	31 December 2015
Accepted and endorsed bills of exchange	2,116	2,116
Granted guarantees	268,503	308,199
Pledged assets	192,745	236,403
Loan commitments	589,206	532,002
Total financial commitments and contingencies	**1,052,570**	**1,078,720**

The carrying value of pledged assets that are used as collateral for loan financing is EUR 192,745 thousand (2015: EUR 236,403 thousand). Granted guarantees mostly represent various guarantees issued in relation to loans, bills of exchange issued by other parties, lease contracts and other liabilities of third parties in amount of EUR 268,503 thousand (2015: EUR 308,199 thousand). These guarantees are disclosed in the table above at the amount of the possible obligation in the future. The maximum amount payable for guarantees given by the Group as at 31 December 2016 is EUR 373,550 thousand (2015: EUR 341,632 thousand). Loan commitments relate to loan facilities granted by the banks of the Group.

38. LEASES

38.1. OPERATING LEASE

(a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	31 December 2016	31 December 2015
Less than one year	9,871	7,354
Between one and five years	20,870	18,739
More than five years	2,506	4,974
Total	**33,247**	**31,067**

The Group leases a number of cars and administration space under operating leases. The administration space leases typically run for an initial period of five to fifteen years, with an option to renew after that date. During the year ended 31 December 2016, EUR 12,911 thousand was recognized as an expense in the income statement in respect of operating leases (2015: EUR 12,739 thousand).

(b) Leases as lessor

The Group leases out its property under operating leases. Non-cancellable operating lease rentals are receivable as follows:

In thousands of EUR	31 December 2016	31 December 2015
Less than one year	784	1,794
Between one and five years	296	339
Total	**1,079**	**2,133**

During the year ended 31 December 2016, EUR 2,273 thousand was recognized as rental income (2015: EUR 6,140 thousand).

38.2. FINANCE LEASE

Leases as lessor

The Group offers to its clients finance lease for various assets (e.g. cars, machinery and equipments). The minimum lease payments under finance lease are as follows:

In thousands of EUR	31 December 2016	31 December 2015
GROSS RECEIVABLES FROM FINANCE LEASING		
less than 1 year	3,979	3,659
more than 1 year but less than 5 years	6,504	7,696
more than 5 years	983	687
Total	**11,466**	**12,042**
Deduction of future financial income	(1,788)	(2,120)
Present value of future leasing payments	**9,678**	**9,922**
PRESENT VALUE OF RECEIVABLES FROM FINANCE LEASING		
up to 1 year	3,821	3,524
more than 1 year but less than 5 years	5,573	5,810
more than 5 years	284	588
Present value of future leasing payments	**9,678**	**9,922**
Impairment loss allowances	(304)	(457)

39. RISK MANAGEMENT POLICIES AND DISCLOSURES

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk
- operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

For the purpose of this note, current tax assets are presented within trade receivables and other financial assets under risk management and current tax liability is presented within other financial liabilities under risk management.

39.1. CREDIT RISK

The Group's primary exposure to credit risk arises through its loans and advances provided. The maximum amount of credit exposure is represented by the respective carrying amounts in the statement of financial position. In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credit and financial guarantees (refer to Note 37. Financial commitments and contingencies). Most loans and advances are to corporates (companies from the non-financial sector, retail and various manufacturing companies). Further loans and advances are to retail, banks and other financial institutions.

The carrying amount of loans and advances and the off-balance sheet amounts represent the maximum accounting loss that would be recognised on these items at the statement of financial position date if counterparties failed to perform completely as contracted and any collateral or security proved to be of no value. The Group's policy is to require suitable collateral to be provided by customers prior to the disbursement of loans by the Group's banks.

The assessment of credit risk in respect of a counter-party or an issued debt is based on the Group's internal rating system, covering both external credit assessments by the S&P, Moody's or Fitch rating agencies, and the Group's internal scoring system.

The scoring system of the Group has seven degrees. It is based on a standardised point evaluation of relevant criteria, which describe the financial position of a contractual party and its ability to fulfil its credit obligations – in both cases including the expected development, quality and adequacy of the collateral, as well as proposed conditions for effecting the transaction. The internal rating is determined using the credit scale of S&P.

Credit risk in the banking entities of the Group is managed based on credit analysis and the Internal Rating Based (IRB) methodology.

The Group monitors concentrations of credit risk by sector and by geographic location.

(i) Concentration of credit risk by sector

31 December 2016

In thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Total
ASSETS						
Cash and cash equivalents	18	–	892,665	7	42,488	935,178
Financial assets at fair value through profit or loss	68,318	91,621	28,714	210	382	189,245
Financial assets available for sale	233,055	567,844	476,501	–	–	1,277,400
Financial assets held to maturity	32,057	350,488	22,827	–	–	405,372
Loans and advances to banks	–	–	1,204,164	–	–	1,204,164
Loans and advances to customers	3,613,646	4	1,337,828	701,766	4,271	5,657,515
Trade receivables and other financial assets under risk management	103,533	6,658	49,517	2,844	399	162,951
Total	**4,050,627**	**1,016,615**	**4,012,216**	**704,827**	**47,540**	**9,831,825**

In thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Total
LIABILITIES (FOR INFORMATIONAL PURPOSES)						
Financial liabilities at fair value through profit or loss	747	–	14,322	281	212	15,562
Deposits and loans from banks	–	–	93,152	–	–	93,152
Deposits and loans from customers	1,121,738	148,249	363,866	5,840,089	71,981	7,545,923
Issued bonds	198,845	–	158,389	53,795	116,686	527,715
Subordinated debt	6,144	–	25,020	22,334	2,904	56,402
Other financial liabilities under risk management	88,001	12,815	49,155	100,608	4,132	254,711
Provision for insurance contracts	–	–	–	13,798	–	13,798
Total	**1,415,475**	**161,064**	**703,904**	**6,030,905**	**195,915**	**8,507,263**

31 December 2015

In thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Total
ASSETS						
Cash and cash equivalents	16	–	978,531	8	41,299	1,019,854
Financial assets at fair value through profit or loss	46,406	22,488	40,781	182	555	110,412
Financial assets available for sale	238,663	717,686	490,752	–	–	1,447,101
Financial assets held to maturity	23,044	487,833	22	–	–	510,899
Loans and advances to banks	–	–	1,514,696	–	–	1,514,696
Loans and advances to customers	3,468,916	–	1,115,031	773,903	2,890	5,360,740
Trade receivables and other financial assets under risk management	98,178	18,849	62,951	2,513	504	182,995
Total	**3,875,223**	**1,246,856**	**4,202,764**	**776,606**	**45,248**	**10,146,697**

In thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Total
LIABILITIES (FOR INFORMATIONAL PURPOSES)						
Financial liabilities at fair value through profit or loss	7,246	31	7,283	105	–	14,665
Deposits and loans from banks	–	–	135,524	–	–	135,524
Deposits and loans from customers	1,507,095	325,529	332,642	5,888,549	74,606	8,128,421
Issued bonds	306,427	–	60,782	79,887	–	447,096
Subordinated debt	80,748	–	24,953	21,718	2,896	130,315
Other financial liabilities under risk management	112,300	16,915	43,592	100,414	1,646	274,867
Provision for insurance contracts	427	–	–	10,672	–	11,099
Total	**2,014,243**	**342,475**	**604,776**	**6,101,345**	**79,148**	**9,141,987**

(ii) Concentration of credit risk by location

31 December 2016

In thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Other	Total
ASSETS						
Cash and cash equivalents	49,456	750,735	–	24,043	110,944	935,178
Financial assets at fair value through profit or loss	46,192	85,540	1,256	–	56,257	189,245
Financial assets available for sale	411,815	417,046	5,330	29,908	413,301	1,277,400
Financial assets held to maturity	370,549	–	–	–	34,823	405,372
Loans and advances to banks	367,380	787,003	–	12,529	37,252	1,204,164
Loans and advances to customers	1,955,006	999,230	1,673,956	125,114	904,209	5,657,515
Trade receivables and other financial assets under risk management	78,072	32,067	20,706	554	31,552	162,951
Total	**3,278,470**	**3,071,621**	**1,701,248**	**192,148**	**1,588,338**	**9,831,825**

In thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Other	Total
LIABILITIES (FOR INFORMATIONAL PURPOSES)						
Financial liabilities at fair value through profit or loss	1,267	3,368	149	–	10,778	15,562
Deposits and loans from banks	81,176	3,419	–	8,277	280	93,152
Deposits and loans from customers	4,305,622	2,379,102	77,249	145,681	638,269	7,545,923
Issued bonds	196,182	326,956	–	–	4,577	527,715
Subordinated debt	40	25,649	3,002	590	27,121	56,402
Other financial liabilities under risk management	57,136	125,986	25,914	2,122	43,553	254,711
Provision for insurance contracts	13,798	–	–	–	–	13,798
Total	**4,655,221**	**2,864,480**	**106,314**	**156,670**	**724,578**	**8,507,263**

31 December 2015

In thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Other	Total
ASSETS						
Cash and cash equivalents	52,255	888,061	–	21,111	58,427	1,019,854
Financial assets at fair value through profit or loss	5,012	55,184	8,370	–	41,846	110,412
Financial assets available for sale	622,161	398,046	1,711	15,139	410,044	1,447,101
Financial assets held to maturity	480,952	–	–	–	29,947	510,899
Loans and advances to banks	242,882	1,170,425	–	14,397	86,992	1,514,696
Loans and advances to customers	2,013,742	716,077	1,821,267	114,123	695,531	5,360,740
Trade receivables and other financial assets under risk management	78,566	49,304	32,400	56	22,669	182,995
Total	**3,495,570**	**3,277,097**	**1,863,748**	**164,826**	**1,345,456**	**10,146,697**

In thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Other	Total
LIABILITIES (FOR INFORMATIONAL PURPOSES)						
Financial liabilities at fair value through profit or loss	5,987	4,421	430	–	3,827	14,665
Deposits and loans from banks	92,954	30,316	–	5,841	6,413	135,524
Deposits and loans from customers	4,413,133	2,958,011	73,133	174,300	509,844	8,128,421
Issued bonds	247,113	196,745	417	–	2,821	447,096
Subordinated debt	11,779	25,648	3,002	1	89,885	130,315
Other financial liabilities under risk management	69,474	106,455	63,088	858	34,992	274,867
Provision for insurance contracts	11,099	–	–	–	–	11,099
Total	**4,851,539**	**3,321,596**	**140,070**	**181,000**	**647,782**	**9,141,987**

The above table displays the credit risk by the country of incorporation of the debtor or issuer of the securities.

Securities available for sale in the location Other also include as at 31 December 2016 an investment of EUR 124,382 thousand in Polish government bonds (2015: EUR 129,191 thousand) and an investment of EUR 28,915 thousand in investment funds incorporated in Malta (2015: EUR 67,170 thousand).

Financial instruments held to maturity in the location Other include as at 31 December 2016 investment of EUR 22,820 thousand in MOL Hungarian Oil and Gas bonds (2015: EUR 22,537 thousand).

Loans and advances to customers in the location Other primarily relates to companies and customers incorporated in the Luxembourg, in the Netherlands, in Poland, in Russia and in Switzerland (2015: companies and customers incorporated primarily in Poland, in the British Virgin Islands and in the Netherlands).

In addition, Deposits and loans from customers in the location Other primarily relate to companies and customers incorporated in Russia, in Germany and in Switzerland (2015: companies and customers incorporated primarily in Germany, in the Netherlands and in Switzerland).

(iii) Credit risk – impairment of financial assets

31 December 2016

In thousands of EUR	Financial assets available for sale	Financial assets held to maturity	Loans and advances to banks	Loans and advances to customers	Trade receivables and other financial assets under risk management
Maximum exposure to credit risk	**1,277,400**	**405,372**	**1,204,164**	**5,657,515**	**162,952**
Carrying amount	**–**	**–**	**–**	**–**	**–**
A) ASSETS FOR WHICH A PROVISION HAS BEEN CREATED					
– Gross	–	1,843	–	612,953	6,947
– Provision individual	–	(11)	–	(143,055)	(6,476)
– Provision collective	–	–	–	(102,711)	(1,321)
Znehodnocená aktiva celkem (netto)	**–**	**1,832**	**–**	**367,187**	**(850)**
B) OVERDUE ASSETS FOR WHICH A PROVISION HAS NOT BEEN CREATED					
– <30 days	–	–	–	4,877	4,749
– 31–180 days	–	–	–	2,731	980
– 181–365 days	–	–	–	2,966	697
– >365 days	–	–	–	1,661	663
Total	**–**	**–**	**–**	**12,235**	**7,089**

Loans and advances to customers overdue more than one year but with no provision created mainly consist of receivables acquired through business combination in 2014 and 2013 and were recognized at their fair value as at the date of acquisition. The loans and advances are sufficiently collateralized, thus no impairment allowances have been created.

31 December 2015

In thousands of EUR	Financial assets available for sale	Financial assets held to maturity	Loans and advances to banks	Loans and advances to customers	Trade receivables and other financial assets under risk management
Maximum exposure to credit risk	**–**	**–**	**–**	**–**	**–**
Carrying amount	**1,447,101**	**510,899**	**1,514,696**	**5,360,740**	**182,995**
A) ASSETS FOR WHICH A PROVISION HAS BEEN CREATED					
– Gross	2,750	–	–	440,084	14,696
– Provision individual	(1,203)	–	–	(85,775)	(4,866)
– Provision collective	–	–	–	(75,546)	(1,160)
Impaired total (net)	**1,547**	**–**	**–**	**278,763**	**8,670**
B) OVERDUE ASSETS FOR WHICH A PROVISION HAS NOT BEEN CREATED					
– <30 days	–	–	–	16,704	3,841
– 31–180 days	–	–	–	34,437	804
– 181–365 days	–	–	–	547	481
– >365 days	–	–	–	7,977	711
Total	**–**	**–**	**–**	**59,665**	**5,837**

(iv) Credit risk – collaterals

The Group holds collateral against loans and advances to customers mainly in the form of pledges, securities and acceptances of bills of exchange. Collaterals are used as assets that can be realized in the event of failure of the primary source of repayment of debts. The Group does not generally use non-cash collateral for its own operations.

Loans and advances to customers are secured by collateral with the fair values below:

In thousands of EUR	Fair value 31 December 2016	Carrying amount 31 December 2016	Fair value 31 December 2015	Carrying amount 31 December 2015
Securities	1,935,385	1,724,191	1,998,628	1,905,288
Real estate	910,019	684,057	947,478	740,089
Bills of exchange	114,062	90,315	112,395	81,133
Cash deposits	91,897	90,582	86,500	85,296
Other	738,802	519,412	546,481	381,052
Total	**3,790,165**	**3,108,557**	**3,691,482**	**3,192,858**

As at 31 December 2016 collateral in the amount of EUR 165 thousand received by the Group was further used within repurchase operations (2015: EUR 1,246 thousand).

In 2016 the Group has taken possession of collateral held previously as security in total value of EUR 253 thousand (2015: EUR 1,562 thousand).

(v) Credit risk – forbearance

Exposition forbearance

In thousands of EUR	31 December 2016	31 December 2015
Performing exposition	5,084,782	4,941,355
– performing exposition forbearance	130,197	168,999
Non-performing exposition	572,733	419,385
– non-performing exposition forbearance	207,843	227,128
Total	**5,657,515**	**5,360,740**

The share of loan exposition forbearance on total loans and advances to customers is 5.98% (2015: 7.39%).

Concentration of loans and advances to customers by economic sector

In thousands of EUR	31 December 2016	31 December 2015
NOT FORBORNE		
Non-financial organisations	3,301,669	3,138,197
Financial organisations	1,332,897	1,079,371
Households	682,550	746,022
Other	2,359	1,023
Total	**5,319,475**	**4,964,613**
FORBORNE		
Non-financial organisations	311,773	349,126
Financial organisations	5,192	17,307
Households	19,215	27,882
Other	1,860	1,812
Total	**338,040**	**396,127**

39.2. LIQUIDITY RISK

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of not being able to meet the obligations when they fall due, as well as the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Various methods of managing liquidity risks are used by individual companies in the Group, including individual monitoring of large deposits. The Group's management focuses on methods used by financial institutions, that is, diversification of sources of funds. This diversification makes the Group flexible and limits its dependency on one financing source. Liquidity risk is evaluated in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy. The Group also holds, as part of its liquidity risk management strategy, a portion of its assets in highly liquid funds.

The table below provides an analysis of assets and liabilities into relevant contractual maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. Expected maturities differ from contracted ones as historical evidence shows that most short-term loans and deposits are prolonged. The analysis is presented under the most prudent consideration of maturity dates, where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest possible repayment date is shown while for assets the latest possible repayment date is disclosed. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "undefined maturity" category. The amounts disclosed are the contractual undiscounted cash flows and therefore may not agree with the carrying amounts in the statement of financial position.

Contractual maturities of financial assets and liabilities, including estimated interest payments

31 December 2016

In thousands of EUR	Carrying amoun	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL ASSETS							
Cash and cash equivalents	935,178	935,200	935,186	14	–	–	–
Financial assets at fair value through profit or loss	178,771	218,253	838	5,913	41,096	144,724	25,682
Financial assets available for sale	1,277,400	1,336,779	98,123	44,286	577,294	230,088	386,988
Financial assets held to maturity	405,372	440,368	40,596	70,421	251,613	77,738	–
Loans and advances to banks	1,204,164	1,204,191	778,215	4,912	–	–	421,064
Loans and advances to customers	5,657,515	6,776,438	675,660	1,969,666	2,727,680	1,291,434	111,998
Trade receivables and other financial assets under risk management	162,951	162,951	88,357	19,197	1,228	–	54,169
Total	**9,821,351**	**11,074,180**	**2,616,975**	**2,114,409**	**3,598,911**	**1,743,984**	**999,901**
DERIVATIVE FINANCIAL ASSETS							
Forward currency contracts							
– outflow	–	(115,235)	(95,238)	(19,997)	–	–	–
– inflow	5,720	120,913	99,176	21,665	70	5	–
Other derivatives							
–- outflow	–	–	–	–	–	–	–
– inflow	4,754	4,753	–	1,734	3,019	–	–
Total	**10,474**	**10,431**	**3,938**	**3,402**	**3,089**	**5**	**–**

In thousands of EUR	Carrying amoun	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL LIABILITIES							
Financial liabilities at fair value through profit or loss	4,328	(4,327)	(4,327)	–	–	–	–
Deposits and loans from banks	93,152	(78,715)	(25,697)	(46,297)	(4,857)	(1,864)	–
Deposits and loans from customers	7,545,923	(7,634,528)	(4,854,999)	(1,431,866)	(1,269,298)	(62,806)	(15,559)
Issued bonds	527,715	(562,295)	(8)	(211,017)	(351,229)	–	(41)
Subordinated debt	56,402	(72,417)	(664)	(2,404)	(34,290)	(35,059)	–
Other financial liabilities under risk management	254,711	(254,672)	(202,227)	(19,700)	(664)	(148)	(31,933)
Provision for insurance contracts	13,798	(13,798)	(763)	(850)	(1,897)	(9,876)	(412)
Total	**8,496,029**	**(8,620,752)**	**(5,088,685)**	**(1,712,134)**	**(1,662,235)**	**(109,753)**	**(47,945)**
Accepted and endorsed bills of exchange	2,116	(3,801)	–	–	–	(3,801)	–
Granted guarantees	268,503	(373,550)	(335,779)	(8,563)	(29,208)	–	–
Loan commitments	589,206	(670,696)	(591,793)	(62,350)	(13,463)	(1,306)	(1,784)
	859,825	**(1,048,047)**	**(927,572)**	**(70,913)**	**(42,671)**	**(5,107)**	**(1,784)**
Celkem	**9,355,854**	**(9,668,799)**	**(6,016,257)**	**(1,783,047)**	**(1,704,906)**	**(114,860)**	**(49,729)**
DERIVATIVE FINANCIAL LIABILITIES							
Forward currency contracts							
– outflow	6,017	(93,107)	(11,627)	(81,057)	(423)	–	–
– inflow	–	87,050	6,946	80,104	–	–	–
Other derivatives							
– outflow	5,217	(5,217)	(480)	(941)	(3,471)	(325)	–
– inflow	–	–	–	–	–	–	–
Total	**11,234**	**(11,274)**	**(5,161)**	**(1,894)**	**(3,894)**	**(325)**	**–**

The liquidity gap up to one year comes essentially from Deposits and loans from customers, which are expected to be prolonged as shown by historical evidence.

31 December 2015

In thousands of EUR	Carrying amoun	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL ASSETS							
Cash and cash equivalents	1,019,854	1,019,858	1,019,858	–	–	–	–
Financial assets at fair value through profit or loss	103,387	122,478	3,246	13,320	44,110	44,258	17,544
Financial assets available for sale	1,447,101	1,565,859	66,035	60,391	598,008	436,082	405,343
Financial assets held to maturity	510,899	553,160	18,773	113,402	344,736	76,249	–
Loans and advances to banks	1,514,696	1,514,890	1,199,564	1,085	2,444	–	311,797
Loans and advances to customers	5,360,740	6,251,925	671,073	1,376,471	2,697,665	1,447,331	59,385
Trade receivables and other financial assets under risk management	182,995	182,993	105,271	30,484	42	–	47,196
Total	**10,139,672**	**11,211,163**	**3,083,820**	**1,595,153**	**3,687,005**	**2,003,920**	**841,265**
DERIVATIVE FINANCIAL ASSETS							
Forward currency contracts							
– outflow	–	(540,789)	(519,531)	(19,770)	(1,488)	–	–
– inflow	2,738	543,602	521,790	20,305	1,507	–	–
Other derivatives							
– outflow	–	(25,181)	(57)	(2,693)	(17,920)	(4,511)	–
– inflow	4,287	29,477	72	3,583	20,502	5,320	–
Total	**7,025**	**7,109**	**2,274**	**1,425**	**2,601**	**809**	**–**

In thousands of EUR	Carrying amoun	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL LIABILITIES							
Financial liabilities at fair value through profit or loss	6,222	(6,222)	(6,222)	–	–	–	–
Deposits and loans from banks	135,524	(137,935)	(64,869)	(71,298)	(1,768)	–	–
Deposits and loans from customers	8,128,421	(8,415,407)	(5,072,038)	(1,709,927)	(1,573,441)	(60,001)	–
Issued bonds	447,096	(488,152)	(4,951)	(124,498)	(167,351)	(191,352)	–
Subordinated debt	130,315	(174,573)	(3,851)	(3,132)	(45,999)	(121,591)	–
Other financial liabilities under risk management	274,867	(273,732)	(222,055)	(17,840)	(229)	(123)	(33,485)
Provision for insurance contracts	11,099	(11,097)	(775)	(1,250)	(1,119)	(7,953)	–
Total	**9,133,544**	**(9,507,118)**	**(5,374,761)**	**(1,927,945)**	**(1,789,907)**	**(381,020)**	**(33,485)**
Accepted and endorsed bills of exchange	2,116	(2,116)	–	–	–	(2,116)	–
Granted guarantees	308,199	(341,632)	(341,632)	–	–	–	–
Loan commitments	532,002	(582,767)	(214,447)	(13,227)	(41,285)	(4,796)	(309,012)
	842,317	**(926,515)**	**(556,079)**	**(13,227)**	**(41,285)**	**(6,912)**	**(309,012)**
Total	**9,975,861**	**(10,433,633)**	**(5,930,840)**	**(1,941,172)**	**(1,831,192)**	**(387,932)**	**(342,497)**
DERIVATIVE FINANCIAL LIABILITIES							
Forward currency contracts							
– outflow	(2,859)	(673,301)	(644,048)	(26,948)	(2,305)	–	–
– inflow	–	670,208	641,798	26,129	2,281	–	–
Other derivatives							
– outflow	(5,584)	(13,914)	(288)	(6,005)	(6,174)	(1,447)	–
– inflow	–	8,331	181	1,452	5,850	848	–
Total	**(8,443)**	**(8,676)**	**(2,357)**	**(5,372)**	**(348)**	**(599)**	**–**

39.3. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between the trading and non-trading portfolios. Trading portfolios include positions arising from market making and position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group uses the Value at Risk ("VaR") methodology to evaluate market risk on its trading portfolio as a whole using a confidence level of 99% and a horizon of 10 business days. A historical simulation method is implemented for VaR calculation. The Group performs backtesting for market risk associated with its trading portfolio, by applying a method of hypothetical backtesting, on a quarterly basis.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The VaR measure is dependent on the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

In thousands of EUR	31 December 2016	31 December 2015
VaR market risk overall	9,632	10,069

(i) Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity date or are non interest-bearing are grouped together in the "maturity undefined" category.

The VaR statistics for the trading portfolio is as follows:

In thousands of EUR	31 December 2016	31 December 2015
VaR interest rate risk	10,096	7,041

A summary of the Group´s interest rate gap position as per the carrying amounts is as follows:

31 December 2016

In thousands of EUR	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity	Total
ASSETS						
Cash and cash equivalents	887,150	–	–	–	48,028	935,178
Financial assets at fair value through profit or loss	5,261	5,275	26,244	124,816	27,649	189,245
Financial assets available for sale	113,674	96,757	525,687	154,294	386,988	1,277,400
Financial assets held to maturity	54,824	76,932	192,279	63,245	18,092	405,372
Loans and advances to banks	1,159,650	2,377	–	–	42,137	1,204,164
Loans and advances to customers	1,059,059	2,827,640	1,005,100	232,608	533,108	5,657,515
Trade receivables and other financial assets under risk management	36,844	859	–	–	125,248	162,951
Total	**3,316,462**	**3,009,840**	**1,749,310**	**574,963**	**1,181,250**	**9,831,825**
LIABILITIES						
Financial liabilities at fair value through profit or loss	5,352	1,130	98	–	8,982	15,562
Deposits and loans from banks	45,929	40,391	4,669	1,652	511	93,152
Deposits and loans from customers	4,549,678	1,406,811	1,214,486	10,352	364,596	7,545,923
Issued bonds	3,009	194,839	329,867	–	–	527,715
Subordinated debt	27,488	229	25,116	3,569	–	56,402
Other financial liabilities under risk management	9,437	495	93	–	244,686	254,711
Provision for insurance contracts	1,033	1,006	1,470	9,877	412	13,798
Total	**4,641,926**	**1,644,901**	**1,575,799**	**25,450**	**619,187**	**8,507,263**

31 December 2015

In thousands of EUR	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity	Total
ASSETS						
Cash and cash equivalents	978,531	–	–	–	41,323	1,019,854
Financial assets at fair value through profit or loss	6,320	16,956	23,891	41,359	21,886	110,412
Financial assets available for sale	99,297	238,418	446,498	257,545	405,343	1,447,101
Financial assets held to maturity	40,854	107,554	302,156	60,335	–	510,899
Loans and advances to banks	1,499,784	475	–	–	14,437	1,514,696
Loans and advances to customers	1,879,837	2,052,139	904,383	406,242	118,139	5,360,740
Trade receivables and other financial assets under risk management	32,085	36	–	–	150,874	182,995
Total	**4,536,708**	**2,415,578**	**1,676,928**	**765,481**	**752,002**	**10,146,697**
LIABILITIES						
Financial liabilities at fair value through profit or loss	3,726	2,613	146	–	8,180	14,665
Deposits and loans from banks	64,361	69,600	1,563	–	–	135,524
Deposits and loans from customers	5,099,108	1,501,029	1,471,272	49,776	7,236	8,128,421
Issued bonds	2,937	108,979	335,180	–	–	447,096
Subordinated debt	27,753	229	19,809	82,524	–	130,315
Other financial liabilities under risk management	3,102	616	–	–	271,149	274,867
Provision for insurance contracts	–	–	–	–	11,099	11,099
Total	**5,200,987**	**1,683,066**	**1,827,970**	**132,300**	**297,664**	**9,141,987**

An analysis of the Group's sensitivity to an increase or decrease in market interest rates on the non-trading portfolio, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

In thousands of EUR	Impact on Profit or Loss 31 December 2016	Impact on Profit or Loss 31 December 2015	Impact on Other Comprehensive Income 31 December 2016	Impact on Other Comprehensive Income 31 December 2015
decrease in interest rates by 100 bp	8,656	4,691	18,981	23,158
increase in interest rates by 100 bp	(8,656)	(4,691)	(18,981)	(23,158)

In thousands of EUR	Total impact on Equity 31 December 2016	Total impact on Equity 31 December 2015
decrease in interest rates by 100 bp	27,637	27,849
increase in interest rates by 100 bp	(27,637)	(27,849)

(ii) Foreign exchange risk

The breakdown of the carrying amounts by currency translated to thousands EUR is as follows:

31 December 2016

In thousands of EUR	EUR	CZK	USD	HRK	Other	Total
ASSETS						
Cash and cash equivalents	146,344	734,895	16,022	12,558	25,359	935,178
Financial assets at fair value through profit or loss	48,714	90,345	8,766	–	41,420	189,245
Financial assets available for sale	1,145,826	40,337	55,227	13,979	22,031	1,277,400
Financial assets held to maturity	403,540	–	1,832	–	–	405,372
Loans and advances to banks	372,657	784,973	5,249	12,465	28,820	1,204,164
Loans and advances to customers	4,173,105	1,289,532	94,003	9,765	91,110	5,657,515
Trade receivables and other financial assets under risk management	113,634	26,621	21,280	490	926	162,951
Total	**6,403,820**	**2,966,703**	**202,379**	**49,257**	**209,666**	**9,831,825**
Off balance sheet assets	2,322,795	1,447,016	161,724	7,615	111,873	4,051,023
LIABILITIES						
Financial liabilities at fair value through profit or loss	5,801	9,761	–	–	–	15,562
Deposits and loans from banks	85,307	1,897	77	5,871	–	93,152
Deposits and loans from customers	4,808,527	2,348,766	164,266	48,657	175,707	7,545,923
Issued bonds	221,518	306,197	–	–	–	527,715
Subordinated debt	30,841	25,561	–	–	–	56,402
Other financial liabilities under risk management	81,965	147,839	16,728	2,048	6,131	254,711
Provision for insurance contracts	13,798	–	–	–	–	13,798
Total	**5,247,757**	**2,840,021**	**181,071**	**56,576**	**181,838**	**8,507,263**
Off balance sheet liabilities	2,272,379	715,073	191,353	36,648	51,644	3,267,097
Net position (including Off balance sheet)	1,206,479	858,625	(8 321)	(36 352)	88,057	2,108,488

31 December 2015

In thousands of EUR	EUR	CZK	USD	HRK	Other	Total
ASSETS						
Cash and cash equivalents	138,725	851,160	12,514	10,319	7,136	1,019,854
Financial assets at fair value through profit or loss	37,620	45,574	17,169	–	10,049	1 10,412
Financial assets available for sale	1,248,696	190,328	2,164	5,296	617	1,447,101
Financial assets held to maturity	510,899	–	–	–	–	510,899
Loans and advances to banks	243,050	1,167,980	90,983	12,208	475	1,514,696
Loans and advances to customers	4,142,200	1,064,704	90,726	18,080	45,030	5,360,740
Trade receivables and other financial assets under risk management	136,410	24,125	21,590	49	821	182,995
Total	**6,457,600**	**3,343,871**	**235,146**	**45,952**	**64,128**	**10,146,697**
Off balance sheet assets	1,238,144	1,762,476	22,581	13,778	75,748	3,112,727
LIABILITIES						
Financial liabilities at fair value hrough profit or loss	7,228	7,437	–	–	–	14,665
Deposits and loans from banks	99,244	32,298	102	3,880	–	135,524
Deposits and loans from customers	4,970,876	2,962,904	121,241	55,460	17,940	8,128,421
Issued bonds	251,382	195,714	–	–	–	447,096
Subordinated debt	104,757	25,558	–	–	–	130,315
Other financial liabilities under risk management	126,125	137,423	9,137	851	1,331	274,867
Provision for insurance contracts	11,099	–	–	–	–	11,099
Total	**5,570,711**	**3,361,334**	**130,480**	**60,191**	**19,271**	**9,141,987**
Off balance sheet liabilities	1,789,780	323,903	143,519	21,406	76,729	2,355,337
Net position (including Off balance sheet)	335,253	1,421,110	(16 272)	(21 867)	43,876	1,762,100

Off balance sheet items mostly relate to derivative operations and granted and received guarantees.

The VaR statistic is as follows:

In thousands of EUR	31 December 2016	31 December 2015
VaR foreign exchange risk	1,616	3,713

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates is presented in the table below.

Translation risk arising from translating the financial statements of a foreign operation into the presentation currency of the Group, does not meet the definition of currency risk. Consequently, translation risk should not be included in the sensitivity analysis. However, foreign currency denominated inter-company receivables and payables that do not form part of a net investment in a foreign operation are included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation is not fully eliminated.

A one percent strengthening in foreign currencies would have had the following effects on profit or loss and other comprehensive income:

In thousands of EUR	Impact on Profit or Loss 31 December 2016	Impact on Profit or Loss 31 December 2015	Impact on Other Comprehensive Income 31 December 2016	Impact on Other Comprehensive Income 31 December 2015
EUR	(6,215)	(5,761)	(1,756)	(1,629)
CZK	(4,198)	(2,676)	–	(170)
USD	(170)	(1,048)	–	–
RUB	53	–	–	–

In thousands of EUR	Total impact on Equity 31 December 2016	Total impact on Equity 31 December 2015
EUR	(7,971)	(7,390)
CZK	(4,198)	(2,846)
USD	(170)	(1,048)
RUB	53	–

(iii) Equity price risk

Equity price risk arises from the quoted financial instruments held by the Group, further to changes in perception by the markets of the expected financial performance of the investments concerned. Equity price risk is essentially managed through diversification of the investment portfolio of available for sale and fair value through profit or loss equity securities.

The VaR statistics is as follows:

In thousands of EUR	31 December 2016	31 December 2015
VaR stock risk (trading book)	1,716	603

A 100 bp increase in the price of non-derivative financial assets at fair value through profit or loss would have had a positive effect on profit or loss as set out below. A 100 bp increase in the price of financial assets available for sale would have had a positive effect on other comprehensive income as set out below. A 100 bp decrease in price would have had an equal but opposite effect on profit or loss and other comprehensive income.

In thousands of EUR	Impact on Profit or Loss 31 December 2016	Impact on Profit or Loss 31 December 2015	Impact on Other Comprehensive Income 31 December 2016	Impact on Other Comprehensive Income 31 December 2015
Level 1 – quoted market prices	233	141	155	1,730
Level 2 – derived from quoted prices	6	21	3,662	1,963
Level 3 – calculated using valuation techniques	18	14	53	361
Total	**257**	**176**	**3,870**	**4,054**

In thousands of EUR	Total impact on Equity 31 December 2016	Total impact on Equity 31 December 2015
Level 1 – quoted market prices	388	1,871
Level 2 – derived from quoted prices	3,668	1,984
Level 3 – calculated using valuation techniques	71	375
Total	**4,127**	**4,230**

39.4. OPERATIONAL RISK

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal risk.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures that would restrict initiative and creativity.

The primary responsibility for the implementation of controls to address operational risk is assigned to management within each subsidiary. This responsibility is supported by the development of overall standards within the Group for the management of operational risk which is done by the Risk Management Department and which cover the following areas:

- Requirements for the reconciliation and monitoring of transactions.
- Identification of operational risk within the framework of each subsidiary's control system and development of conditions for decreasing and limiting operational risk (while the required level of activities is secured), as well as its impacts and consequences; recommendations for appropriate solutions in this area.
- Reporting of operational risk events by entering the corresponding information into the Regulated Consolidated Group's database of operational risk events (see Note 39.5. Capital management section regarding the definition of the Regulated Consolidated Group).
- This overview of the Group's operational risk events allows the Group to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely

39.5. CAPITAL MANAGEMENT

The Group's policy is to hold a strong capital base so as to maintain creditor and market confidence and to sustain future development of its business.

Consolidated capital adequacy is calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and Council Regulation (CRR) of 23 June 2013 as from 1 January 2014. Until 31 December 2013 it was calculated in accordance with regulation of the Central Bank of the Czech Republic Decree No. 123/2007 Coll.

The Consolidated Group's capital is analysed into two tiers:

- Tier 1 capital, which is divided into:
  1. Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit of current year is excluded), accumulated other comprehensive income and non-controlling interests after deduction of goodwill and intangible assets and additional value adjustments;
  2. Additional Tier 1 capital (AT1), which can include perpetual instruments issued in accordance with CRR (see Note 34. Shareholders' equity)
- Tier 2 capital, which includes qualifying subordinated liabilities.

The Regulated Consolidated Group (RCG) is defined for the purposes of the prudential rules on a consolidated basis by the Czech Act on Banks No. 21/1992 and Decree No. 163/2014 Coll. According to this regulation, the financial holding group of the ultimate shareholders of J&T FINANCE GROUP SE as from 1 January 2014 (J&T FINANCE GROUP, a.s as at 31 December 2013). (see Note 1. General information) is defined as the RCG. Different consolidation rules are applicable for RCG's purposes – only companies which have the status of financial institutions as defined by CRR are fully consolidated.

Regulatory Capital

In thousands of EUR	31 December 2016	31 December 2015
Common equity tier 1 capital (CET1)	1,018,453	957,459
Additional tier 1 capital (AT1)	268,288	64,467
Total Tier 1 capital	1,286,741	1,021,926
Supplementary capital (Tier 2)	43,036	120,387
Total regulatory capital	**1,329,777**	**1,142,313**
RISK WEIGHTED ASSETS (RWA)		
Credit risk of investment portfolio	7,341,840	7,051,000
Operational risk (BIA)	655,236	474,941
Credit risk of trading portfolio	407,767	296,625
General and specific interest risk	160,680	143,111
General and specific equity risk	45,558	30,441
Currency risk	201,529	122,187
Commodity risk	–	886
Total amount of capital requirements	**8,404,843**	**7,822,566**

The capital adequacy is calculated for CET 1 capital, Tier 1 capital and total regulatory capital as a portion of the capital to risk weighted assets (RWA).The regulatory capital is calculated as the sum of the common equity tier 1 capital (CET1), additional tier 1 (AT1) and supplementary capital (Tier 2) reduced by deductible items. CET1 capital comprises paid-up share capital, the statutory reserve fund, other equity funds, retained earnings and additional value adjustments. Tier 2 capital comprises subordinated debt approved by the Czech National Bank in an amount of EUR 43,036 thousand (31 December 2015: EUR 120,387 thousand). The deductible items include intangible assets at net book value and net deferred tax liabilities related to these intangible assets.

Capital adequacy ratios

Requirements for capital adequacy ratios are as follows:

in %	Minimum requirements	Capital conservation buffer	Total requirements
CET1 ratio	4.5	2.5	7.0
Tier 1 ratio	6.0	2.5	8.5
Total regulatory capital ratio	**8.0**	**2.5**	**10.5**

Additional Capital conservation buffer of 2.5% for CET1 was imposed by the Czech National bank. Capital adequacy ratios of RCG as at 31 December 2016 and 2015 were as follows:

in %	31 December 2016	31 December 2015
Common equity tier 1 (CET1)	12.12	12.24
Tier 1 capital	15.31	13.06
Total regulatory capital ratio	**15.82**	**14.60**

40. ASSETS UNDER MANAGEMENT

In thousands of EUR	31 December 2016	31 December 2015
Assets in own-managed funds	1,972,660	1,551,328
Assets with discretionary mandates	149,791	152,117
Other assets under management	2,276,120	1,775,992
Total assets under management (including double counting)	**4,398,571**	**3,479,437**

(a) Calculation method

Assets under management comprise all client assets managed or held for investment purposes only. In summary, these include all balances due to customers, fiduciary time deposits and all valued portfolio assets. Custodial assets (assets held solely for transaction and safe-keeping purposes) are not included in assets under management. Assets under management are measured at fair value for quoted financial instruments. If these are not quoted, debt and equity financial instruments are valued at amortized cost or using common valuation techniques (e.g. pricing models with market inputs as available), respectively.

(b) Assets in own-managed funds

This comprises assets of all the Group's investment funds.

(c) Assets with discretionary mandates

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of assets with discretionary mandates. The figures comprise both assets deposited with Group companies and assets deposited with third parties, for which the Group companies hold a discretionary mandate.

(d) Other assets under management

Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of other assets under management. The figures comprise assets for which an administration or advisory mandate is exercised.

41. RELATED PARTIES

Identity of related parties

The Group has, or had, related party relationships as identified in the following table, either at 31 December 2016 and 2015 or during the years:

(1) Ultimate shareholders and companies they control
(2) Entities with joint control or significant influence over the Company and its subsidiaries or associates
(3) Associates
(4) Joint ventures in which the Group is a venturer
(5) Key management personnel of the Company or parent of the Company and companies they control or jointly control

"Ultimate shareholders and companies they control" includes the following: Jakabovič Ivan, Tkáč Jozef, DANILLA EQUITY LIMITED, J&T Securities, s.r.o., KOLIBA REAL a.s., KPRHT 3, s.r.o., KPRHT 14 s.r.o. and KPRHT 19, s.r.o. None of these produce publicly available consolidated financial statements which include the Group.

The summary of transactions with related parties during 2016 and 2015 is as follows:

In thousands of EUR	Accounts receivable 31 December 2016	Accounts payable 31 December 2016	Accounts receivable 31 December 2015	Accounts payable 31 December 2015
Ultimate shareholders and companies they control	38,918	1,674	107,878	2,017
Associates and joint ventures	3,287	1,745	955	1,250
Key management personnel of the entity or its parent and companies they control or jointly control	265,165	19,203	279,192	13,966
Total	**307,370**	**22,622**	**388,025**	**17,233**

There was no provision for doubtful debts due from the "Ultimate shareholders and companies they control" as at 31 December 2016 (2015: nil).

The summary of transactions with related parties during 2016 and 2015 is as follows:

In thousands of EUR	Revenues 2016	Expenses 2016	Revenues 2015	Expenses 2015
Ultimate shareholders and companies they control	3,164	2	2,591	13
Associates and joint ventures	2,145	1,327	398	1,724
Key management personnel of the entity or its parent and companies they control or jointly control	21,793	9,720	28,557	3,247
Total	**27,102**	**11,049**	**31,546**	**4,984**

The summary of guarantees with related parties at year-end is as follows:

In thousands of EUR	Guarantees received 31 December 2016	Guarantees granted 31 December 2016	Guarantees received 31 December 2015	Guarantees granted 31 December 2015
Ultimate shareholders and companies they control	–	5	7,142	5
Key management personnel of the entity or its parent and companies they control or jointly control	7,436	162	9,689	92
Total	**7,436**	**167**	**16,831**	**97**

As at 31 December 2016 the shareholders of the Group had no guarantees to the creditors of the Group for its loans.(2015: EUR 38,208 thousand).

Transactions with directors and key management

Total remuneration included in "personnel expenses" and loans to directors and key management are as follows:

In thousands of EUR	31 December 2016	31 December 2015
Remuneration	382	430
Loans	263	552

Of the loans to directors and key management, new loans of EUR 56 thousand were granted during 2016 (2015: EUR 28 thousand) and EUR 310 thousand was repaid (2015: EUR 1,036 thousand).

42. UNCONSOLIDATED STRUCTURED ENTITIES

The Group engages in various business activities with structured entities which are companies designed to achieve a specific business purpose and usually designed so that voting or similar rights are not a dominant factor in deciding who controls the entity.

A structured entity often has some or all of the following features or attributes:
- Restricted activities;
- A narrow and well defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The Group provides financing to certain structured entities for the purchase of assets that are collateralized in favor of the Group by the structured entities. The Group enters into transactions with these entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

Income derived from involvement with structured entities represents interest income recognized by the Group on the funding provided to structured entities.

The Group's interests in unconsolidated structured entities refer to contractual involvement that exposes the group to variability of returns from the performance of the structured entities.

The maximum exposure to loss for the Group is determined by considering the nature of the interest in the unconsolidated structured entity and represents the maximum loss that the Group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

The maximum exposure to loans is reflected by their carrying amounts in the consolidated balance sheet as at 31 December 2016 in amount of EUR 647,533 thousand (2015: EUR 590,008 thousand) and there was no loss incurred in 2016 in respect of these loans provided (2015: nil). There are no additional contractual arrangements with these entities regarding providing any further funding or guarantees. Liabilities of the unconsolidated structured entities due to other entities are subordinated to liabilities due to the Group.

The total assets value for 5 unconsolidated structured entities, as indication of their size, is EUR 910,803 thousand (2015: EUR 925,585 thousand).

43. SUBSEQUENT EVENTS

On 1 January 2017 the subsidiary VABA d.d. banka Varaždin was renamed to J&T banka d.d.

On 6 February 2017 PROFIREAL OOO changed its name to MCC PROFIREAL, LLC.

On 15 February 2017 the Group bought a 100% share in Health Care Financing, a.s. through its subsidiary J&T Banka, a.s.

On 27 March 2017, J&T FINANCE GROUP SE received a notice from the Antimonopoly Office of the Slovak Republic about the commencement of administrative proceedings regarding a possible breach of antimonopoly law by an unannounced transaction - the acquisition of a 40% stake in Pantha Rhei, s.r.o. by Diversified Retail Company, a.s. According to the preliminary considerations of the Antimonopoly Office, J&T FINANCE GROUP SE allegedly gained joint control over Pantha Rhei, s.r.o. by exercising rights on behalf of Diversified Retail Company, a.s. without notifying the transaction to the Antimonopoly Office and exercised the rights and duties arising from such control without prior approval of the Antimonopoly Office.

J&T FINANCE GROUP SE denies that it acquired control over Panhta Rhei, s.r.o. and refuses all the alleged breaches. The administrative proceedings have not been concluded at the time of issuance of the financial statements.

44. GROUP ENTITIES

The list of the Group entities as at 31 December 2016 and 2015 is set out below:

		December 2016			December 2015	
Company name	Country of incorporation	Consolidated %	Ownership interest	Consolidation method	Consolidated %	Ownership interest
J&T FINANCE GROUP SE	Czech Republic			parent company		parent company
J&T BANKA, a.s.	Czech Republic	100.00	direct	Full	100.00	direct
ATLANTIK finanční trhy, a.s.	Czech Republic	100.00	direct	Full	100.00	direct
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	100.00	direct	Full	100.00	direct
J&T IB and Capital Markets, a.s.	Czech Republic	100.00	direct	Full	100.00	direct
XT-Card a,s,	Czech Republic	32.00	direct	Equity	32.00	direct
J&T Bank, a.o. (J&T Bank ZAO) 1	Russia	100.00	direct	Full	100.00	direct
TERCES MANAGEMENT LIMITED 2	Cyprus	100.00	direct	Full	100.00	direct
Interznanie OAO3	Russia	100.00	direct	Full	100.00	direct
PGJT B.V.	Netherlands	50.00	direct	Equity	50.00	direct
PROFIREAL OOO	Russia	50.00	direct	Equity	50.00	direct
J&T REALITY otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST, a.s. 4	Czech Republic	88.25	direct	Full	88.88	direct
VABA d.d. banka Varaždin	Croatia	82.55	direct	Full	76.81	direct
J&T Cafe, s.r.o.	Czech Republic	–	–	–	100.00	direct
ART FOND - Stredoeurópský fond súčasného umenia, a.s.	Slovakia	–	–	–	38.46	direct
J&T INTEGRIS GROUP LIMITED	Cyprus	100.00	direct	Full	100.00	direct
Bayshore Merchant Services Inc.	British Virgin Islands	100.00	direct	Full	100.00	direct
J&T Bank and Trust Inc,	Barbados	100.00	direct	Full	100.00	direct
J and T Capital, Sociedad Anonima de Capital Variable	Mexico	100.00	direct	Full	100.00	direct
J&T MINORITIES PORTFOLIO LIMITED	Cyprus	100.00	direct	Full	100.00	direct
Equity Holding, a,s,	Czech Republic	62.64	direct	Full	62.64	direct
ABS PROPERTY LIMITED	Ireland	–	–	–	100.00	direct
J&T Global Finance I., B.V. in liquidation	Netherlands	–	–	–	100.00	direct
J&T Global Finance II., B.V. in liquidation	Netherlands	–	–	–	100.00	direct
J&T Global Finance III, s.r.o.	Slovakia	100.00	direct	Full	100.00	direct
J&T Global Finance IV., B.V.	Netherlands	100.00	direct	Full	100.00	direct
J&T Global Finance V., s.r.o.	Slovakia	100.00	direct	Full	100.00	direct
J&T Global Finance VI, s.r.o.	Slovakia	100.00	direct	Full	–	–
J&T Global Finance VII., s.r.o.	Czech Republic	100.00	direct	Full	–	–
J&T Concierge, s.r.o.	Czech Republic	100.00	direct	Full	100.00	direct
J&T SERVICES ČR, a.s.	Czech Republic	100.00	direct	Full	100.00	direct
J&T SERVICES SR, s.r.o.	Slovakia	100.00	direct	Full	100.00	direct
J&T Finance, LLC	Russia	99.90	direct	Full	99.90	direct
Hotel Kadashevskaya, LLC	Russia	99.90	direct	Full	99.90	direct
PBI, a.s.	Czech Republic	94.88	direct	Full	100.00	direct
Poštová banka, a.s. 5	Slovakia	96.72	direct	Full	98.46	direct

		December 2016			December 2015	
Company name	Country of incorporation	Consolidated %	Ownership interest	Consolidation method	Consolidated %	Ownership interest
Poštová poisťovňa, a.s. (Poisťovňa Poštovej banky, a.s.)	Slovakia	77.37	direct	Full	78.79	direct
Dôchodková správcovská spoločnosť Poštovej Banky, d.s.s., a.s.	Slovakia	96.72	direct	Full	98.46	direct
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ.spol., a.s.	Slovakia	96.72	direct	Full	98.46	direct
POBA Servis, a. s.	Slovakia	96.72	direct	Full	98.46	direct
PB PARTNER, a.s.	Slovakia	96.72	direct	Full	98.46	direct
PB Finančné služby, a.s.	Slovakia	96.72	direct	Full	98.46	direct
PB IT, a.s.	Slovakia	96.72	direct	Full	98.46	direct
SPPS, a.s.	Slovakia	38.69	direct	Equity	39.38	direct

The structure above is listed by ownership of companies at the different levels within the Group.

1 The Group owns a 99.945% share in J&T Bank, a.o. through the subsidiary J&T BANKA, a.s. and another 0.055% share through J&T FINANCE GROUP SE.

2 The Group owns a 99% share in TERCES MANAGEMENT LIMITED through the subsidiary J&T BANKA, a.s. and another 1% share through the subsidiary J&T Finance, LLC.

3 The Group owns a 50% share in Interznanie OAO through the subsidiary TERCES MANAGEMENT LIMITED and another 50% share through the subsidiary J&T Bank, a.o.

4 The Group owns a 53.08% share in J&T REALITY otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST., a.s. through the subsidiary J&T BANKA, a.s. and another 35.17% share through the subsidiary Poštová banka, a.s. (2015: 53.08% and 35.8%).

5 The Group owns a 64.46% share in Poštová banka., a.s. through J&T FINANCE GROUP SE and another 32.26% share through the subsidiary PBI, a.s. (2015: 64.46% through J&T FINANCE GROUP SE and 34% through the subsidiary PBI, a.s.).

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J&T FINANCE GROUP SE

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of J&T FINANCE GROUP SE

Opinion

We have audited the accompanying financial statements of J&T FINANCE GROUP SE ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

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Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information. In connection with our audit of the financial statements, our responsibility is to report on the other information.

J&T FINANCE GROUP SE has not prepared an annual report as at 31 December 2016, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above 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 regulations, 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

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audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the financial statements of J&T FINANCE GROUP SE as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
2 May 2017

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner
Registration number 2332

BALANCE SHEET IN FULL FORMAT AS AT 31 DECEMBER 2016

Assets

(in thousands of CZK)

Ident.		line	Current period Gross	Current period Adjust.	Current period Net	Prior period Net
	TOTAL ASSETS	**1**	**59,973,272**	**(3,856,882)**	**56,116,390**	**50,988,081**
B.	**Fixed assets**	**2**	**38,579,018**	**(2,974,809)**	**35,604,209**	**35,213,255**
B.I.	Intangible fixed assets	3	463	(234)	229	294
B.I.2.	Intellectual property rights	4	71	(71)	–	–
B.I.2.1.	Software	5	71	(71)	–	–
B.I.4.	Other intangible fixed assets	6	392	(163)	229	294
B.II.	Tangible fixed assets	7	229,235	(62,653)	166,582	184,451
B.II.1.	Land and buildings	8	159,735	(27,366)	132,369	141,423
B.II.1.2.	Buildings	9	159,735	(27,366)	132,369	141,423
B.II.2.	Plant and equipment	10	66,582	(35,287)	31,295	40,110
B.II.4.	Other tangible fixed assets	11	2,918	–	2,918	2,918
B.II.4.3.	Other tangible fixed assets	12	2,918	–	2,918	2,918
B.III.	Long-term investments	13	38,349,320	(2,911,922)	35,437,398	35,028,510
B.III.1.	Equity investments – group undertakings	14	37,573,778	(2,911,922)	34,661,856	34,717,952
B.III.2.	Loans – group undertakings	5	–	–	–	306,049
B.III.5.	Other long-term securities and equity investments	16	477,270	–	477,270	4,509
B.III.7.	Other long-term investments	17	298,272	–	298,272	–
B.III.7.1.	Other long-term investments	18	298,272	–	298,272	–

Assets

(in thousands of CZK)

Ident.		line	Current period Gross	Current period Adjust.	Current period Net	Prior period Net
C.	**Current assets**	**19**	**21,357,572**	**(882,073)**	**20,475,499**	**15,774,507**
C.I.	Inventories	20	127	–	127	202
C.I.1.	Raw materials	21	127	–	127	202
C.II.	Receivables	22	18,866,009	(882,073)	17,983,936	14,898,799
C.II.1.	Long-term receivables	23	9,340,170	–	9,340,170	11,544
C.II.1.5.	Receivables – other	24	9,340,170	–	9,340,170	11,544
C.II.1.5.4.	Other receivables	25	9,340,170	–	9,340,170	11,544
C.II.2.	Short-term receivables	26	9,525,839	(882,073)	8,643,766	14,887,255
C.II.2.1.	Trade receivables	27	195,072	(124,469)	70,603	696,687
C.II.2.2.	Receivables – group undertakings	28	1,034,321	–	1,034,321	926,199
C.II.2.3.	Receivables – associated companies	29	57,125	–	57,125	–
C.II.2.4.	Receivables – other	30	8,239,321	(757,604)	7,481,717	13,264,369
C.II.2.4.1.	Receivables from shareholders/members	31	–	–	–	1,994,260
C.II.2.4.3.	Tax receivables	32	32,029	–	32,029	48,743
C.II.2.4.4.	Short-term advances paid	33	17,723	–	17,723	2,083
C.II.2.4.5.	Estimated receivables	34	2,742	–	2,742	3,220
C.II.2.4.6.	Other receivables	35	8,186,827	(757,604)	7,429,223	11,216,063
C.III.	Short-term financial assets	36	2,405,461	–	2,405,461	11,810
C.III.2.	Other short-term financial assets	37	2,405,461	–	2,405,461	11,810
C.IV.	Cash	38	85,975	–	85,975	863,696
C.IV.1.	Cash in hand	39	273	–	273	288
C.IV.2.	Bank accounts	40	85,702	–	85,702	863,408
D.	**Deferrals**	**41**	**36,682**	–	**36,682**	**319**
D.1.	Prepaid expenses	42	35,486	–	35,486	313
D.3.	Accrued revenues	43	1,196	–	1,196	6

Liabilities

(in thousands of CZK)

Ident.		line	Current period	Prior period
	TOTAL LIABILITIES AND EQUITY	**44**	**56,116,390**	**50,988,081**
A.	**Equity**	**45**	**30,237,182**	**27,220,518**
A.I.	Registered capital	46	15,780,308	17,740,750
A.I.1.	Registered capital	47	15,780,308	17,740,750
A.II.	Premium and capital contributions	48	8,069,882	2,655,296
A.II.1.	Premium	49	2,551,766	2,551,766
A.II.2.	Capital contributions	50	5,518,116	103,530
A.II.2.1.	Other capital contributions	51	5,615,882	208,882
A.II.2.2.	Revaluation of assets and liabilities (+/-)	52	(97,766)	(105,352)
A.III.	Funds from profit	53	446,902	2,160,082
A.III.1.	Other reserve funds	54	200,082	200,082
A.III.2.	Statutory and other funds	55	246,820	1,960,000
A.IV.	Retained earnings (+/-)	56	6,014,803	3,130,608
A.IV.1.	Retained profits	57	6,014,803	3,130,608
A.V.	Profit (loss) for the current period (+/-)	58	-74,713	1,533,782
B. + C.	**Liabilities**	**59**	**25,820,034**	**23,763,071**
B.	**Provisions**	**60**	**77,166**	**77,256**
B.4.	Other provisions	61	77,166	77,256
C.	**Liabilities**	**62**	**25,742,868**	**23,685,815**
C.I.	Long-term liabilities	63	11,056,904	12,366,292
C.I.1.	Debentures and bonds issued	64	1,352,408	1,352,700
C.I.1.1.	Convertible debentures and bonds	65	1,352,408	1,352,700
C.I.4.	Trade payables	66	64	1,697,966
C.I.6.	Liabilities – group undertakings	67	9,697,979	9,304,945
C.I.8.	Deferred tax liability	68	6,453	10,681

Liabilities

(in thousands of CZK)

Ident.		line	Current period	Prior period
C.II.	Short-term liabilities	69	14,685,964	11,319,523
C.II.2.	Liabilities to credit institutions	70	1,055,571	1,014,986
C.II.3.	Short-term advances received	71	888,221	–
C.II.4.	Trade payables	72	5,758	7,656
C.II.5.	Short-term bills of exchange payable	73	589,309	652,382
C.II.6.	Liabilities – group undertakings	74	11,502,216	9,382,879
C.II.8.	Liabilities – other	75	644,889	261,620
C.II.8.1.	Liabilities to shareholders/members	76	42,431	42,439
C.II.8.2.	Short-term financial liabilities	77	18,252	53,325
C.II.8.3.	Payables to employees	78	1,107	1,344
C.II.8.4.	Social security and health insurance liabilities	79	651	390
C.II.8.5.	Tax liabilities and subsidies	80	47,154	2,414
C.II.8.6.	Estimated payables	81	7,314	12,839
C.II.8.7.	Other payables	82	527,980	148,869
D.	**Accruals**	83	**59,174**	**4,492**
D.1.	Accrued expenses	**84**	59,174	4,492

INCOME STATEMENT CLASSIFICATION BY NATURE FOR THE YEAR ENDED 31 DECEMBER 2016

INCOME STATEMENT

(in thousands of CZK)

Ident.		line	Current period	Prior period
I.	Revenue from products and services	1	14,696	36,231
A.	Cost of sales	2	125,131	233,633
A.2.	Materials and consumables	3	1,426	3,075
A.3.	Services	4	123,705	230,558
D.	Personnel expenses	5	17,482	36,000
D.1.	Wages and salaries	6	13,240	27,368
D.2.	Social security, health insurance and other expenses	7	4,242	8,632
D.2.1.	Social security and health insurance expenses	8	4,088	8,179
D.2.2.	Other expenses	9	154	453
E.	Adjustments relating to operating activities	10	17,978	39,757
E.1.	Adjustments to intangible and tangible fixed assets	11	17,978	39,757
E.1.1.	Depreciation and amortisation of intangible and tangible fixed assets	12	17,978	39,757
III.	Other operating revenues	13	10,609	353,977
III.1.	Proceeds from disposals of fixed assets	14	–	182
III.2.	Proceeds from disposals of raw materials	15	75	206
III.3.	Other operating revenues	16	10,534	353,589
F.	Other operating expenses	17	386,391	231,161
F.1.	Net book value of fixed assets sold	18	–	112
F.2.	Net book value of raw materials sold	19	71	150
F.3.	Taxes and charges	20	117	1,489
F.4.	Provisions relating to operating activity and complex prepaid expenses	21	326,509	(153,019)
F.5.	Other operating expenses	22	59,694	382,429
*	**Operating profit (loss) (+/-)**	**23**	**(521,677)**	**(150,343)**

INCOME STATEMENT

(in thousands of CZK)

Ident.		line	Current period	Prior period
IV.	Revenue from long-term investments – equity investments	24	1,022,812	2,845,764
IV.1.	Revenue from equity investments – group undertakings	25	1,022,812	2,845,764
G.	Cost of equity investments sold	26	54,754	1,458,072
V.	Revenue from other long-term investments	27	937,967	1,458,165
V.1.	Revenue from other long-term investments – group undertakings	28	30,465	–
V.2.	Other revenue from other long-term investments	29	907,502	1,458,165
H.	Expenses related to other long-term investments	30	899,777	16,076
VI.	Interest revenue and similar revenue	31	754,207	1,519,937
VI.1.	Interest revenue and similar revenue – group undertakings	32	138,033	377,152
VI.2.	Other interest revenue and similar revenue	33	616,174	1,142,785
I.	Adjustments and provisions relating to financial activity	34	8,912	74,190
J.	Interest expense and similar expense	35	1,110,268	2,191,045
J.1.	Interest expense and similar expense – group undertakings	36	879,809	1,556,085
J.2.	Other interest expense and similar expense	37	230,459	634,960
VII.	Other financial revenues	38	537,737	1,576,895
K.	Other financial expenses	39	736,140	1,942,412
*	**Profit (loss) from financial operations**	**40**	**442,872**	**1,718,966**
**	**Profit (loss) before tax (+/-)**	**41**	**(78,805)**	**1,568,623**
L.	Income tax	42	(4,092)	34,841
L.1.	Current tax	43	136	39,491
L.2.	Deferred tax (+/-)	44	(4,228)	(4,650)
**	**Profit (loss) after tax (+/-)**	**45**	**(74,713)**	**1,533,782**
***	**Profit (loss) for the accounting period (+/-)**	**46**	**(74,713)**	**1,533,782**
*	**Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.**	**47**	**3,278,028**	**7,790,969**

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

In thousands of CZK	Registered capital	Premium
Balance as at 1.1.2016	17,740,750	2,551,766
Decrease in registered capital	(1,960,442)	–
Additions to funds	–	–
Transfer of financial assistance	–	–
Distribution related to financial instruments	–	–
Change in revaluation	–	–
Issue of other capital instruments	–	–
Profit (loss) for the current period	–	–
Balance as at 31.12.2016	**15,780,308**	**2,551,766**

In thousands of CZK	Registered capital	Premium
Balance as at 1.3.2014	14,217,862	–
Increase in registered capital	3,522,888	2,551,766
Financial assistance	–	–
Change in revaluation	–	–
Profit (loss) for the current period	–	–
Balance as at 31.12.2015	**17,740,750**	**2,551,766**

Other capital contributions	Revaluation of assets and liabilities	Reserve fund	Statutory and other funds	Retained earnings andprofit (loss) for the current period	Total
208,882	(105,352)	200,082	1,960,000	4,664,390	27,220,518
–	–	–	–	–	(1,960,442)
–	–	–	490,000	(490,000)	–
–	–	–	(1,960,000)	1,840,413	(119,587)
–	–	–	(243,180)	–	(243,180)
–	7,586	–	–	–	7,586
5,407,000	–	–	–	–	5,407,000
–	–	–	–	(74 713)	(74 713)
5,615,882	**(97,766)**	**200,082**	**246,820**	**5,940,090**	**30,237,182**

Other capital contributions	Revaluation of assets and liabilities	Reserve fund	Statutory and other funds	Retained earnings andprofit (loss) for the current period	Total
208,882	(12,736)	200,082	–	5,095,556	19,709,646
–	–	–	–	–	6,074,654
–	–	–	1,960,000	(1,964,948)	(4,948)
–	(92,616)	–	–	–	(92,616)
–	–	–	–	1,533,782	1,533,782
208,882	**(105,352)**	**200,082**	**1,960,000**	**4,664,390**	**27,220,518**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

Ident.		Current period	Prior period
P.	**Cash and cash equivalents, beginning of period**	**863,696**	**855,960**
	NET OPERATING CASH FLOW		
Z:	Operating profit (loss) before tax	(521,677)	(150,343)
A.1.	Non-cash transactions	945,782	(105,754)
A.1.1.	Depreciation and amortisation of fixed assets	17,978	39,921
A.1.2.	Change in:	335,421	(153,019)
A.1.2.2.	provisions and adjustments relating to operating activity	335,421	(153,019)
A.1.3.	Profit(-) Loss(+) on sale of fixed assets	–	(70)
A.1.4.	Other non-cash transactions	592,383	7,414
A*.	**Net operating cash flow before taxation, financial items, changes in working capital and extraordinary items**	**424,105**	**(256,097)**
A.2.	Changes in working capital	(7,235,364)	4,072,191
A.2.1.	Change in receivables from operating activities, estimated receivables and deferrals	(4,786,325)	3,886,344
A.2.2.	Change in short-term liabilities from operating activities, estimated payables and accruals	(129,284)	186,049
A.2.3.	Change in inventories	75	(202)
A.2.4.	Change in short-term financial assets, other than cash and cash equivalents	(2,319830)	–
A.**	**Net operating cash flow before taxation, financial balances, and extraordinary items**	**(6,811,259)**	**3,816,094**
A.3.	Interest paid excluding amounts capitalised	(858,840)	(1,915,008)
A.4.	Interest received	290,249	808,605
A.5.	Income tax paid on ordinary income and income tax relating to prior periods	20,664	(88,305)
A.6.	Other financial receipts and disbursement	132,688	387,947
A.7.	Dividends received	1,022,812	2,285,552
A.***	**Net operating cash flow**	**(6,203,686)**	**5,294,885**
	INVESTING ACTIVITIES		
B.1.	Acquisition of fixed assets	(801,391)	(10,531,479)
B.1.1.	Acquisition of tangible fixed assets	(43)	(442)
B.1.2.	Acquisition of intangible fixed assets	–	(392)
B.1.3.	Acquisition of long-term investments	(801,348)	(10,530,645)
B.2.	Proceeds from sales of fixed assets	421,598	67,577
B.2.1.	Proceeds from sales of tangible and intangible fixed assets	–	182
B.2.2.	Proceeds from sale of long-term investments	421,598	67,395
B.3.	Advances and loans to related parties	4,276,683	(2,736,779)
B.***	**Net cash flow from investing activities**	**3,896,890**	**(13,200,681)**
	FINANCING ACTIVITIES		
C.1.	Change in long-term resp. short-term liabilities from financing	(1,551,076)	1,838,878
C.2.	Increase and decrease in equity from cash transactions	3,080,151	6,074,654
C.2.1.	Subscription of shares and investments	3,446,558	6,074,654
C.2.2.	Equity paid to shareholders	(119,587)	–
C.2.5.	Payments from funds created from net profit	(246,820)	–
C.***	**Net cash flow from financing activities**	**1,529,075**	**7,913,532**
F.	**Net increase or decrease in cash balance**	**(777,721)**	**7,736**
R.	**Cash and cash equivalents, end of period**	**85,975**	**863,696**

NOTES TO FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2016

1. DESCRIPTION AND PRINCIPAL ACTIVITIES

Establishment and description of the Company

J&T FINANCE GROUP SE ("the Company") was registered on 24 August 2006. The subject of the company's business is production, trade and services not listed in appendices 1 to 3 of the Trade Act.

Ownership structure

The shareholders of the Company as at 31 December 2016 were:

Ing. Jozef Tkáč	45.05 %
Ing. Ivan Jakabovič	45.05 %
CEFC Hainan International Holdings Co, Ltd.	4.50 %
CEFC Shanghai International Group Limited	5.40 %

In the course of 2016, the share of individual shareholders in the registered capital changed due to a reduction in registered capital as set out in note 14. The shares of individual shareholders as at 31 December 2015 were as follows:

Ing. Jozef Tkáč	45.57 %
Ing. Ivan Jakabovič	45.57 %
CEFC Hainan International Holdings Co, Ltd.	4.07 %
CEFC Shanghai International Group Limited	4.79 %

Registered office

J&T FINANCE GROUP SE
Pobřežní 297/14, 186 00 Prague 8 - Karlín
Czech Republic

Identification number

275 92 502

Members of the board of directors and supervisory board as at 31 December 2016

Members of the board of directors	Members of the supervisory board
Jozef Tkáč (Chairman)	Marta Tkáčová (Chairman)
Patrik Tkáč	Ivan Jakabovič st.
Ivan Jakabovič	Jana Šuterová
Dušan Palcr	
Gabriela Lachoutová	

During the accounting period members of the board of directors and the supervisory board did not change.

The Company prepares consolidated financial statements.

Changes in the Commercial Register

In 2016, the following changes concerning the board of directors were made:

– on 16 February 2016 Ivan Jakabovič's address was changed,

The above events were recorded in the Commercial Register at the respective date.

Another change recorded in the Commercial Register was a decrease of the registered capital of J&T FINANCE GROUP SE by TCZK 1,960,442 to TCZK 15,780,308 by the pecuniary withdrawal of shares pursuant to Section 532 (1) B) of the Commercial Companies Act.

The reason for the Company's share capital reduction was the proposal by all the Company's shareholders to reduce the financial involvement of shareholders Jozef Tkáč and Ivan Jakabovič in the capital structure of the Company to achieve the associated optimisation of the deposit ratio in the share capital of the individual shareholders of the Company in accordance with their agreement, to strengthen the financial engagement of some shareholders and to further the economic growth of the Company.

Administrative branch

J&T FINANCE GROUP SE, organizačná zložka ("administrative branch") was established in Slovakia based on the decision of the board of directors of J&T FINANCE, a.s. (legal predecessor of the Company) dated 6 November 2013 and on 15 November 2013 it was recorded in the Commercial Register maintained by the District Court in Bratislava I, section Po, insert 2332/B as an administrative branch of a foreign entity.

Basic information about the branch:

Company name: J&T FINANCE GROUP SE, organizačná zložka
Place of business: Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic
Identification number: 47 251 735

The principal activities of the Company are as follows:

- mediation of providing loans and borrowings from funds solely acquired without a public invitation and without a public offer of property values
- lease of real estate without providing other than basic services associated with the lease
- mediation services in the field of trade, services and manufacture
- business, organisational and economic advisory
- advertising and marketing services

Head of the administrative branch:

Function	Name
Head of the administrative branch	Beáta Ondušková, Bratislava, Miletičova 54, post code 821 09, Slovak Republic

As at 31 December 2016 the administrative branch had 10 employees (2015 – 10 employees).

2. GENERAL ACCOUNTING PRINCIPLES, ACCOUNTING POLICIES AND THEIR CHANGES AND DEVIATIONS

These financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, ("the Act on Accounting") and Decree of the Czech Ministry of Finance No. 500/2002 Coll., implementing certain provisions of the Act on Accounting, as amended, for business entities using double-entry bookkeeping, ("the Decree"). Comparative information for the preceding accounting period from 1 March 2014 until 31st of December 2015 is provided in accordance with the structure and designation of balance sheet and income statement items specified by the Decree as amended for 2016.

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

a) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

The cost of internally produced fixed assets includes direct materials, direct wages and overheads directly related to the creation of the asset until it is put into use.

Tangible fixed assets acquired free of charge are measured at replacement cost and credited to other capital contributions (in the case of non-depreciable assets)/accumulated depreciation (in the case of depreciable assets). An asset's replacement cost is the cost at which the asset would be acquired at the time of its recognition. The replacement cost of the respective assets has been determined based on an expert appraisal.

Land is not depreciated.

Assets are depreciated using the following methods over the following periods:

Assets	Method	Period
Buildings	Straight-line	30 years
Machinery and equipment	Straight-line	8 years
Motor vehicles	Declining balance	4 years
Patents and other intangibles	Straight-line	5 years
Software	Declining balance	3 years
Adjustments to acquired fixed assets	Straight-line	15 years

In the income statement, depreciation is presented in "Depreciation and amortisation of intangible and tangible fixed assets".

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and their estimated useful lives.

b) Long-term investments

Long-term investments comprise equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company's intent is not known upon acquisition. Long-term investments also include long-term loans provided to group undertakings and associated companies and other long-term loans granted.

Long-term investments are stated at cost, which includes expenses directly incurred in connection with the acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

Securities, except held-to-maturity securities and securities comprising equity investments in subsidiaries and associated companies, are measured at fair value as at the balance sheet date. Gains/losses arising from the change in fair value are not included in the net profit or loss for the period until they are realised, and are recorded as changes in "Revaluation of assets and liabilities" in equity.

Where the fair value cannot be reliably determined the investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established.

As at the balance sheet date, investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established. The Company establishes the adjustments as at the last date of accounting period.

As at the balance sheet date unrealised foreign exchange gains and losses from long-term securities and ownership interests are included in the revaluation of assets and liabilities at fair value or are determined using the equity method.

The value of debt securities as at the balance sheet date also includes the proportionate part of interest revenue that is recognised in the income statement. Where the value of held-to-maturity debt securities has been impaired adjustments are established.

c) Short-term securities and ownership interests

On acquisition, securities held for trading and held-to-maturity debt securities due within one year are recorded at acquisition cost.

As at the balance sheet date short-term securities held for trading are measured at fair value. Any change in valuation in the accounting period is recorded in revenues (expenses) from revaluation of securities and derivatives. Where fair value cannot be reliably determined, short-term securities held for trading are recognised at cost. Adjustments are established if the net realisable value of these assets has been impaired.

The value of debt securities as at the balance sheet date also includes the proportionate part of interest revenue that is recognised in the income statement. Adjustments are established where the value of held-to-maturity debt securities has been impaired.

d) Inventories

Raw materials are stated at cost, which includes the purchase price of the materials and related customs duties and in-transit storage and freight costs incurred in delivering the materials to the manufacturing facility. Cost is determined using the first-in, first-out (weighted average) method.

Goods for resale are stated at cost, which includes the purchase price of the goods and related customs duties and in-transit storage and freight costs incurred in delivering the goods to the warehouse. Cost is determined using the first-in, first-out (weighted average) method.

e) Establishment of adjustments and provisions

Receivables
The Company establishes adjustments for doubtful receivables based on an analysis of the credit status of customers and the ageing structure of receivables. In the income statement, the establishment and release of adjustments is presented in "Adjustments to receivables".

Investments
Adjustments for investments are established where the book value is temporarily higher than the net realisable value of an investment, represented by the value of equity or a qualified estimate.

Provisions
As at the balance sheet date, a provision for untaken holidays is established based on an analysis of untaken holidays in the accounting period and average payroll expenses, including social security and health insurance expenses per employee.

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases or uses this provision and records the actual tax liability determined.
In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in tax receivables.

Other provisions are established for warranties. These provisions are established based on an analysis of the Company's management where provisions are established for risk guarantees.

f) Foreign currency translation
The Company applies the Czech National Bank official rate to foreign currency transactions. During the year foreign exchange gains and losses are only recognised when realised at the time of settlement.

As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. Unrealised foreign exchange gains and losses are recognised in profit or loss.

g) Derivatives
A derivative is a financial instrument that meets all of the following conditions.
- Its fair value changes in response to the change in a specified interest rate, price of a security, commodity price, foreign exchange rate, price index, credit rating or credit index, or other variable ("the underlying asset").
- It requires a small or no initial net investment compared with other types of contract based on a similar response to changes in market factors.

– It is settled at a future date, with the period from the trade date to the settlement date exceeding that of a spot transaction.

Derivatives are recognised in the balance sheet at fair value. Positive fair values of derivatives are recognised in assets under "Other receivables". Negative fair values of derivatives are recognised in liabilities under "Other payables". The fair value of financial derivatives is the present value of expected cash flows from these transactions.

Trading derivatives

Derivatives held for trading are recognised in the balance sheet at fair value. Gains/losses from changes in fair value are recorded in the income statement under "Other financial revenues"/"Other financial expenses".

Embedded derivatives

In some instances, a derivative may be part of a compound financial instrument, which includes both the host instrument and the derivative (embedded derivative) that influences the cash flow or otherwise modifies the characteristics of the host instrument. Pursuant to Section 52 (7) of Decree No. 500/2002 Coll., the Company does not account for embedded derivatives.

h) Leased assets

Lease payments are expensed on a straight-line basis over the lease term. Where an asset is purchased at the end of the lease, it is recorded at its purchase price.

i) Recognition of revenues and expenses

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing.

j) Income tax

Income tax for the period comprises current tax and the change in deferred tax.

Current tax comprises an estimate of tax payable calculated based on the taxable income, using the tax rate valid as at the first day of the accounting period, and any adjustments to taxes payable for previous periods.

Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability is utilised.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

k) Classification of liabilities and receivables

The Company classifies as short-term any part of long-term liabilities, receivables, received bank loans and received and granted overdrafts that is due within one year of the balance sheet date.

l) Consolidation

The Company is the parent entity that prepares consolidated financial statements in accordance with the provisions of 22aa of Act No. 563/1991 Coll., On Accounting. The consolidated financial statements will be published in accordance with Sections 22a (2c) and 21a of Act No. 563/1991 Coll., on Accounting.

The Company prepares consolidated financial statements in accordance with International Accounting Standards (IFRS), as adopted by the European Union.

m) Accounting of the organisational unit

The accounting of the organisational unit is kept in EUR and separately in Slovakia. The turnover on all accounts is recalculated once a month at the daily exchange rate of the Czech National Bank. Assets and liabilities in EUR are translated at the balance sheet date using the exchange rate announced by the CNB. Any exchange differences arising from the translation of the balance sheet and the income statement at the balance sheet date are recognized in the income statement.

n) Data comparability

The data presented in the previous balance sheet period of the financial statement represents the balance sheet of the Company as at 31 December 2015. In the income statement, the comparable data presented in the previous period, are disclosed for the period from 1 March 2014 to 31 December 2015.

3. FIXED ASSETS

a) Intangible fixed assets

2016

In thousands of CZK	Intellectual property rights	Software	Total
ACQUISITION COST			
Balance at 1/1/2016	392	71	463
Balance at 31/12/2016	392	71	463
ACCUMULATED DEPRECIATION			
Balance at 1/1/2016	98	71	169
Depreciation expense	65	–	65
Balance at 31/12/2016	163	71	234
Net book value 1/1/2016	**294**	**–**	**294**
Net book value 31/12/2016	**229**	**–**	**229**

2015

In thousands of CZK	Intellectual property rights	Software	Total
ACQUISITION COST			
Balance at 1/3/2014	–	71	71
Additions	392	–	392
Balance at 31/12/2015	392	71	463
ACCUMULATED DEPRECIATION			
Balance at 1/3/2014	–	71	71
Depreciation expense	98	–	98
Balance at 31/12/2015	98	71	169
Net book value 1/3/2014	**–**	**–**	**–**
Net book value 31/12/2015	**294**	**–**	**294**

b) Tangible fixed assets

2016

In thousands of CZK	Buildings	Machin. and equip.	Motor vehicles	Office equip.	Low-value assets	Valuable items	Total
ACQUISITION COST							
Balance at 1/1/2016	159,735	208	1,784	32,860	31,687	2,918	229,192
Additions	–	43	–	–	–	–	43
Balance at 31/12/2016	159,735	251	1,784	32,860	31,687	2,918	229,235
ACCUMULATED DEPRECIATION							
Balance at 1/1/2016	18,312	146	1,556	16,133	8,594	–	44,741
Depreciation expense	9,054	19	74	5,475	3,290	–	17,912
Balance at 31/12/2016	27,366	165	1,630	21,608	11,884	–	62,653
ADJUSTMENTS							
Balance at 1/1/2016	–	–	–	–	–	–	–
Balance at 31/12/2016	–	–	–	–	–	–	–
Net book value 1/1/2016	**141,423**	**62**	**228**	**16,727**	**23,093**	**2,918**	**184,451**
Net book value 31/12/2016	**132,369**	**86**	**154**	**11,252**	**19,803**	**2,918**	**166,582**

In thousands of CZK	Buildings	Machin. and equip.	Motor vehicles	Office equip.	Low-value assets	Valuable items	Total
ACQUISITION COST							
Balance at 1/3/2014	159,633	164	1,488	32,883	31,941	2,918	229,027
Additions	102	44	296	–	–	–	442
Disposals	–	–	–	(23)	(254)	–	(277)
Balance at 31/12/2015	159,735	208	1,784	32,860	31,687	2,918	229,192
ACCUMULATED DEPRECIATION							
Balance at 1/3/2014	1,523	16	1,479	1,426	748	–	5,192
Depreciation expense	16,789	130	77	14,729	8,098	–	39,823
Disposals	–	–	–	(22)	(252)	–	(274)
Balance at 31/12/2015	18,312	146	1,556	16,133	8,594	--	44,741
ADJUSTMENTS							
Balance at 1/3/2014	–	–	–	–	–	–	–
Balance at 31/12/2015	–	–	–	–	–	–	–
Net book value 1/3/2014	**158,110**	**148**	**9**	**31,457**	**31,193**	**2,918**	**223,835**
Net book value 31/12/2015	**141,423**	**62**	**228**	**16,727**	**23,093**	**2,918**	**184,451**

The assets are mainly assets of an administrative branch.

4. INVESTMENTS

a) Long-term investments

Overview of movements of long-term investments.

2016

In thousands of CZK	Equity investments – group undertakings	Loans – group undertakings	Other long-term securities and equity investments	Other long-term investments	Total
Balance at 1/1/2016	34,717,952	306,049	4,509	–	35,028,510
Additions	–	2,963	500,113	298,272	801,348
Disposals	(54,955)	(309,012)	(27,115)	–	(391,085)
Revaluation	(1,141)	–	(237)	–	(1,378)
Balance at 31/12/2016	**34,661,856**	**–**	**477,270**	**298,272**	**35,437,398**

2015

In thousands of CZK	Equity investments – group undertakings	Loans – group undertakings	Other long-term securities and equity investments	Total
Balance at 1/3/2014	24,378,772	303,879	4,511	24,687,162
Additions	10,523,278	44,121	–	10,567,399
Disposals	(18,075)	(41,951)	–	(60,026)
Revaluation	(166,023)	–	(2)	(166,025)
Balance at 31/12/2015	**34,717,952**	**306,049**	**4,509**	**35,028,510**

Ownership interests

2016

In thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2016	Equity at 31 December 2016	Acquisition cost	Carrying value
PBI, a.s.	99.46 %	5,746	1,000,000	(2,037)	6,252,575	6,189,567	6,189,567
J&T INTEGRIS GROUP LIMITED	100 %	4,000	27,02	10,685	5,170,024	8,057,752	6,163,405
J&T BANKA, a.s.	100 %	700,000 10,637,126	1,43 1,000	1,551,807	18,943,750	11,142,805	11,142,805
J&T Concierge, s.r.o.	100 %	1	1,600,000	130	(1,152)	1,620	1,620
J&T Bank (Schweiz) AG in Liquidation	100 %	200,000	2,517	–	–	1,201,641	213,911
Poštová banka, a.s.	64.46 %	213,288	29,911	1,192,987	16,403,626	10,841,055	10,841,055
J&T SERVICES ČR, a.s.	100 %	10 139,134	200,000 1,000	23,689	192,583	139,338	109,493
Total ownership interests	**–**	**–**	**–**	**–**	**–**	**37,573,778**	**34,661,856**

Available-for-sale securities

2016

In thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2016	Acquisition cost	Carrying value
Steel Assets Management Limited B.V.	9.9 %	1,797	27,02	–	49	49
J&T Bank, a.o.	0.1 %	70,000	62,44	–	4,371	4,371
SANDBERG INVESTMENT FUND SICAV P.L.C	–	20,000	2,702	–	54,040	54,040
NOVA Real Estate, investiční fond s proměnným základním kapitálem, a.s.	–	3,347,443	27,02	–	418,810	418,810
Total available-for-sale securities	–	–	–	–	**477,270**	**477,270**

Other long-term investments

2016

In thousands of CZK	Number of pieces	Nominal piece value in CZK	% p.a.	Acquisition cost	Carrying value
J&T BANKA, a.s. – perpetuity	2,220	135,100	9 %	298,272	298,272
Total other long-term investments	**–**	**–**	**–**	**298,272**	**298,272**
Total long-term investments	**–**	**–**	**–**	**–**	**35,437,398**

Financial information on the above companies were taken from preliminary, unaudited financial statement of individual companies.

The statutory financial statements of PBI, a.s. are prepared on the basis of the fiscal year from 1 July 2016 to 30 June 2017. For this reason, the stated values (total profit and equity) are for a period of 6 months (from 1 July 2016 to 31 December 2016).

The registered capital of PBI, a.s. consists of 5 777 shares of the following types: ordinary shares of type A (605), priority shares of type B (4,842), and priority shares of type C (330).

During 2016, J&T FINANCE GROUP SE sold 31 ordinary shares of type A, thus reducing its share on voting rights by 5.12%.

Ownership interests

2015

In thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2015	Equity at 31 December 2016	Acquisition cost	Value of the share in equity (equity method valuation)
PBI, a.s.	100 %	5,777	1,000,000	4,888	6,252,618	6,244,522	6,244,522
J&T INTEGRIS GROUP LIMITED	100 %	4,000	27,025	68,050	7,065,558	8,059,244	6,164,546
J&T BANKA, a.s.	100 %	700,000 10,637,126	1,43 1,000	1,733,000	16,799,000	11,142,804	11,142,805
J&T Concierge, s.r.o.	100 %	1	1,600,000	(1,705)	(1,282)	1,620	1,620
J&T Bank (Schweiz) AG in Liquidation	100 %	200,000	2,493	–	–	1,190,372	211,905
Poštová banka, a.s.	64.45 %	213,288	29,917	1,996,661	16,237,944	10,843,061	10,843,061
J&T SERVICES ČR, a.s.	100 %	10 200,000	139,134 1,000	31,843	175,006	139,338	109,493
Total ownership interests	**–**	**–**	**–**	**–**	**–**	**37,620,962**	**34,717,952**

Available-for-sale securities

2015

In thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2015	Acquisition cost	Fair value
Steel Assets Management Limited B.V.	9.9 %	1,797	27.025	–	48	48
J&T Bank, a.o.	0.1 %	70,000	62.44	–	4,371	4,371
IBERTAX, a.s	10 %	2	44,862	–	90	90
Total available-for-sale securities	**–**	**–**	**–**	**–**	**4,509**	**4,509**

Loans – controlled or controlling entity

2015

In thousands of CZK	Principal	% p.a.	Accrued interest	Maturity	Carrying value
J&T BANKA, a.s. – long-term loan	300,000	8%	6,049	13.10.2021	306,049
Total other long-term investments	**–**	**–**	**–**	**–**	**306,049**
Total long-term investments	**–**	**–**	**–**	**–**	**35,028,510**

In 2016, long-term loan granted to J & T BANKA, a.s. was reimbursed prematurely.

During 2016, the Company had revenue from long-term investments relating to dividends received from PBI, a.s. of TCZK 343,500 and from Poštová banka, a.s. of TCZK 662,036. The Company also had revenue of TCZK 17,219 from holding the perpetuity of J&T BANKA, a.s.

The registered offices of the subsidiaries are as follows:

Poštová banka, a.s.	Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic
PBI, a.s.	Sokolovská 394/17, 186 00 Praha 8, Czech Republic
J&T INTEGRIS GROUP LTD	Klimentos 41-43, Klimentos Tower 2nd floor, flat/office 21, 1016 Nicosia, Cyprus
J&T BANKA, a.s.	Pobřežní 297/14, 186 00 Prague 8, Czech Republic
J&T Concierge, s.r.o.	Pobřežní 297/14, 186 00 Prague 8, Czech Republic
J&T Bank (Schweiz) AG in Liquidation	Talacker 50, CH-8001 Zurich, Schwitzerland
J&T SERVICES ČR, a.s.	Pobřežní 297/14, 186 00 Prague 8, Czech Republic

b) Short-term investments

In thousands of CZK	Acquisition cost	Fair value 31 December 2016	Fair value 31 December 2015
Securities held for trading		87,004	11,810
Purchased bills		177,755	0
Debt securities		2,140,702	0
Total short-term investments	**3,613,706**	**2,405,461**	**11,810**

5. ADJUSTMENTS FOR INVESTMENTS

In thousands of CZK	Adjustment for ownership interests	Adjustment for other long-term securities	Total
Balance at 1/1/2016	2,903,010	–	2,903,010
Additions	8,912	–	8,912
Release/utilization	–	–	–
Balance at 31/12/2016	**2,911,922**	**–**	**2,911,922**

In thousands of CZK	Adjustment for ownership interests	Adjustment for other long-term securities	Total
Balance at 1/3/2014	2,829,603	–	2,829,603
Additions	73,407	–	73,407
Release/utilization	–	–	–
Balance at 31/12/2015	**2,903,010**	**–**	**2,903,010**

J&T Bank Switzerland entered into liquidation in 2012. The additional provisioning is related only to the exchange rate revaluation of an existing allowance at the end of the accounting period. An allowance of TCZK 987,730 was created.

For an investment in J&T INTEGRIS GROUP LIMITED only foreign exchange revaluation was carried out as at 31 December 2016. Adjustments totalling TCZK 1,894,348 were established.

J&T FINANCE GROUP, a.s. established an adjustment of TCZK 29,845 for an investment in J&T SERVICES ČR, a.s.

6. INVENTORIES

Inventories of material comprise access cards to the building that will be subsequently handed over to the lessees, and amount to TCZK 127 (2015 – TCZK 202).

7. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables total TCZK 195,072 (2015 – TCZK 696,687), of which TCZK 10,092 (2015 – TCZK 61,348) is overdue.
b) The value of short-term receivables from the controlled or controlling person or the person with substantial influence represents borrowings, in large part provided in previous periods.
c) Other short-term trade receivables as at 31 December 2016 of TCZK 6,957,999 (2015 – TCZK 10,466,993) also comprise loans and borrowings provided by the Company. The remaining part of other short-term receivables of TCZK 1,228,828 (2015 – TCZK 1,219,006) consist mainly of receivables from three companies.
d) Other long-term receivables of TCZK 9,340,170 (2015 – TCZK 11,544) are due in more than one year. These receivables represent loans and borrowings provided by the Company. A significant increase in long-term receivables was due to loans and borrowings provided by the Company in total amount of TCZK 2,291,779. The rest of the increase is due to the extending of maturity of short-term receivables in total amount of TCZK 7,048,391.

Summary of loans and borrowings:

Loans and borrowings:

In thousands of CZK	31 December 2016	31 December 2015
Loans and borrowing provided – short-term	8,049,445	13,472,990
Loans and borrowing provided – long-term	9,340,170	11,544
Total	**17,389,615**	**13,484,534**

Short-term loans and borrowing were provided to the controlled persons of TCZK 1,033,321 (TCZK 2015 - 926,199), to persons under substantial influence amounting to TCZK 57,157 (2015 - TCZK 0) and to third parties of TCZK 6,957,999 (2015 - TCZK 10,466,993) recognized as Other receivables as described in Note 7c.

In the current period the Company provided its clients with a total of 24 short-term loans and borrowings and 13 long-term loans (contracted in the current period or in the previous years). In the prior period (2015) this concerned 20 short-term loans and borrowings and one long-term loan.

None of the below short-term loans/borrowings were overdue and these were receivables bearing an interest of 2% - 15% p.a. for the Company; the weighted average of interest rates was 5.67% p.a. (4.09% p.a. in the prior accounting period).

Interest in respect of long-term loans was 4.08% p.a. (5.5% p.a. was the weighted average in the prior accounting period).

In 2015, a portion of short-term receivables totalling TCZK 1,994,260 consisted of receivables from shareholders. In 2016, the receivable was settled against liability to shareholders which have arisen as a consequence of registered capital decrease.

The company does not have any liability due in more than 5 years.

The companies whose loans were due by the end of 2016 prolonged the maturity of the particular loans by one calendar year, in minimum.

e) Short-term trade payables total TCZK 5,758 (2015 – TCZK 7,656), of which TCZK 0 (2015 – TCZK 1,297) is overdue.

f) Short-term bills of exchange payable consist of bills of exchange below:

In thousands of CZK	31 December 2016	31 December 2015
Bills of exchange provided – due within 1 year	537,532	600,159
Bills of exchange provided – due upon presentation	51,777	52,213
Total	**589,309**	**652,382**

J&T FINANCE GROUP SE as at 31 December 2016 has bills of exchange provided by 5 creditors (contracted in 2016 or in the previous years). In the prior accounting period there were 4 creditors.

None of these bills of exchange are past their due date and these are liabilities bearing an interest of 3.20 % p.a. – 5.25% p.a.; the weighted average of interest rates was 3.86% p.a. in the current accounting period (2015 – 6.37% p.a.).

g) Payables to partners of TCZK 42,431 (2015 – TCZK 42,439) relate to dividends.

h) Other short-term payables as at 31 December 2016 of TCZK 527,980 (2015 – TCZK 148,869) primarily relate to the revaluation of sold options.

8. SHORT-TERM ADVANCES PROVIDED AND RECEIVED

Short-term advances provided as at 31 December 2016 of TCZK 17,723 (2015 – TCZK 2,083) consist of advances provided for services of TCZK 93 (2015 – TCZK 129), advances provided to a securities trader of TCZK 13,929 (2015 – TCZK 1,946), a deposit rent of TCZK 8 (2015 – TCZK 8) and advances provided for purchase of securities of TCZK 3,693 (2015 – TCZK 0).

Company records short-term advances received as at 31 December 2016 for sale of securities of TCZK 888,221 (2015 – TCZK 0).

9. SHORT-TERM OVERDRAFTS

In thousands of CZK	31 December 2016	31 December 2015
Loans and borrowings received – short-term	18,252	53,325
Loans and borrowings received – short-term – group undertakings	11,502,216	9,382,879
Total	**11,520,468**	**9,436,204**

As at 31 December 2016 J&T FINANCE GROUP SE received loans and borrowings from 5 creditors (contracted in 2016 or in the previous years). In the prior accounting period there were 5 creditors.

None of these loans are past their due date and these are liabilities bearing an interest of 0.46% p.a. – 7.4% p.a.; the weighted average of interest rates was 3.66% p.a. in the current accounting period (2015 – 3.57% p.a.).

10. LONG-TERM OVERDRAFTS AND BONDS

In thousands of CZK	31 December 2016	31 December 2015
Broken down according to maturity:		
1 – 2 years	4,030,088	5,300,761
2 – 5 years	5,667,890	4,004,184
More than 5 years	1,352,409	3,050,411
Total	**11,050,387**	**12,355,356**

As at 31 December 2016 J&T FINANCE GROUP SE records long-term loans and borrowings received due within 1 – 2 years from 1 creditor (contracted in 2016 or in the previous years); in the prior accounting period it was 1 creditor. Loans and borrowings due within 2 – 5 years were from 2 creditors; in the prior accounting period it was 1 creditor. Loans and borrowings due in more than 5 years were from 3 creditors; in the prior accounting period there were 4 creditors; these liabilities represented in 2016 issued bonds and in 2015 issued bonds and long-term loans. In 2016, the Company repaid the received long-term loan of TCZK 1,697,910, with maturity in 2023.

None of these loans are past their due date and these are liabilities bearing an interest of 3.50% p.a. – 6.56% p.a.; the weighted average of interest rates in the current period was 5.40% p.a. (2015 – 6.18% p.a.).

Other long-term payables consist of retention of TCZK 64 (2015 – TCZK 55).

11. PREPAID EXPENSES

Prepaid expenses of TCZK 35,486 (2015 – TCZK 314) are primarily related to fees related to bonds issuance of TCZK 35,098 (2015 – TCZK 0) and prepaid expenses of the administrative branch for property insurance and vignettes of TCZK 375 (2015 – TCZK 313).

Prepaid expenses of TCZK 59,174 (2015 – TCZK 4,492) consist mainly of accrued expenses related to reimbursement of re-invoiced fees related to issue of bonds by a related company – TCZK 45,126 (2015 – TCZK 0).

12. DERIVATIVES

The fair value of financial derivatives is reported in other receivables (if positive) or other payables (if negative).

As at 14 February 2008 the Company terminated a hedging derivative for a foreign exchange investment in Swiss francs. The nominal value of a derivative was TCHF 24,950. The revaluation of this derivative of TCZK 29,485 was recorded in account 414 – adjustments for an investment, when this balance will be held until the liquidation of this investment.

The Company held the following financial derivatives for trading:
31.12.2016

In thousands of CZK	Due date (expiry)	Nominal value at 31 December 2016	Fair value at 31 December 2015
TERM TRANSACTION REPORTED IN OTHER RECEIVABLES			
Forward sale RUB/CZK	2017	106,000 TRUB	(3,506)
Forward sale EUR/CZK	2017	876,822 TEUR	(4,649)
Total swaps and forwards at 31/12/2016			(8,155)
Purchased equity options			50,134
Sold equity options			(518,193)
Total equity options as at 31/12/2016			**(468,059)**

31.12.2015

In thousands of CZK	Due date (expiry)	Nominal value at 31 December 2016	Fair value at 31 December 2015
TERM TRANSACTION REPORTED IN OTHER RECEIVABLES			
Total swaps and forwards at 31/12/2015	2016	630,000 TEUR	(6,037)
Purchased equity options			3,264
Sold equity options			(142,350)
Total equity options as at 31/12/2015			**(139,086)**

13. ALLOWANCES TO RECEIVABLES

In thousands of CZK	Opravná položka k pohledávkám
Balance at 1/1/2016	555,474
Additions	326,551
Release/utilization	48
Balance at 31/12/2016	**882,073**

14. REGISTERED CAPITAL

In thousands of CZK	Základní kapitál
Balance at 1/1/2016	17,740,750
Decrease in registered capital	(1,960,442)
Balance at 31/12/2016	15,780,308
Registered capital at 31/12/2016 consists of following:	
10 bearer shares at CZK 200,000 per share	2,000
1 999 556 188 bearer shares at CZK 1 per share	1,999,556
13 778 752 bearer shares at CZK 1,000 per share	13,778,752
Total	**15,780,308**

In 2016, the Company decreased its registered capital based on a proposal by all shareholders of the Company to reduce the financial involvement of shareholders Jozef Tkáč and Ivan Jakabovič on the Company's capital structure, with a fixed amount of 1,960,442,300 bearer shares at a nominal value of CZK 1 per share.

15. EQUITY

a) The planned distribution of the current year's profit:

In thousands of CZK	
Current year profit	1,533,782
Transfer to capital funds	(490,000)
Retained profits	(1,043,782)
Retained earnings	0

b) Movements in the "Capital funds" account:

In thousands of CZK	
Balance at 1/1/2016	103,530
Change in valuation of an ownership interest	7,586
Partner contribution related to perpetuity issues*	5,407,000
Balance at 31/12/2016	**5,518,116**

c) Movements in the funds from profit account (statutory and other funds):

In thousands of CZK	
Balance at 1/1/2016	2,160,082
Financial assistance (according to Section 311 of the Corporations Act)	(1,960,000)
Transfer of profit for the previous period	490,000
Interest from perpetuity payment	(243,180)
Balance at 31/12/2016	**446,902**

d) "Share premium" and "Capital funds" comprises:

In thousands of CZK	
Share premium	2,551,766
Contribution to registered capital (in the dissolved company TECHNO PLUS)	208,882
Perpetuity	5,407,000
Revaluation of ownership interest in J&T INTEGRIS GROUP LTD	(120,776)
Revaluation of ownership interest in J&T Bank (Schweiz) AG in Liquidation	134,746
Revaluation of Poštová banka, a.s. shares	(141,034)
Hedging derivative for investment in J&T Bank (Schweiz) AG	29,485
Revaluation SANDBERG INVESTMENTZ FUND SICAV P.L.C. shares	(110)
Revaluation of NOVA Real Estate, investiční fond s proměnlivým základem shares	(77)
Balance at 31/12/2016	**8,069,882**

e) Movements in retained earnings:

In thousands of CZK	
Balance at 1/1/2016	3,130,608
Transfer of profit for the previous period	1,043,782
Transfer of financial assistance from funds to profits	1,960,000
Payment of retained earnings to shareholders in connection with a reduction in registered capital	(119,587)
Balance at 31/12/2016	**6,014,803**

* In 2016, J & T FINANCE GROUP SE issued and sold to its shareholders subordinated unsecured income certificates without a maturity date with a nominal value of TCZK 5,407,000 and with a yield of 9% p.a. for the first four six-month yield periods and a yield of 5% p.a. for the following yield periods, depending on the fulfilment of conditions specified in the certificate leaflet.

16. PROVISIONS

In thousands of CZK	Other provisions	Total
Balance at 1/1/2016	77,256	77,256
Additions	1,986	1,986
Utilization	(149)	(149)
Release	(1,927)	(1,927)
Balance at 31/12/2016	**77,166**	**77,166**

The Company has a provision for income tax of TCZK 9 (2015 – TCZK 22,610) less the paid advances on income tax of TCZK 28 100 (2015 – TCZK 71 424) under the section State – tax receivables. The resulting receivable is TCZK 28 091 (2015 – TCZK 48 814).

17. LIABILITIES TO CREDIT INSTITUTIONS

31.12.2016

Company	Currency	Principal	Percentages*	Interests at 31/12/2016	Due date of principal	Due date of interest	Translation to TCZK
Prima banka	EUR	39,000,000	4.75 %	66,104	19.12.2017	1x in 3 months	1,055,566
Total	–	–	–	–	–	–	**1,055,566**

As at 31 December 2016, the interest on overdrafts from J & T BANKA, a. s. of EUR 193, equivalent to TCZK 5 is recorded under liabilities to credit institutions.

The short-term loan was extended by one year in December.

31.12.2015

Company	Currency	Principal	Percentages*	Interests at 31/12/2016	Due date of principal	Due date of interest	Translation to TCZK
Prima banka	EUR	37,500,000	5 %	57,292	19.12.2016	1x in 3 months	1,014,986
Total	–	–	–	–	–	–	**1,014,986**

18. SEGMENT INFORMATION

Selected items are summarised below:

In thousands of CZK	Year	Domestic sales	Europe	Total
Interest revenue	2016	11,737	708,909	720,646
Interest revenue	2015	252,206	1,233,149	1,485,355
Guarantees and warranties	2016	13,861	72,443	86,304
Guarantees and warranties	2015	12,884	231,344	244,228
Other financial revenues	2016	14,876	436,557	451,433
Other financial revenues	2015	170,992	1,161,675	1,332,667
Revenues from shares	2016	360,719	662,093	1,022,812
Revenues from shares	2015	1,824,021	1,021,743	2,845,764
Other revenues from long-term financial assets	2016	0	937,967	937,967
Other revenues from long-term financial assets	2015	0	1,458,165	1,458,165
Total 2016	**2016**	**401,648**	**2,832,210**	**3,233,858**
Total 2015	**2015**	**2,265,170**	**5,137,240**	**7,402,410**

19. FEES PAYABLE TO STATUTORY AUDITORS

In thousands of CZK	2016	2015
Statutory audit	6,435	13,709
Other assurance services	–	2,709
Other non-audit services	34	–
Total	**6,469**	**16,418**

20. EMPLOYEES AND MEMBERS OF MANAGEMENT, CONTROL AND ADMINISTRATIVE BODIES

In thousands of CZK	Average recalculated number 2016	Average recalculated number 2015	Wage costs* 2016	Wage costs* 2015
Employees	14	13	12,579	27,368
Members of management	5	5	240	–
Members of the supervisory authorities	3	3	421	–
Total	**22**	**21**	**13,240**	**27,368**

* The wage costs of members of management, supervisory and administrative bodies represent remuneration to members of these bodies for the performance of their function.

As at 31 December 2016, no pension liabilities were incurred in respect of former members of the management, supervisory and administrative bodies.

21. INCOME TAX

a) Current tax

Current income tax includes estimate of income tax for the tax period 2016 amounting to TCZK 9 (2015 – TCZK 22,610).

b) Deferred tax

In thousands of CZK	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities	2016 Net	2015 Net
Tangible fixed assets	–	–	(6,437)	(10,665)	(6,437)	(10,665)
Intangible fixed assets	–	–	(16)	(16)	(16)	(16)
Deferred tax asset/(liability)	–	–	(6,453)	(10,681)	(6,437)	(10,665)

In accordance with the accounting policy described in note 2 j), a tax rate of 19% was used to calculate deferred tax (2015 – 19%).

Based on the prudence approach, the deferred tax receivable from tax losses of TCZK 476,138 was not reported (2015 – TCZK 0).

22. RELATED PARTIES

a) Transactions with related parties

In thousands of CZK	2016 Volume of mutual transactions	2015 Volume of mutual transactions	2016 Receivables/ Payables at 31 December	2015 Receivables/ Payables at 31 December
SALE OF GOODS AND SERVICES				
Other companies in the group	74,928	157,798	73,342	21,855
PURCHASE OF GOODS AND SERVICES				
Other companies in the group	51,587	195,780	66,532	15,737
LOANS GRANTED				
Shareholders of the Company	52,302	34,260	–	1,994,260
Other companies in the group	749,387	51,764	1,465,339	306,049
LOANS RECEIVED				
Shareholders of the Company	–	–	42,432	42,439
Other companies in the group	1,164,690	1,650,433	21,200,199	18,687,824

Loans received are included in the long-term and short-term payables and are described in notes 9 and 10.
Loans granted are described in note 7.

The Company purchases materials, utilises services and sells products to related parties as part of its regular business activities. All material transactions with related parties were carried out based on the arm's length principle.

Significant transactions with related parties of the Company in respect of changes in equity, principally the reduction in registered capital and the issue and redemption of subordinated unsecured certificates, are set out in notes 14 and 15.

In the course of 2016, the Company reported a dividend income of TCZK 1,022,812 as stated in note 4. In the course of 2016, the Company also received a loan repayment of TCZK 309,012 relating to a loan granted to the related party.

b) In 2016 and 2015, members of management, supervisory and administrative bodies received no advances, loans, guarantees granted nor any other benefits and did not own any shares in the Company.

23. LEASED PROPERTY

Operating leases

The Company leases three cars under operating leases. The related expenses for 2016 amount to TCZK 1,221 (2015 – TCZK 1,003).

24. RECEIVABLES AND PAYABLES NOT RECOGNIZED IN THE BALANCE SHEET

a) The Company has receivables of TCZK 2,326,337 (2015 – TCZK 3,195,642) and payables from equity options of TCZK 2,317,989 (2015 – TCZK 3,371,497).
b) The Company provides guarantees for loans totalling TCZK 19,193,163 (2015 – TCZK 18,063,270).
c) The Company received the credit facilities and various guarantees of TCZK 4,839,701 (2015 – TCZK 1,186,523).
d) As at 31 December 2015 the Company had currency forwards, receivables of TCZK 23,743,227 (2015 – TCZK 17,019,228) and payables of TCZK 23,749,553 (2015 – TCZK 17,025,750) recorded off-balance sheet.

25. CASH FLOW STATEMENT

For the compilation of the cash flow statement, cash and cash equivalents are defined to include cash on hand, cash in transit, cash on bank accounts, and other financial assets whose value can be reliably determined and can be easily transferred to cash. The balance of cash and cash equivalents is as follows:

In thousands of CZK	31 December 2016	31 December 2015
Short-term financial assets	85,975	863,696
Cash and cash equivalents	85,975	863,696

Cash flows from operating, investing or financing activities are reported in the cash flow statement uncompensated.

Cash flows associated with interest expense included in the measurement of fixed assets were reported in the cash flow statement within the investing activities but were not presented as a separate item. In 2016, these cash flows amounted to TCZK 2,435 (2015 – TCZK 4,780).

26. MATERIAL SUBSEQUENT EVENT

On March 27, the Company received a Notice of Initiation by the Antimonopoly Office of the Slovak Republic concerning a possible violation of Act No. 136/2001 on the Protection of Competition. Based on the investigation, the Office concluded that J & T FINANCE GROUP SE had violated the law in connection with the possible acquisition of joint control of Panta Rhei by exercising the rights associated with share of Diversified Retail Company, a.s. in Panta Rhei.

Until the approval of the financial statements, J & T FINANCE GROUP SE did not receive a final opinion of the antitrust office of the Slovak Republic in this matter.

At the balance sheet date, no other significant subsequent events affecting the financial statements as at 31 December 2016 were known to management.

Prepared on: 6 April 2017

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

TEXT PART OF THE ANNUAL REPORT

Description of the Company

Company name:	J&T FINANCE GROUP SE
Registered office:	Pobřežní 297/14, 186 00 Prague 8, Czech Republic
Identification number:	275 92 502
Legal form:	european society
Registered in:	the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317
Principal business activities:	manufacturing, trade and services not listed in appendices 1 to 3 of the Trades Licensing Act
Principal activities:	the acquisition and holding interests in legal entities

Board of Directors of the Company as at 31 December 2016

Chairman of the Board of Directors:	Jozef Tkáč
Vice-Chairman of the Board of Directors:	Patrik Tkáč
Vice-Chairman of the Board of Directors:	Ivan Jakabovič
Vice-Chairman of the Board of Directors:	Dušan Palcr
Member of the Board of Directors:	Gabriela Lachoutová

Supervisory Board of the Company as at 31 December 2016

Chairman of the Supervisory Board:	Marta Tkáčová
Member of the Supervisory Board:	Ivan Jakabovič
Member of the Supervisory Board:	Jana Šuterová

Information about the activities of the Company

The nature of the Company's business activities has not changed compared to the previous accounting period. The Company administers its assets and enlarges its volume.

Financial results of the Company

The Company has a long history as a strong and stable institution. As at 31 December 2016, the Company recorded assets of CZK 56.1 billion, equity of CZK 30.2 billion and the registered capital of CZK 15.8 billion. In the accounting period, the Company achieved loss of CZK 0.1 billion.

The balance of Company's assets and its financial position is disclosed in the financial statements as at 31 December 2016, which are attached as an independent appendix to the annual report. Detailed information on the balance of Company's assets is included in the financial section of the Company's annual report.

Company's ownership interests in group undertakings in the period from 1 January 2016 to 31 December 2016

The Company has no interests in group undertakings.

Information on the acquisition of own shares, temporary certificates, interests and shares, temporary certificates, interests of the controlling entity in the period from 1 January 2016 to 31 December 2016

The Company issued and sold subordinated unsecured certificates with no maturity date of TEUR 200 000. On 1 December 2016, the Company purchased its own shares totalling CZK 1,960,442,300 from shareholders Ivan Jakabovič and Jozef Tkáč, which resulted in a decrease in the registered capital from CZK 17,740,750,488 to CZK 15,780,308,188. Apart from the above transactions, the Company neither held any of its own shares, nor issued any convertible bonds or exchangeable bonds, nor issued any temporary certificates in the period from 1 January 2016 to 31 December 2016.

Information about expected economic development in 2017

In 2017, the Company will continue to focus all its activities on the administration of own assets by means of ownership shares in subsidiaries, provision of loans and guarantees; and the fulfilment of obligation arising thereof.

Information about the administrative branches of the Company

Company has an administrative branch which was established in Slovakia. It was recorded in the Commercial Register under name J&T FINANCE GROUP SE, organizačná zložka, ID: 47 251 735, registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic.

Research and development expenditures

In the reporting period, the Company did not incur any research and development expenditures.

Investments into tangible and intangible financial assets

In the reporting period, the Company made no investments into tangible and intangible financial assets.

Environmental protection

In the period from 1 January 2016 to 31 December 2016, the Company realised no environmental protection activities.

Employee information

In the period from 1 January 2016 to 31 December 2016, the average number of employees was 14.

Declaration

The Board of Directors of the Company declares that all information and disclosures in this annual report are true and free of any material omission.

Prague, 2 May 2017

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

REPORT ON RELATIONS

Report on relations between the controlling entity and the controlled entity, and between the controlled entity and other entities controlled by the same controlling entity for the reporting period 2016 of J&T FINANCE GROUP SE.

Prepared in accordance with Section 82 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).

This report has been prepared by the Board of Directors of J&T FINANCE GROUP SE, with its registered office at Pobřežní 297/14, 186 00 Prague 8, ID: 275 92 502, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317 („the Company"), based on data available. The period covered by the report: from 1 January 2016 to 31 December 2016 (hereinafter referred to as the "2016 accounting period").

I. THE STRUCTURE OF RELATIONS BETWEEN THE CONTROLLING ENTITIES AND THE CONTROLLED ENTITY, AND BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY, THE ROLE OF THE CONTROLLED ENTITY IN THE STRUCTURE, AND MANNER AND MEANS OF CONTROL.

1.1 THE BOARD OF DIRECTORS OF THE COMPANY IS AWARE THAT DURING THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016, THE COMPANY WAS DIRECTLY CONTROLLED BY THE FOLLOWING PERSONS:

Ivan Jakabovič,
Date of birth: 8 October 1972, residing at 41 Avenue HECTOR OTTO, 98000 MONACO-VILLE, Principality of Monaco, who, along with Jozef Tkáč (see below), controls J&T FINANCE GROUP SE (hereinafter „Ivan Jakabovič" or also „Controlling entity").

In addition, Ivan Jakabovič owns shares in the following companies:

- **J & T Securities, s.r.o.**
  ID: 31 366 431, with its registered office at Bratislava, Dvořákovo nábrežie 8, P.C. 811 02 Bratislava, Slovak Republic.

- **DANILLA EQUITY LIMITED**
  ID: HE 297027, with its registered office at Akropoleos, 59-61 SAVVIDES CENTER, 1st floor, Flat/Office 102, P.C. 2012, Nicosia, Cyprus, controlled by Ivan Jakabovič and Jozef Tkáč.

Jozef Tkáč,
Date of birth: 16 June 1950, residing at Bratislava, Júlová 10941/32, 831 01 Bratislava, Slovak Republic, who, along with Ivan Jakabovič (see above), controls J&T FINANCE GROUP SE (hereinafter „Jozef Tkáč" or also „Controlling entity").

In addition, Jozef Tkáč owns shares in the following company:

- **DANILLA EQUITY LIMITED**
  ID: HE 297027, with its registered office at Akropoleos, 59-61 SAVVIDES CENTER, 1st floor, Flat/Office 102, P.C. 2012, Nicosia, Cyprus, controlled by Ivan Jakabovič and Jozef Tkáč.

1.2 THE BOARD OF DIRECTORS OF THE COMPANY IS AWARE THAT DURING THE ACCOUNTING PERIOD 2016 THE COMPANY WAS PART OF THE FOLLOWING STRUCTURE:

J&T FINANCE GROUP SE controls below mentioned entities:

J & T INTEGRIS GROUP LIMITED
ID: HE 207436, with its registered office at Klimentos, 41-43, KLIMENTOS TOWER, 2nd floor, Flat/Office 21, P.C. 1061, Nicosia, Cyprus.

In addition, this company controls:

- **Bayshore Merchant Services Inc.**
  ID: 01005740, with its registered office at TMF Place, Road Town, Tortola, British Virgin Islands.

  In addition, this company controls:

  - **J&T Bank & Trust Inc.**
    ID: 00011908, with its registered office at Lauriston House, Lower Collymore Rock, St. Michael, Barbados.

  - **J and T Capital, Sociedad Anonima de Capital Variable**
    ID: 155559102, with its registered office at Explanada 905-A, Lomas de Chapultepec, 11000, Ciudad de Mexico, Mexico.

- **J&T MINORITIES PORTFOLIO LIMITED**
  ID: HE 260754, with its registered office at Akropoleos, 59-61, SAVVIDES CENTER, 1st floor, Flat/Office 102, P. C. 2012, Nicosia, Cyprus.

  In addition, this company controls:

  - **Equity Holding, a.s.**
    ID: 100 05 005, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, J & T MINORITIES PORTFOLIO LIMITED has 62.64% share in this company.

- **J&T Global Finance III, s.r.o.**
  ID: 47 101 181, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic.

- **J&T Global Finance IV., B.V.**
  ID: 60411740, with its registered office at Schiphol Boulevard 403 / Tower C-4, 1118 BK Schiphol, The Netherlands.

- **J&T Global Finance V., s.r.o.**
  ID: 47 916 036, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic.

- **J&T Global Finance VI., s.r.o.**
  ID: 50 195 131, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic (since 27 February 2016).

- **J&T Global Finance VII., s.r.o.**
  ID: 052 43 441, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech republic (since 18 July 2016).

J&T SERVICES ČR, a.s. (J&T Management, a.s.)
ID: 281 68 305, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

In addition, this company controls:

- **J&T SERVICES SR, s.r.o. (J&T GLOBAL MANAGEMENT, s.r.o.)**
  ID: 46 293 329, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic.

- **J & T FINANCE, LLC**
  ID: 1067746577326, with its registered office at Rosolimo 17, Moscow, Russian Federation.

  In addition, this company controls:

  - **Hotel Kadasevskaya, LLC**
    ID: 1087746708642, with its registered office at Kadashevskaya Nabereznaya 26, 115035 Moscow, Russian Federation.

  - **TERCES MANAGEMENT LIMITED**
    ID: HE 201003, with its registered office at Akropoleos 59-61, SAVVIDES CENTER, P.C. 2012, Nicosia, Cyprus, J & T FINANCE, LLC has 1% share in this company.

    In addition, this company controls:

    - **Interznanie OAO**
      ID: 1037700110414, with its registered office at Kadashevskaya embankment 26, 113035 Moscow, Russian Federation, TERCES MANAGEMENT LIMITED has 50% share in this company.

J&T Bank Switzerland Ltd. in liquidation
ID: CH02030069721, with its registered office at Talacker 50, 12th floor, P.C. 8001, Zürich, Switzerland.

J & T BANKA, a.s.
ID: 471 15 378, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

In addition, this company controls:

– **J&T Bank, a.o. (J&T Bank ZAO)**
ID: 1027739121651, with its registered office at Kadashevskaya, Moscow, Russian Federation.

In addition, this company controls:

- **Interznanie OAO**
  ID: 1037700110414, with its registered office at Kadashevskaya embankment 26, 113035 Moscow, Russian Federation, J&T Bank, a.o. has 50% share in this company.

- **ATLANTIK finanční trhy, a.s.**
  ID: 262 18 062, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

- **J&T INVESTIČNÍ SPOLEČNOST, a.s.**
  ID: 476 72 684, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

- **J&T IB and Capital Markets, a.s.**
  ID: 247 66 259, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

In addition, this company controls:

- **XT-card a.s.**
  ID: 252 92 498, with its registered office at Seifertova 327/85, 130 00 Prague 3, Czech Republic, J&T IB and Capital Markets, a.s. has 32% share in this company, (since 26 November 2015).

- **Smart software s.r.o.**
  ID: 247 66 259, with its registered office at Závodu míru 435/40, Stará role, 360 17 Karlovy Vary, Czech Republic, J&T IB and Capital Markets, a.s. has 5% share in this company.

- **Skytoll CZ, s.r.o.**
  ID: 033 44 584, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic (since 23 March 2016).

- **TERCES MANAGEMENT LIMITED**
  ID: HE 201003, with its registered office at Akropoleos 59-61, SAVVIDES CENTER, P.C. 2012, Nicosia, Cyprus.

In addition, this company controls:

- **Interznanie OAO**
  ID: 1037700110414, with its registered office at Kadashevskaya embankment 26, 113035 Moscow, Russian Federation.

- **VABA d.d. banka Varaždin**
  ID: 0675539, with its registered office at Aleja kralja Zvonimira 1, 42000, Varaždin, Republic of Croatia.

- **PGJT B.V.**
  ID: 57522006, with its registered office at Martinus Nijhofflaan 2, 2624 Delft, Kingdom of the Netherlands, J & T BANKA, a.s. has 50% share in this company.

  In addition, this company controls:

  - **PROFIREAL OOO**
    ID: 17003675, with its registered office at Office 501, 4 Grivtsova Pereulok, 190000 Saint-Petersburg, Russian Federation.

J&T Concierge, s.r.o.
ID: 281 89 825, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

PBI, a.s.
ID: 036 33 527, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic.

In addition, this company controls:

- **Poštová Banka, a.s.**
  ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic, PBI, a.s. has 34% share in this company.

Poštová Banka, a.s.
ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic, J&T FINANCE GROUP SE has 64.46% share in this company.

In addition, this company controls:

- **Poštová poisťovna, a.s. (Poisťovňa Poštovej banky, a. s.)**
  ID: 31 405 410, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic.

- **Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.**
  ID: 35 904 305, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic.

- **PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.**
  ID: 31 621 317, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic.

- **PB Servis, a. s.**
  ID: 47 234 571, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic.

- **PB PARTNER, a. s.**
  ID: 36 864 013, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic.

- **PB Finančné služby, a. s.**
  ID: 35 817 453, with its registered office at Hattalova 12, 831 03 Bratislava, Slovak Republic.

- **PB IT, a. s. v likvidácii**
  ID: 47 621 320, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic (since 1 January 2017 in liquidation).

- **SPPS, a. s.**
  ID: 46 552 723, with its registered office at Nám. SNP 35, 811 01 Bratislava, Slovak Republic, Poštová Banka, a.s. has 40% share in this company.

1.3 THE BOARD OF DIRECTORS OF THE COMPANY IS AWARE THAT DURING THE ACCOUNTING PERIOD THE COMPANY WAS CONTROLLED BY THE SAME ENTITIES AS THE FOLLOWING OTHER CONTROLLED ENTITIES, WHICH, HOWEVER, WERE NO LONGER RELATED PARTIES AS AT 31 DECEMBER 2016.

ART FOND Stredoeurópsky fond súčasného umenia, a.s.
ID: 1037700110414, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic (till 24 February 2016).

ABS PROPERTY LIMITED
IČ: 385594, se sídlem 41 Central Chambers, Dame Court, Dublin 2, Irsko (till 31 May 2016).

J&T Global Finance I., B.V. in liquidation
ID: 385594, with its registered office at 41 Central Chambers, Dame Court, Dublin 2, Ireland (do 21.11.2016).

J&T Global Finance II., B.V. in liquidation
ID: 53836146, with its registered office at La Fontainestraat 7, 1902 CW Castricum, The Netherlands (till 21 November 2016).

J&T Cafe, s.r.o. v likvidaci
ID: 241 65 409 with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic (till 30 June 2016).

1.4 THE ROLE OF THE COMPANY
The Company acts as a holding company with shares in other legal entities.

1.5 MANNER AND MEANS OF CONTROL
The controlling entities control the Company by holding Company's shares of 90.1 % of the voting rights. Therefore, the exercise of the voting rights is the principal means of control. In the accounting period from 1 January 2016 to 31 December 2016, no particular contracts between the controlling entities and the Company in respect of manner and means of control.

II. SUMMARY OF ACTS MADE IN THE ACCOUNTING PERIOD OF 2015 WHICH WERE MADE AT THE INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR THE ENTITIES CONTROLLED BY THE CONTROLLING ENTITY IF THESE ACTS CONCERNED ASSETS THE VALUE OF WHICH EXCEEDS 10% OF THE CONTROLLED ENTITY'S EQUITY IDENTIFIED FROM THE LAST FINANCIAL STATEMENTS.

In the accounting period, the Company performed no acts at the instigation or in the interest of the controlling entity or the entities controlled by the controlling entity in respect of assets the value of which exceeds 10% of Company's equity.

III. SUMMARY OF CONTRACTS ENTERED INTO BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY OR BETWEEN CONTROLLED ENTITIES.

In the accounting period 2016, the following contracts were entered into between the Company and the controlling entity or between the entities controlled by the same controlling entities:

Contracts between the Company and Jozef Tkáč:

- Loan agreement
  Scope: provision of funds to the controlling entity
- Performance contract
  Scope: Chairman of the Board of Directors
- Share purchase agreement
  Scope: sale of JTFG SE shares
- Agreement on netting of mutual pecuniary claims
  Scope: loan and reduced basic capital inclusion

Contracts between the Company and Ivan Jakabovič:

- Loan agreement
  Scope: provision of funds to the controlling entity
- Performance contract
  Scope: Vice-Chairman of the Board of Directors
- Share purchase agreement
  Scope: sale of JTFG SE shares
- Agreement on netting of mutual pecuniary claims
  Scope: loan and reduced basic capital inclusion

Contracts between the Company and J & T BANKA, a.s.:

- Guarantee Agreement
  Scope: performance of guarantees of a certain minimum value of the client's portfolio yield
- Agreement on deposit of securities
  Scope: ensuring deposit of securities
- Contract on the provision of warranty
  Scope: providing warranty to selected bank's clients

- Framework Consignment Contract on the provision of the purchase or sale of securities
  Scope: provision of security trader services
- Consignment Contract
  Scope: provision of security trader services
- Contract on the business lease of movable property
  Scope: inventory lease
- Contract on the lease of movable property and financial settlement
  Scope: inventory lease in the building at Dvořákovo nábrežie 8, Bratislava
- Contract on cooperation in the provision of J & T Family and Friends banking services and participation in the Magnus loyalty programme
  Scope: provision of J & T Family and Friends and Magnus loyalty system programme
- Contract on financial settlement
  Scope: settlement of receivables and liabilities resulting from value added tax as they are members of one VAT group
- Contract on mediation
  Scope: concluding contracts with potential clients
- Framework agreement on the trading on the financial market
  Scope: Providing currency derivative transactions
- Contract on provision of banking services
  Scope: provision of banking services in line with this agreement
- Cost allocation contract
  Scope: cost distribution in relation to the entry of the strategic investor
- Contract on the lease of movable property and financial settlement
  Scope: inventory lease in the building River Park, Bratislava
- Contract on the provision of services
  Scope: provision of services related to debt securities
- Framework agreement on trading on the financial market
  Scope: negotiation of currency derivative transactions
- Contract on the provision of services
  Scope: maintenance of current account in accordance with bank's Terms and Conditions
- Contract on the provision of services
  Scope: term deposit management in accordance with bank's Terms and Conditions
- Contract on the provision of services:
  Scope: issue of debit cards in accordance with bank's Terms and Conditions
- Contract on the lease of a safe deposit boxes
  Scope: lease of a safe deposit box in accordance with bank's Terms and Conditions
- Contract on the provision of services
  Scope: fixed term transactions with currency instruments in accordance with bank's Terms and Conditions
- Agreement on cost distribution
  Scope: distribution of cost of consolidation package audit
- Contract on the provision of Internet banking services
  Scope: provision of Internet banking services

- Contract with the administrator and Special arrangement to the contract with the administrator
  Scope: the perpetuity issue
- Contract on the sale of shares
  Scope: purchase of SANDBERG´s profit participation certificates
- Contract on the loan participation
  Scope: provision of funds to a related party
- Contract on subordination
  Scope: subordination of relations with a related party
- Overdraft contract
  Scope: lending Company's funds

Contracts between the Company and J&T SERVICES ČR, a.s.:
- Contract of mandate on the provision of expert tax assistance and advisory
  Scope: tax advisory services
- Contract on the lease of non-residential premises
  Scope: lease of non-residential premises
- Contract on the provision of professional assistance
  Scope: personnel and payroll administration
- Contract on personal data processing
  Scope: personal data processing in HR and payroll
- Contract on the provision of services - Olas
  Scope: provision of logistics services
- Contract on cooperation in social event organisation
  Scope: organising social and cultural events
- Contract on the provision of professional assistance
  Scope: bookkeeping
- Contract on the provision of administration assistance
  Scope: administration
- Contract on the lease of movable assets
  Scope: lease of movable assets
- Contract on the provision of services (outsourcing)
  Scope: preparation of consolidated financial statements under IFRS for selected consolidated entities
- Contract on the lease of motor vehicle
  Scope: lease of a vehicle
- Contract on the provision of services Legal Managements
  Scope: Legal Management services

Contracts between the Company and J&T SERVICES SR, s.r.o.:
- Contract of mandate on the provision of professional assistance and agency contract
  Scope: provision of all acts necessary to ensure Company's existence
- Contract on the lease of movable assets and financial settlement

Scope: office space

Contracts between the Company and Equity Holding, a.s.:

– Loan agreement
  Scope: lending Company's funds

Contracts between the Company and DANILLA EQUITY LIMITED:

– Contract on the claim assignments
  Scope: assignment of a related party claims
– Loan agreement
  Scope: lending Company's funds to a related party

Contracts between the Company and J&T MINORITIES PORTFOLIO LIMITED:

– Loan agreement
  Scope: lending funds to a related party
– Contract on liability assignment
  Scope: assignment of a related party liability

Contracts between the Company and J&T INTEGRIS GROUP LIMITED:

– Contract on debt assignment
  Scope: lending Company's funds

Contracts between the Company and J&T Global Finance III, s.r.o.:

– Contract on debt assignment
  Scope: lending Company's funds
– Loan agreement
  Scope: lending Company's funds
– Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance IV., B. V.:

– Loan agreement
  Scope: lending Company's funds
– Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance V., s.r.o.:

– Loan agreement
  Scope: lending Company's funds
– Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance VI., s.r.o.:
- Loan agreement
  Scope: lending Company's funds
- Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance VII., s.r.o.:
- Loan agreement
  Scope: lending Company's funds
- Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and PBI, a.s.:
- Contract on the subscription of shares
  Scope: subscription of related party shares

Contracts between the Company and Poštová Banka, a.s.:
- Overdraft contract
  Scope: lending Company's funds

IV. ASSESSMENT OF WHETHER THE CONTROLLED ENTITY INCURRED A LOSS AND JUDGMENT OF ITS SETTLEMENT UNDER SECTIONS 71 AND 72 OF THE ACT ON BUSINESS CORPORATIONS.

All contracts listed under Section III of this report on relations were concluded in accordance with the arm's length principle. All performances received or rendered based on these contracts were also realised in accordance with the arm's length principle. Thus, the Company incurred no loss in relation to these transactions.

During the accounting period 2016, no other legal acts except those listed in this report were adopted, no other measures were made, no performances were rendered or received in the interest or at the instigation of controlling entities or controlled entities on which the Company would incur a loss.

V. ASSESSMENT OF ADVANTAGES AND DISADVANTAGES ARISING FROM RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY AND BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY INCLUDING A STATEMENT ON WHETHER ADVANTAGES OR DISADVANTAGES PREVAIL AND WHAT ARE THE RISKS ARISING FROM THIS FACT FOR THE CONTROLLED ENTITY.

Having reviewed the relations between the Company and the controlling entity and the entities controlled by the same controlling entity, the Board of Directors declares that the Company did not gain any advantages or suffer any disadvantages arising on the relations between the Company and the controlling entity and/or entities controlled by the same controlling entity. The Company incurred no loss that would require to be settled in accordance with Sections 71 and 72 of the Act on Business Corporations.

VI. THE BOARD OF DIRECTORS DECLARES THAT IT HAS COLLATED AND REVIEWED THE INFORMATION FOR THE PURPOSE OF THIS REPORT ON RELATIONS WITH DUE DILIGENCE. THE CONCLUSIONS MADE WERE DRAWN UPON A THOROUGH REVIEW OF COLLATED AVAILABLE INFORMATION, AND THE BOARD OF DIRECTORS CONSIDERS ALL INFORMATION DISCLOSED IN THIS REPORT ON RELATIONS AS TRUE AND COMPLETE.

Prague, 30 March 2017

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

REPORT OF THE BOARD OF DIRECTORS OF J&T FINANCE GROUP FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

This report has been prepared by the Board of Directors of J&T FINANCE GROUP SE, with its registered office at Pobřežní 297/14, 186 00 Prague 8, ID: 275 92 502, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317 („the Company"), in accordance with Section 436 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives („The Act on Business Corporation")

I. THE COMPOSITION OF COMPANY'S STATUTORY BODIES IN THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016 WAS AS FOLLOWS:

Board of Directors of the Company:

Chairman of the Board of Directors:	Jozef Tkáč
Vice-Chairman of the Board of Directors:	Patrik Tkáč
Vice-Chairman of the Board of Directors:	Ivan Jakabovič
Vice-Chairman of the Board of Directors:	Dušan Palcr
Member of the Board of Directors:	Gabriela Lachoutová

Supervisory Board of the Company:

Chairman of the Supervisory Board:	Marta Tkáčová
Member of the Supervisory Board:	Ivan Jakabovič
Member of the Supervisory Board:	Jana Šuterová

II. BUSINESS ACTIVITIES OF THE COMPANY AND THE BALANCE OF ITS ASSETS

The nature of the Company's business activities has not changed compared to the previous accounting period. The Company administers its assets and enlarges its volume.

During the period from 1 January 2016 to 31 December 2016, the Company continued to hold and administer own assets, consisting of 100% share in the companies:

J & T BANKA, a.s.
ID: 471 15 378, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 1731.

J&T Bank (Schweiz) AG in Liquidation
ID: CH02030069721, with its registered office at Talacker 50, 12th floor, P.C. 8001 Zürich, Switzerland.

J&T Cafe, s.r.o. v likvidaci
ID: 241 65 409, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section C, insert 184719, until 30 June 2016.

J&T Concierge, s.r.o.
ID: 281 89 825, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic registered in the Commercial Register maintained by the Metropolitan Court in Prague, section C, insert 131691.

J & T INTEGRIS GROUP LIMITED
ID: HE 207436, with its registered office at Klimentos, 41-43, KLIMENTOS TOWER, 2nd floor, Flat/Office 21, P.C. 1061, Nicosia, Cyprus.

J&T SERVICES ČR, a.s.
ID: 281 68 305, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 12445.

PBI, a.s.
ID: 036 33 527, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 20280, since 10 May 2016.

64.46% share in the company:

Poštová banka, a.s.
ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic, registered in the Commercial Register maintained by the District Court in Bratislava I, section Sa, insert 501/B.

The Company has a long history as a strong and stable institution. As at 31 December 2016, the Company recorded assets of CZK 56.1 billion, equity of CZK 30.2 billion and the registered capital of CZK 15.8 billion. In the accounting period, the Company achieved loss of CZK 0.1 billion.

The balance of Company's assets and its financial position is disclosed in the financial statements as at 31 December 2016, which are attached as an independent appendix to the annual report. Detailed information on the balance of Company's assets is included in the financial section of the Company's annual report.

III. MAJOR DECISIONS OF COMPANY'S BODIES

Based on the project of cross-border merger by acquisition dated 7 October 2014, cross-border merger by acquisition was carried out – J&T FINANCE GROUP SE (the successor company) was transferred the assets and liabilities of the dissolving company KHASOMIA LIMITED adhering to the Cyprus law, registration number: HE 238546, with its registered office at Klimentos, 41 43 KLIMENTOS TOWER, 2nd floor, Flat/Office 21, post code 1061, Nicosia, Cyprus. The decisive day of the merger was 1 March 2014.

On 16 February 2015 the shareholders of the Group decided on an increase of the share capital of J&T FINANCE GROUP SE by CZK 1,960,000 thousand (approximately EUR 70,912 thousand) to CZK 16,177,862 thousand (approximately EUR 589,301 thousand) by specific mechanism allowed by Czech law according to which the newly subscribed shares were paid by the current shareholders from funds received through a loan from J&T FINANCE GROUP SE. This mechanism is allowed as well based on J&T FINANCE GROUP SE's articles of association and also under the Czech legislation. J&T FINANCE GROUP SE recognised a receivable due from its shareholders in the total amount of CZK 1,960,000 thousand (EUR 70,912 thousand). The receivable is interest bearing and shall be repaid until 31 December 2016.

In 2014, J & T FINANCE GROUP SE and its shareholders signed a strategic partnership agreement with CEFC China Energy Company Limited (CEFC China).

Subsequently, on 23 February 2015 the shareholders of J&T FINANCE GROUP SE agreed on another increase of the share capital of the Company by CZK 852,138 thousand (approximately EUR 30,981 thousand). 637,896 shares with nominal value of CZK 1 were subscribed by the original shareholders. The subscription price of CZK 638 thousand was paid on 10 March 2015.

On 6 March 2015, a contract on the subscription of shares was signed between the Group and CEFC Shanghai International Group Limited (CEFC Shanghai) – a subsidiary of CEFC China, which subscribed 851,500,000 shares with nominal value of CZK 1 for EUR 78,950 thousand (CZK 2,171,520 thousand). The subscription price was paid by CEFC Shanghai on 17 March 2015. The share capital of the Company was thus increased to CZK 17,030,000 thousand (approximately EUR 620,282 thousand) and CEFC Shanghai acquired a 5% share in the Group. The difference between the nominal value of the shares and the subscription price in amount of CZK 1,320,020 thousand (approximately EUR 47,992 thousand) was recognised in the equity of J&T FINANCE GROUP SE as share premium.

Another increase of the share capital was agreed by the shareholders of J&T FINANCE GROUP SE on 29 September 2015. The share capital of the Company increased by CZK 710,750 thousand (approximately EUR 26,302 thousand). 710,750,488 shares with nominal value of CZK 1 were subscribed by CEFC Hainan International Holdings Co., Ltd. (CEFC Hainan) – a subsidiary of CEFC China. The subscription price was paid by CEFC Hainan on 1 September 2015 and CEFC Hainan acquired a 4% share in the Group. The structure of voting rights held by the current shareholders decreased proportionately as a result of the increase by CEFC Hainan. The difference between the nominal value of the shares and the subscription price in amount of CZK 1,231,746 thousand (approximately EUR 45,585 thousand) was recognized as share premium.

On 18 March 2016, the Company issued subordinated unsecured certificates with no maturity date in the total volume of MEUR 200. The entire issue was subscribed by CEFC Hainan International Holdings Co., Ltd. On 21 April 2016, the certificates were accepted by CNB as Tier 1 regulatory capital.

On 29 March 2016, the Company's shareholders signed several contracts, as a result of which the CEFC group's share in the Company will increase to 50 %, provided relevant approvals from regulatory authorities are acquired. The Company's registered capital will increase by MEUR 237,5.

Due to the complexity of the entire process that is subject to many regulatory conditions and approvals not only in China, but also with all regulators in countries where the Company operates, it is untimely to talk about a specific date on which the above increase will occur.

Based on a decision of the general meeting held on 9 May 2016, the Company purchased its own shares totalling CZK 1,960,442,300 from shareholders Ivan Jakabovič and Jozef Tkáč on 1 December 2016, which resulted in a decrease in the registered capital from CZK 17,740,750,488 to CZK 15,780,308,188. The decrease was carried out based on a mutual agreement of the original shareholders and the CEFC group with the aim to optimise the shares of all Company shareholders.

During the period from 1 January 2016 to 31 December 2016, the Board of Directors and the Supervisory Board of the Company adopted necessary decisions relating to the ordinary business activities of the Company and the fulfilment of obligations arising to the members of Companies statutory bodies based on relevant regulations and Company's Statute.

Prague, 2 May 2017

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

J&T FINANCE GROUP SE