



Modrá pyramida is a dynamic company which is focused on providing comprehensive financial advisory. The basic principle is a fair approach and development of a long-term relationship between a financial advisor and a client, the base for it being a financial analysis and a financial plan resulting from it.

#### Selected Key Indicators

	Units	2013	2014	2015	2016	2017
Total assets	CZK '000	82,155,312	82,774,685	89,103,638	85,024,701	84,424,675
Volume of clients' deposits	CZK '000	71,673,736	71,809,152	67,812,325	63,481,111	62,018,716
Total volume of loans	CZK '000	43,685,807	38,444,951	37,171,614	39,001,080	43,802,262
Volume of assigned loans	CZK '000	5,425,244	4,719,453	4,259,382	3,915,387	3,737,953
Volume of bridging loans	CZK '000	38,260,563	33,725,498	32,912,232	35,085,693	40,064,309
Net profit	CZK '000	1,065,526	994,683	915,071	883,095	898,213
Dividend designed for the business year	CZK '000	1,065,526	994,683	1,915,071	883,095	898,213
<b>ROAE</b>	<b>%</b>	<b>17.62</b>	<b>17.10</b>	<b>15.80</b>	<b>17.41</b>	<b>19.09</b>
Assets per employee	CZK '000	242,346	247,828	265,981	257,768	262,698
Profit per employee (FTE)	CZK '000	3,143	2,978	2,732	2,677	2,795
Capital adequacy	%	21.1	19.8	19.3	15.1	20.4
Headcount (at 31st December)	persons	339	334	335	330	321
Valid contracts	pcs	632,826	614,239	571,931	537,836	540,607
Active assigned loans	pcs	56,892	49,550	44,165	38,899	34,694
Active bridging loans	pcs	51,656	47,539	46,880	48,008	51,114

# | Contents

## Volume of bridging loans (CZK'000)

2013	38,260,563
2014	33,725,498
2015	32,912,232
2016	35,085,693
2017	40,064,309

## Total volume of loans (CZK'000)

2013	43,685,807
2014	38,444,951
2015	37,171,614
2016	39,001,080
2017	43,802,262

## Contacts

### Modrá pyramida stavební spořitelna, a.s.

Centrála Modrá pyramida  
Bělehradská 128, č. p. 222,  
120 21 Prague 2  
tel.: +420 222 824 111  
e-mail: info@mpss.cz  
internet: www.modrapyramida.cz

### Komerční banka, a.s.

Na Příkopě 33  
114 07 Prague 1  
tel.: +420 485 262 800  
fax: +420 224 243 020  
e-mail: mojebanka@kb.cz  
internet: www.kb.cz

## Modrá pyramida

Company Profile 2  
Foreword of the Chairman of the Board of Directors 3

## Company Bodies

Company Bodies 4

## Report of the Board of Directors

Report of the Board of Directors 6  
New loan product 6  
Communication, new visual concept 6  
Financial advisors 7  
Risk management 7

## Additional Information

Employees, Corporate Social Responsibility, Environment 8  
Report of the Supervisory Board 9

## Financial section

Independent Auditor's Report 12  
Financial Statements 17  
Report on Relations between Related Parties  
for the 2017 Accounting Period 52  
Data on capital 66

## Further information

Information about Modrá pyramida's products and services is accessible from the home page [www.modrapyramida.cz](http://www.modrapyramida.cz).

Data marked with \* in this annual report were not audited.

# | Company Profile

Modrá pyramida is a dynamic company which after completion of its transformation focuses on providing of complex financial advisory with emphasis on housing finance. Financial advisory is based on a fair approach and building of a long-term relationship between financial advisor and a client, the base for it being a financial analysis and a financial plan resulting from it. It is “tailormade” for every client according to his/her financial situation and future plans. The financial plan provides the client with a recommendation how to optimize the creation of reserves and cover risks, taking into account his/her income and expenses.

Client services on a professional level are ensured by more than one thousand advisors of Modrá pyramida in 216 advisory centres all over the Czech Republic. Modrá pyramida offers its comprehensive services in the area of housing financing including a wide real estate offer also in its already 8 Hypocentres in the Czech Republic.

## Shareholder Structure

### Company name:

Komerční banka, a.s.

### Registered Office:

Na Příkopě 33  
Prague 1  
Czech Republic

### Ownership interest:

100%

### Registered number:

45317054

## Corporate Information

### Company name:

Modrá pyramida stavební spořitelna, a.s.

### Legal status:

joint stock company

### Incorporated:

in the Register of Companies maintained at the Municipal Court in Prague, Section B, File 2281

### Registered office:

Bělehradská 128, č. p. 222,  
120 21 Prague 2, Czech Republic

### Registered number:

60192852

### Incorporated:

9 December 1993

### Share capital:

CZK 562,500,000

### Shares:

5,625 registered shares in book entry form with a nominal value per share of CZK 100,000 Modrá pyramida stavební spořitelna, a.s., does not have any organizational units abroad.

# | Foreword of the Chairman of the Board of Directors

Dear Shareholders, Dear Business Partners, Dear Clients,

year 2017 was another year in Modrá pyramida when we fulfilled our mission and helped our clients to build new homes. How we did can be expressed the best by our clients' interest. And it was huge in housing finance. Thanks to this, we provided the largest volume of housing loans in the history of the Modrá pyramida. We have provided our clients with over 12 thousand loans in the amount of CZK 14.6 billion, which represents increase of 55% over the previous year. Thanks to this, we increased the market share of Modrá pyramida by 6.8 percentage points and thus occupied the second place among the Czech building societies. The total volume of loans granted for housing increased by 12.3% in 2017 and reached a record volume of CZK 43.8 billion. In addition to building savings loans, we also mediated Komerční banka's mortgages in amount of CZK 0.8 billion.

This is certainly due to the fact that in 2017 the Czech economy was in good shape, unemployment was falling, wages grew and the real estate and mortgage markets were dynamically developing. But it was also certain that the period of extremely low interest rates slowly comes to an end and this meant, among other things, very strong competition in the area of lending for housing. I really appreciate the achievements we have achieved in this area and I would like to thank our employees and all our financial advisers of the business network of Modrá pyramida. I appreciate that we have been able to respond very well to the demands and wishes of our clients and constantly improve our financial advice and customer care.

In 2018 Modrá pyramida will focus on financing of housing, thus on the credit lending for the acquisition of real estate, reconstruction and modernization of existing housing of our clients.

We will continue to improve customer care and build trust between our clients and our financial advisers built on fair approach and open communication.

David Formánek  
Chairman of the Board



# Company Bodies

as at 31 December 2017

## Board of Directors

**David Formánek**

Chairman of the Board of Directors

**Aleš Mašanský**

Member of the Board of Directors

**Ladislav Šilha**

Member of the Board of Directors

## Supervisory Board

**Jan Juchelka**

Chairman of the Supervisory Board

**Peter Palečka**

Vice Chairman of the Supervisory Board

**Vladimír Jeřábek**

Member of the Supervisory Board

**Libor Löfler**

Member of the Supervisory Board

**Kristýna Železná**

Member of the Supervisory Board

**Josef Květoň**

Member of the Supervisory Board

## Audit Committee

**Petr Dvořák**

Chairman of the Audit Committee

**Petr Špaček**

Vice Chairman of the Audit Committee

**Peter Palečka**

Member of the Audit Committee



**DAVID FORMÁNEK**

**Chairman of the Board of Directors**



**ALEŠ MAŠANSKÝ**

**Member of the Board of Directors**



**LADISLAV ŠILHA**

**Member of the Board of Directors**

# Report of the Board of Directors on business activities and assets of the Company for 2017

2017 was a year of revival of the Czech economy, low unemployment and strengthening of the CZK as well as the year of turbulent changes in interest rates reflected in the mortgage market.

Modrá pyramida reached excellent business results in 2017, when we successfully managed to return to the pre-crisis volumes of provided loans. In terms of the volume of provided housing loans, 2017 was the most successful year in Modrá pyramida history and the next step in fulfilling the vision – to help their clients to create their new homes.

In 2017 there were nearly 426 thousand new building savings contracts with a total target amount of CZK 159.3 billion concluded and loans in the volume of CZK 55.3 billion granted on the Czech building savings market. In total the clients' savings deposits amounted to CZK 358.9 billion and loans to CZK 245.7 billion in the balance sheets of building savings banks at the end of 2017.

The building savings continued to be influenced by persisting low interest rate environment and high volume of early repaid loans. Modrá pyramida concluded 104,904 new contracts and target amount increases with a target amount of CZK 39.1 billion in the past year. Measured by the volume of concluded new contracts, Modrá pyramida's market share\* reached 24.6%, which signifies growth by 8.2 percentage points and the second place in the ranking of building savings banks.

Modrá pyramida recorded in 2017 decrease in volume of clients' deposits. Their volume reached CZK 62 billion, signifying decrease compared to the previous year by 2.3%. The company's total assets amounted to CZK 84.4 billion and dropped by 0.7% compared to 2016.

The number of valid building savings contracts was 540,607 contracts with the target amount of CZK 196 billion at the end of the past year.

In 2017 Modrá pyramida granted its clients almost 12 thousand loans in the volume of CZK 14.6 billion, signifying year-on-year increase by 55% in volume. The market share\* of Modrá pyramida corresponds to 26.5% as measured by the contractual volume of new concluded loans, signifying year-on-year increase by 6.8 percentage points and the 2<sup>nd</sup> place in the building savings market. Besides core loans, Modrá pyramida also concluded mortgages of Komerční banka in the total volume of CZK 0.8 billion. The total volume of provided housing loans increased by 12.3% in 2017 and reached CZK 43.8 billion.

Besides the production of building savings and core loans itself, Modrá pyramida significantly participated in sales of financial

products of Komerční banka Group in 2017. The sales of saving and investment products increased by 22% mainly due to higher sales of Komerční banka products, environmental and non-life insurance – MyProperty insurance. Increase in sales was also recorded at the product Penzijní připojištění from Penzijní společnost of KB. Sales of daily banking products decreased by 7% in annual comparison. Sales of loan products, in year-on-year comparison decreased by 54% and that due to lower sales of KB Mortgage as a result of focusing on Modrá pyramida's own credit production.

The ordinary financial statements for 2017 were prepared with due care and diligence and were reviewed by an independent auditor – the auditing company Deloitte Audit s.r.o., with its registered office Prague 8 – Karlín, Karolínská 654/2, post code 186 00. The auditing company performed the audit in accordance with the regulations applicable in the Czech Republic and has stated that the financial statements give a true and fair view of the financial position of the company Modrá pyramida stavební spořitelna, a.s., as at 31 December 2017 and of the results of its financial performance in accordance with the accounting regulations applicable in the Czech Republic. Modrá pyramida switched to accounting standard IFRS to 1 January 2018.

Modrá pyramida reached great financial results with its profit after tax in the amount of CZK 898.2 million mainly due to high production on new housing loans.

## New loan product

In April 2017 we started to work on production of a new loan product of Modrá pyramida which can primarily compete better with the mortgage banks offers. The new loan product of Modrá pyramida is more flexible and more simple and easier for clients. The entire loan negotiation process (application, contract signing and drawing) can be newly implemented thanks to dynamic biometric signature technology in significantly shorter time.

## Communication, new visual concept

In marketing communications, we focused more on analytical control of online activities, which led to a significant improvement in the position of MPs in search engines. The reinforcement effect of social networks has supported us in the decision to establish an instagram account, which we will continue to develop in the following year and use its possibilities.

In 2017 was created a new visual concept of our consulting centers, which creates a friendly and modern environment. All equipment and marking was changed. We believe that this change will help our clients feel comfortable at our counseling sites. We will gradually expand the new form to the entire distribution network.

\*The market shares are based on data from the Czech Finance Ministry.



## Financial advisors

Year 2017 meant to be high loan production. The business network was successful in particular product Hypoúvěr, which confirmed the correct direction for a significant change for this product.

Educational activities within the Financial Planning Academy focuses on the development of counseling skills in surveying client needs, its short-, medium- and long-term goals in the form of counseling. The Financial Planning Academy focuses on a pro-client approach, which leads the consultant to build a long-term relationship between consultant and client. Emphasis is placed on the expertise, ethics and fairness of the client's approach, respecting his wishes and plans, and the subsequent processing of a comprehensive solution that will help the client to realize his goals.

By the end of the year, we prepared a building savings campaign to boost interest in this popular product. In particular, the sales network focused on the sale of banking, insurance and investment products in order to find suitable investment opportunities for the client even in the persistent environment of low interest rates. 12,609 current accounts of Komerční banka were closed in 2017.

## Risk management

In 2017 Modrá pyramida received the ECB's decision to authorize the implementation of new A-IRB models and to extend the A-IRB perimeter to all Modrá pyramida credit portfolios. Thanks to this decision, the capital adequacy of Modrá pyramida increased to 20.39% and risk-weighted assets declined by CZK 8.7 billion to 2017. At the same time, since 2014, the company has been using the advanced "AMA" method for managing operational risks and calculating the regulatory capital requirement for operational risk.

In the regulatory area, Modrá pyramida focused on fulfilment of requirements of regulators, mainly in the area of credit risk management focused on the credit indicators set out in the CNB recommendation. In this context, Modrá pyramida strengthened its monitoring of credit risk management, at the level of the management and control system and at the level of the new official reports required by the CNB.

Modrá pyramida made a number of partial modifications to the approval rules, particularly in the approval process, to its simplifying and accelerating. In the field of debt recovery, number of tools have been successfully implemented to actively support clients in difficulty and to return them to the normal regime as well as to minimize losses to society in relevant cases. Modrá pyramida made two successful "parcel" sales of old claims.

In Prague, March 7<sup>th</sup>, 2018

The Board of Directors of Modrá pyramida stavební spořitelna, a.s.

# Employees, Corporate Social Responsibility, Environment

## Employees

In 2017 we launched another two-year programme „Strategic Talent Management „ that is intended for talented employees and managers. We support their personal and professional knowledge development.

We work with feedback from our employees. Employees have the opportunity to comment on their activities in the company during the annual interviews. Every two years we hold employees satisfaction and motivation survey called „Employee Barometer“, which 82% of employees participated in 2017. In addition, during the year, several smaller surveys are conducted on different topics as needed to make employees feel good at Modrá pyramida.

We help our employees to harmonize their working and personal life by flexible working hours, home office and the possibility to draw three paid days off per year to handle personal matters. We provide one day off with wage compensation per each quarter to pregnant women, sole employees taking care of minors (for disabled children up to 26 years of age) and employees with disabilities or handicap.

We care for our employees' health. Every year we offer free flu and tick-borne encephalitis vaccination to all employees.

We have a balanced offer of benefits with short and long term reach. We provide contributions to pension and life insurance to secure our employees for the future.

Beside sport games called Mopyáda, our employees are involved in Amateur Volleyball League of which Modrá pyramida is a partner, last year we actively participated in the “Biking to work” campaign again and the second year in a row of a race up the stairs called “Schodyáda”. Both these activities were met with great interest, therefore we shall continue this year also.

## Corporate Social Responsibility

In the long term Modrá pyramida considers corporate social responsibility to be one of its priorities. The emphasis on traditional human values and their support comes naturally to us. Responsible behaviour of the company is appreciated by the public and also by our employees and financial advisors. Moreover it brings a long-term sustainable competitive advantage to the company.

Primarily we help those, who need our help the most – disabled and people with various illness. Since 2006 we have been partners of Modrý klíč o.p.s., a society which cares for people with mental and combined disabilities. Within this partnership, we provide both financial help and organize variety of events among our employees - for example sale of products from sheltered workshops. Since 2015 we have been helping Černí koně society and last year we participated in “Biking to work” and thus supported Černí koně, who thanks to our support, were able to purchase another hand bikes for children who because of their disabilities cannot compete on regular bikes.

## Environment

Modrá pyramida does not damage the environment by its activity in any way. Modrá pyramida motivates both its employees and their clients to considerate attitude towards the environment. To our clients we offer loans for modernization of housing, building insulation, reduction in energy intensity or alternative energy sources usage.

Also Modrá pyramida demonstrates its environmental consideration by participation in the “Green Company project”, which concerns waste handling and also through initiatives focused on reduction of office paper usage. We implemented dynamic biometric signature which enables to Modrá pyramida financial advisors to solve the client requirements faster and more effectively and it will save office paper and printer cartridges.

# Report of the Supervisory Board of the Company on control activities in 2017

Throughout 2017, the Supervisory Board of the Company supervised the activities of the Board of Directors of Modrá pyramida stavební spořitelna, a.s., (further as “Company”) in compliance with the Articles of Association and generally binding legal regulations.

The Supervisory Board performed its control function by discussing in detail the individual issues at three ordinary Supervisory Board sessions held on 5th April, 21st September and 13th December 2017, based on supporting materials prepared by the Board of Directors of the Company. The members of the Board of Directors and invited members of the Company’s management participated in meetings of the Supervisory Board. The Supervisory Board reviewed documents and written materials which included information on strategic and business management of the Company.

On its regular meeting on 5th April 2017, the Supervisory Board focused also on reviewing effectiveness and efficiency of the internal management and control system of the Company, including efficiency of the outsourced internal audit services. Based on the discussion of the submitted report on management and control system, the Supervisory Board states that the management and control system of the Company is functioning.

The Supervisory Board reviewed the ordinary financial statements for year 2017, submitted by the Board of Directors, and found them to be prepared based on properly conducted accounting procedures and to be in compliance with the regular reports on the Company’s financial position. Furthermore, the Supervisory Board reviewed the submitted proposal of the Board of Directors to allocate the Company’s profit after tax as at 31 December 2017 in the amount of CZK 898,212,864.18 and stated that this proposal was in compliance with legal regulations and the Articles of Association of the Company. The Supervisory Board will inform the sole shareholder of the Company, Komerční banka, a.s., on the results of its review performed.

The Supervisory Board recommends the sole shareholder to approve the ordinary financial statements for year 2017. The Supervisory Board also recommends the sole shareholder to approve the proposal of the Board of Directors to allocate the Company’s profit after tax as at 31 December 2017 in the amount of CZK 898,212,864.18 as follows:

- 100% dividend pay-out of net profit CZK 898,212,864.18

The Supervisory Board, in compliance with legal regulations, also reviewed the Report on Relations between related parties as at 31 December 2017, prepared by the Board of Directors of the Company. The Supervisory Board states that the Company did not suffer any loss resulting from the relations between the related parties in the accounting period from 1 January 2017 to 31 December 2017.

In Prague, on 5<sup>th</sup> April 2018

The Supervisory Board of Modrá pyramida stavební spořitelna, a.s.

# FINANCIAL SECTION

# | Contents

## **Financial Statements**

Independent Auditor's Report	12
Balance Sheet as at 31 December 2017	17
Profit and Loss Account for the Year Ended 31 December 2017	19
Off Balance Sheet Accounts	20
Statement of Changes in Equity for the Year Ended 31 December 2017	21
Notes to the Financial Statements for the Year Ended 31 December 2017	22

## **Report on Relations between Related Parties for the 2017 Accounting Period**

Report on Relations between Related Parties for the 2017 Accounting Period	52
---	----

## **Data on capital**

Data on capital and capital requirements	66
--	----



Deloitte Audit s.r.o.  
Nile House  
Karolinská 654/2  
186 00 Prague 8 - Karlín  
Czech Republic

Tel: +420 246 042 500  
Fax: +420 246 042 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz

Registered by the Municipal Court  
in Prague, Section C, File 24349  
ID. No.: 49620592  
Tax ID. No.: CZ49620592

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Modrá pyramida stavební spořitelna, a.s.

Having its registered office at: Bělehradská 128, č.p. 222, 12021 Praha 2

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Modrá pyramida stavební spořitelna, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as at 31 December 2017, and the profit and loss account, and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Modrá pyramida stavební spořitelna, a.s. as at 31 December 2017, and of its financial performance for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

#### Basis for Opinion

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

#### Key Audit Matters

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

Key audit matter	Related audit procedures
<b>Allowances for the loans and receivables</b>	
<p>(See Note 14 of the Financial Statements for the details)</p> <p>At 31 December 2017, gross loans and receivables (hereinafter "loans") were CZK 43 575 million against which provisions for loans and receivables (hereinafter "allowances") of CZK 687 million were recorded. The Bank exercise significant judgment when determining both when and how much to record as provisions.</p> <p>Provisions for losses on loans and receivables are recognised when there are reasonable doubts over the recoverability of the loan balance. Provisions for losses on loans and receivables represent management's assessment of potential losses in relation to the Bank's on and off balance sheet activities.</p>	<p>We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (CAS 106).</p> <p><b>Testing of internal controls</b></p> <p>We tested the design and operating effectiveness of the key internal controls to determine which loans and advances to customers are impaired and allowances for those assets. Our procedures included testing:</p> <ul style="list-style-type: none"> <li>• System-based and manual controls over the timely recognition of impaired loans and advances;</li> <li>• Controls over the allowance calculation and allowance recording;</li> <li>• Controls over collateral valuation estimate;</li> </ul>

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/cz/about for a more detailed description of DTTL and its member firms.

<p>The Bank uses one of two methods to assess the amount of allowances:</p> <ul style="list-style-type: none"> <li>For impaired loans which are homogeneous in nature (consumer and mortgage loans to individuals and smaller corporate portfolios) the allowance is calculated by model using historical delinquency statistics (1).</li> <li>Portfolio allowances are calculated for losses that have been incurred but have not been identified at the year-end (2.). Portfolio allowances are held against non-impaired loans across all segments and calculated using model based on probabilities of default and loss given default as well as emergence periods between the impairment event occurring and model allowance for impaired loans (1.) being recognised.</li> </ul> <p>Because of the significance of these judgements and the size of loans and receivables, the audit of provisions for loans to customers is a key area of focus.</p>	<ul style="list-style-type: none"> <li>The governance process of management validation of allowance calculations; and</li> <li>IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.</li> </ul> <p><u>Identification of impaired loans</u></p> <p>We evaluated on a sample of loans to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.</p> <p><u>Allowances for loans determined using statistical model for impaired loans (1.)</u></p> <p>For the allowances determined by model used by the Bank, we were assessing, in cooperation with our credit risk specialists, the model methodology, the internal validation reports and results of the model recalibration. We assessed whether the modelling assumptions used considered all relevant risks, and whether the additional adjustments to reflect un-modelled risks were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the customers as well as our own knowledge of practices used by other similar banks. We performed substantive analytical procedures and benchmarking.</p> <p><u>Allowances for loans determined using statistical model for not - impaired loans (2.)</u></p> <p>We performed analytical procedures and benchmarking.</p>
<p><b>Key audit matter</b></p>	<p><b>Related audit procedures</b></p>
<p><b>Interest and fee income recognition</b></p>	
<p>(See Note 3 and 4 of the Financial Statements for the details)</p> <p>For the year ended 31 December 2017 the net interest income and similar income was CZK 1 497 million. Total net fee and commission income for the same period was CZK 37 million. With the main source being mortgage loans and deposits these are the main contributors to the net operating income of the Bank affecting the profitability.</p> <p>The Bank accounts for the accruals of interest using the effective interest rate method. In determining the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, commitment commissions and all other premiums or discounts.</p> <p>Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accrual basis when the service has been provided.</p> <p>Revenue recognition specifics, a high volume of transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter.</p>	<p>We tested the design and operating effectiveness of the key internal controls and focused on:</p> <ul style="list-style-type: none"> <li>Assessment of interest/fees recognition during new product validation;</li> <li>Interest/fee inputs on customer loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees;</li> <li>Recording of fee and interest income and management oversight; and</li> <li>IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.</li> </ul> <p>We evaluated the accounting treatment performed by the Company in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (CAS 103).</p> <p>We focused our testing on challenging the correct classification of:</p> <ul style="list-style-type: none"> <li>Fees that are identified as directly attributable to the financial instrument;</li> <li>Fees that are not identified as directly attributable to the financial instrument.</li> <li>We assessed the completeness and accuracy of data used for the calculation of interest using data analytics.</li> </ul> <p>We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.</p>

#### Other Information in the Annual Report

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

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

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

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

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

As stated in Financial section of the Annual Report, the Company does not prepare non-financial information because the relevant information is to be disclosed in the consolidated annual report or separate report of the consolidating entity. For this reason, we do not report on non-financial information.

#### Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

#### **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

##### Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 18 April 2017 and our total uninterrupted engagement has lasted for 3 years.

##### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 28 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

##### Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

#### **Report on Report on relations among related entities**

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2017 which is included in this annual report on pages 52 to 65. This Report on Relations is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the Report on Relations based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Report on Relations is free of material factual misstatements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the Report on Relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the Report on Relations Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2017 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

In Prague on 20 April 2018

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

David Batal  
registration no.2147



# Financial Statements

## Balance Sheet as at 31 December 2017

No.	ASSETS CZK '000	Row no.	Current period			Prior period
			Gross	Corrections	Net	Net
a	b	c	1	2	3	4
<b>1</b>	<b>Cash in hand and balances with central banks</b>	<b>1</b>	<b>139,505</b>	<b>0</b>	<b>139,505</b>	<b>8,247,892</b>
<b>2</b>	<b>State zero-coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>2</b>	<b>2,586,937</b>	<b>0</b>	<b>2,586,937</b>	<b>2,642,429</b>
	Of which: a) Issued by Government institutions	3	2,586,937	0	2,586,937	2,642,429
	b) Other	4	0	0	0	0
<b>3</b>	<b>Amounts due from banks and savings associations</b>	<b>5</b>	<b>36,219,628</b>	<b>0</b>	<b>36,219,628</b>	<b>33,188,654</b>
	Of which: a) Repayable on demand	6	4,440	0	4,440	1,626
	b) Other receivables	7	36,215,188	0	36,215,188	33,187,028
<b>4</b>	<b>Amounts due from clients – members of savings associations</b>	<b>8</b>	<b>43,575,439</b>	<b>686,828</b>	<b>42,888,611</b>	<b>38,210,766</b>
	Of which: a) Repayable on demand	9	0	0	0	0
	b) Other receivables	10	43,575,439	686,828	42,888,611	38,210,766
<b>5</b>	<b>Debt securities</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Of which: a) Issued by Government institutions	12	0	0	0	0
	b) Issued by other entities	13	0	0	0	0
<b>6</b>	<b>Shares, share certificates and other equity investments</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7</b>	<b>Equity investments in associates</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Of which: In banks	16	0	0	0	0
<b>8</b>	<b>Equity investments in subsidiaries</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Of which: In banks	19	0	0	0	0
<b>9</b>	<b>Intangible fixed assets</b>	<b>21</b>	<b>586,569</b>	<b>374,911</b>	<b>211,658</b>	<b>203,601</b>
	Of which: a) Start-up costs	22	0	0	0	0
	b) Goodwill	23	0	0	0	0
<b>10</b>	<b>Tangible fixed assets</b>	<b>25</b>	<b>761,718</b>	<b>420,577</b>	<b>341,141</b>	<b>343,051</b>
	Of which: Land and buildings for operating activities	26	528,642	218,567	310,075	317,630
<b>11</b>	<b>Other assets</b>	<b>28</b>	<b>1,072,689</b>	<b>8,941</b>	<b>1,063,748</b>	<b>1,439,592</b>
<b>12</b>	<b>Subscribed capital unpaid</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>13</b>	<b>Deferred expenses and accrued income</b>	<b>30</b>	<b>973,447</b>	<b>0</b>	<b>973,447</b>	<b>748,716</b>
	<b>Total assets</b>	<b>31</b>	<b>85,915,932</b>	<b>1,491,257</b>	<b>84,424,675</b>	<b>85,024,701</b>

## Balance Sheet as at 31 December 2017

LIABILITIES		Row	Current period	Prior period
No.	CZK '000	no.		
a	b	c	6	7
<b>1</b>	<b>Amounts owed to banks and savings associations</b>	<b>31</b>	<b>14,410,522</b>	<b>12,900,056</b>
	Of which: a) Repayable on demand	32	0	0
	b) Other payables	33	14,410,522	12,900,056
<b>2</b>	<b>Amounts owed to clients – members of savings associations</b>	<b>34</b>	<b>62,908,347</b>	<b>65,148,336*</b>
	Of which: a) Repayable on demand	35	217,139	259,913
	b) Other payables	37	62,691,208	64,888,423
<b>3</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>
	Of which: a) Issued debt securities	43	0	0
	b) Other payables from debt securities	44	0	0
<b>4</b>	<b>Other liabilities</b>	<b>45</b>	<b>595,450</b>	<b>454,697*</b>
<b>5</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>221,368</b>	<b>225,978*</b>
<b>6</b>	<b>Reserves</b>	<b>47</b>	<b>4,679</b>	<b>3,775</b>
	Of which: a) For pensions and similar liabilities	48	0	0
	b) For taxes	49	0	0
	c) Other charges	50	4,679	3,775
<b>7</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>
<b>8</b>	<b>Share capital</b>	<b>52</b>	<b>562,500</b>	<b>562,500</b>
	Of which: a) Share capital paid up	53	562,500	562,500
	b) Treasury shares		0	0
<b>9</b>	<b>Share premium</b>	<b>55</b>	<b>487,500</b>	<b>487,500</b>
<b>10</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>1,119,638</b>	<b>1,119,638</b>
	Of which: a) Mandatory reserve funds and risk funds	57	112,500	112,500
	b) Other reserve funds	59	1,007,138	1,007,138
	c) Other funds from profit	60	0	0
<b>11</b>	<b>Revaluation reserve</b>	<b>62</b>	<b>0</b>	<b>0</b>
<b>12</b>	<b>Capital funds</b>	<b>63</b>	<b>0</b>	<b>0</b>
<b>13</b>	<b>Gains or losses from the revaluation of</b>	<b>64</b>	<b>118,689</b>	<b>141,357</b>
	Of which: a) Assets and liabilities	65	118,689	141,357
	b) Hedging derivatives	66	0	0
	c) The retranslation of equity holdings	67	0	0
<b>14</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>3,097,770</b>	<b>3,097,770</b>
<b>15</b>	<b>Profit or loss for the period</b>	<b>69</b>	<b>898,212</b>	<b>883,094</b>
	<b>Total liabilities</b>	<b>70</b>	<b>84,424,675</b>	<b>85,024,701</b>

\*In 2017, because of improvement of faithful presentation, there was a change in presentation of selected liabilities items – see Note 22 and Note 23. Data for Prior period shows recalculated balances based on the new rules.

## Profit and Loss Account for the Year Ended 31 December 2017

No.	CZK '000	Row no.	Current period	Prior period
a	b	c	1	2
<b>1</b>	<b>Interest income and similar income</b>	<b>1</b>	<b>2,538,524</b>	<b>2,621,516</b>
	Of which: Interest income from debt securities	2	81,233	95,585
<b>2</b>	<b>Interest expense and similar expense</b>	<b>3</b>	<b>(1,041,569)</b>	<b>(1,162,693)</b>
	Of which: Interest expense from debt securities	4	0	0
<b>3</b>	<b>Income from shares and equity investments</b>	<b>5</b>	<b>0</b>	<b>0</b>
	Of which: a) Income from equity investments in associates	6	0	0
	b) Income from equity investments in subsidiaries	7	0	0
	c) Other income from shares and equity investments	8	0	0
<b>4</b>	<b>Commission and fee income</b>	<b>9</b>	<b>405,903</b>	<b>421,541</b>
<b>5</b>	<b>Commission and fee expense</b>	<b>10</b>	<b>(369,138)</b>	<b>(322,040)</b>
<b>6</b>	<b>Net profit or loss on financial operations</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>7</b>	<b>Other operating income</b>	<b>12</b>	<b>5,766</b>	<b>5,580</b>
<b>8</b>	<b>Other operating expenses</b>	<b>13</b>	<b>(32,570)</b>	<b>(32,204)</b>
<b>9</b>	<b>Administrative expenses</b>	<b>14</b>	<b>(564,725)</b>	<b>(551,088)</b>
	Of which:	15		
	a) Staff costs	16	(301,049)	(292,507)
	which: aa) Social security and health insurance	18	(67,965)	(66,391)
	b) Other administrative expenses	19	(263,676)	(258,581)
<b>10</b>	<b>Release of reserves and provisions for tangible and intangible fixed assets</b>	<b>20</b>	<b>0</b>	<b>0</b>
<b>11</b>	<b>Depreciation, charge for and use of reserves and provisions for tangible and intangible fixed assets</b>	<b>24</b>	<b>(58,386)</b>	<b>(56,729)</b>
<b>12</b>	<b>Release of provisions and reserves for receivables and guarantees, recoveries of receivables written off</b>	<b>30</b>	<b>195,001</b>	<b>210,983</b>
<b>13</b>	<b>Write-offs, charge for and use of provisions and reserves for receivables and guarantees</b>	<b>34</b>	<b>(128,868)</b>	<b>(201,087)</b>
<b>14</b>	<b>Release of provisions for equity investments in associates and subsidiaries</b>	<b>38</b>	<b>0</b>	<b>0</b>
<b>15</b>	<b>Losses on the transfer of equity investments in associates and subsidiaries, charge for and use of provisions for equity investments in associates and subsidiaries</b>	<b>39</b>	<b>0</b>	<b>0</b>
<b>16</b>	<b>Release of other reserves</b>	<b>40</b>	<b>1,749</b>	<b>2,033</b>
<b>17</b>	<b>Charge for and use of other reserves</b>	<b>41</b>	<b>(2,654)</b>	<b>(1,494)</b>
<b>18</b>	<b>Share of profits or losses of subsidiaries and associates</b>	<b>42</b>	<b>0</b>	<b>0</b>
<b>19</b>	<b>Profit or loss for the period from ordinary activities before taxes</b>	<b>44</b>	<b>949,033</b>	<b>934,318</b>
<b>20</b>	<b>Extraordinary income</b>	<b>45</b>	<b>0</b>	<b>0</b>
<b>21</b>	<b>Extraordinary expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>
<b>22</b>	<b>Profit or loss for the period from extraordinary activities before taxes</b>	<b>47</b>	<b>0</b>	<b>0</b>
<b>23</b>	<b>Income tax</b>	<b>48</b>	<b>(50,821)</b>	<b>(51,224)</b>
<b>24</b>	<b>Net profit or loss for the period after taxes</b>	<b>51</b>	<b>898,212</b>	<b>883,094</b>

## Off Balance Sheet Accounts

OFF BALANCE SHEET ACCOUNTS CZK '000		Row no.	Current period	Prior period
No.				
a	b	c	1	2
1	Issued commitments and guarantees	1	9,205,000	5,167,172
2	Provided collateral	2	103,159	113,335
3	Amounts due from spot transactions	3	0	0
4	Amounts due from term transactions	4	29,300,000	19,350,000
5	Amounts due from option transactions	5	0	0
6	Receivables written off	6	134,453	165,973
7	Assets provided into custody, administration and safe-keeping	7	0	0
8	Assets provided for management	8	0	0
9	Accepted commitments and guarantees	9	1,475,109	1,883,296
10	Received collateral	10	70,385,700	60,191,067
11	Amounts owed from spot transactions	11	0	0
12	Amounts owed from term transactions	12	29,300,000	19,350,000
13	Amounts owed from option transactions	13	0	0
14	Assets received into custody, administration and safe-keeping	14	0	0
15	Assets received for management	15	0	0

## Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital	Treasury shares	Share premium	Reserve funds	Retained earnings/ accumulated losses of prior periods	Valuation gains or losses	Profit or loss	Total
<b>Balance at 1 January 2016</b>	<b>562,500</b>	<b>0</b>	<b>487,500</b>	<b>1,119,638</b>	<b>4,097,770</b>	<b>175,022</b>	<b>915,071</b>	<b>7,357,501</b>
Change of accounting policies								
Corrections of significant errors								
FX differences and valuation differences not included in profit or loss						(33,665)		(33,665)
Net profit or loss for the period							883,094	883,094
Dividends					(1,000,000)		(915,071)	(1,915,071)
Directors' fees								
Allocation to funds								
Allocation to retained earnings								
Share issues								
Share capital decrease								
Acquisition of treasury shares								
Other changes								
<b>Balance at 31 December 2016</b>	<b>562,500</b>	<b>0</b>	<b>487,500</b>	<b>1,119,638</b>	<b>3,097,770</b>	<b>141,357</b>	<b>883,094</b>	<b>6,291,859</b>
<b>Balance at 1 January 2017</b>	<b>562,500</b>	<b>0</b>	<b>487,500</b>	<b>1,119,638</b>	<b>3,097,770</b>	<b>141,357</b>	<b>883,094</b>	<b>6,291,859</b>
Change of accounting policies								
Corrections of significant errors								
FX differences and valuation differences not included in profit or loss						(22,668)		(22,668)
Net profit or loss for the period							898,212	898,212
Dividends							(883,094)	(883,094)
Directors' fees								
Allocations to funds								
Allocation to retained earnings								
Share issues								
Share capital decrease								
Acquisition of treasury shares								
Other changes								
<b>Balance at 31 December 2017</b>	<b>562,500</b>	<b>0</b>	<b>487,500</b>	<b>1,119,638</b>	<b>3,097,770</b>	<b>118,689</b>	<b>898,212</b>	<b>6,284,309</b>

# Notes to the Financial Statements for the Year Ended 31 December 2017

## Contents

1. General Information	23
2. Basis of Preparation	24
3. Net Interest Income	30
4. Net Fees and Commissions	30
5. Net Profit or Loss on Financial Operations	30
6. Staff Costs	31
7. General Operating costs	31
8. Depreciation	32
9. Write-offs, Charge for, Use and Release of Provisions for Receivables and Recoveries of Receivables written off	32
10. Income Tax	33
11. Allocation of Profit	33
12. Cash in Hand and Deposits at the Czech National Bank	33
13. Amounts due from Banks	34
14. Amounts due from Clients	34
15. Securities held to Maturity	36
16. Financial Derivative Instruments	36
17. Deferred Expenses, Accrued Income and other assets	36
18. Intangible Assets	37
19. Tangible Assets	38
20. Equity Investments	38
21. Amounts Owed to Banks	38
22. Amounts Owed to Clients	39
23. Accrued Expenses and Deferred Income and Other Liabilities	39
24. Reserves	40
25. Deferred Tax	40
26. Equity	41
27. Contingent Assets, Liabilities and Loan Commitments	41
28. Related Party Transactions	42
29. Risk Management	43
30. Post Balance Sheet Events	51
31. Other Information	51



## 1. General Information

### 1.1. Incorporation and Description of the Business

Modrá pyramida stavební spořitelna, a.s., corporate ID: 60192852, registered at Bělehradská 128/222, 120 21 Prague 2, was formed by a Deed of Foundation on 10 June 1993 and was incorporated following its registration in the Register of Companies held at the Municipal Court in Prague, Volume B, File 2281, on 9 December 1993.

Modrá pyramida stavební spořitelna, a.s. (hereinafter the “Bank” or the “Company”) is a specialised bank and its activities and operations are defined in Building Savings and Building Savings State Support Act 96/1993 Coll., as subsequently amended (the “Building Savings Act”). The Bank operates a building savings scheme involving the acceptance of deposits from, and the issuance of loans to, participants in the building savings scheme, the acceptance of deposits from financial institutions, the provision of guarantees in Czech crowns for loans issued from the building savings, for loans provided pursuant to Section 5 (5) of the Building Savings Act and for loans defined in Section 9 (1) (a) of the Building Savings Act, brokering the sale of financial products of companies belonging to the KB financial group, proprietary trading with mortgage bonds and bonds, execution of the payment and settlement system in connection with the operation of the Bank, and conclusion of trading for the purpose of hedging the currency and interest rate risks. The Bank only conducts its business in the territory of the Czech Republic.

During 2017, no changes were made to the shareholder structure. The sole shareholder of the Bank is Komerční banka, a.s., corporate ID: 453 17 054, with its registered office at Na Příkopě 33, Prague 1, entered in the Register of Companies maintained by the Municipal Court in Prague, Volume B, File 1360 (hereinafter “KB”).

Consolidated annual report, including financial statements, of KB financial group is published in the “sbírka listin”, under the Commercial Register. Alternatively, it is also available on the website of the Komerční banka, a.s. The consolidated annual report includes required nonfinancial information, in accordance with Accounting Act 563/1991 Coll., § 32g, as subsequently amended.

### 1.2. Board of Directors and Supervisory Board

#### Changes in the Composition of the Bank’s Board of Directors in 2017

There were no changes in the Bank’s Board of Directors in 2017.

#### Changes in the Composition of the Bank’s Supervisory Board in 2017

With effect from 21 September 2017, Mr Jan Juchelka was elected as a Chairman of the Supervisory Board. A record into the Register of Companies was made on 1 December 2017.

#### The composition of the Board of Directors and the Supervisory Board as at 31 December 2017

	Position	Name
<b>Board of Directors</b>		
	Chairman	David Formánek
	Member	Aleš Mašanský
	Member	Ladislav Šilha
<b>Supervisory Board</b>		
	Chairman	Jan Juchelka
	Vice-Chairman	Peter Palečka
	Member	Vladimír Jeřábek
	Member	Josef Květoň
	Member	Kristýna Železná
	Member	Libor Löfler

### 1.3. Events in the Year 2017

The bank sector was affected by the continuing low interest rates environment/negative interest rates environment. During 2017, the Bank did not enter into any deal with a negative interest rate and no deal with a negative interest rate is recognised in the balance sheet.

There was performed a significant change in the Bank's offer in April 2017. The Bank has modified the conditions of building savings and has significantly shortened the bridging loan stage, making it easier for clients to understand. For secured real estate loans, the client has a new option to choose the required fixation period, and the bank guarantees that the interest rate of the loan will not exceed the specified limit during the repayment period.

## 2. Basis of Preparation

### (a) Accounting Principles

The financial statements have been prepared on the basis of the underlying accounting books and records maintained in accordance with Accounting Act 563/1991 Coll., and the relevant directives and regulations applicable in the Czech Republic. These financial statements have been prepared on the accruals basis of accounting and under the historical cost convention, with the only exception being assets that are measured at fair value. Comparative figures for the previous financial reporting period are reported reflecting the conditions that existed in the period for which the financial statements have been prepared.

The financial statements have been prepared in accordance with Regulation of the Czech Finance Ministry 501/2002 Coll., which provides implementation guidance on the composition and substance of the items in the financial statements and the scope of information to be disclosed by banks and certain financial institutions (hereinafter "Regulation No. 501"), as amended, and in accordance with Czech Accounting Standards for Financial Institutions.

The Bank is subject to the regulatory requirements of the Czech National Bank (hereinafter the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

The financial statements include the balance sheet, the profit and loss account, the statement of changes in equity and notes to the financial statements. These financial statements are unconsolidated. The data in the financial statements is presented in thousands of Czech crowns.

### (b) Transaction Recognition Date

The date of recognition of transactions is the date of payment or receipt of cash, the date of purchase or sale of securities, the date on which a payment is made or an amount is collected from the client's account, the date of issuing an order to the correspondent to make a payment, the date of settlement of the Bank's orders with the CNB Clearing Centre, the trade date and the settlement date relating to transactions with securities, the date on which the ownership title to assets originates or expires, the day when a receivable or payable originates, changes or is extinguished, a deficit, shortfall, surplus, damage or transfer of assets within the Bank is identified or other events take place that are subject to accounting.

Purchases and sales of financial assets are retained off-balance sheet in the period between the trade date and the settlement date. At settlement, the off-balance sheet entry is reversed and the settlement is brought onto the balance sheet.

### (c) Foreign Currency Translation

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction date. On the balance sheet date, monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December 2017.

Realised and unrealised exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

## (d) Provided Loans and Provisions against Loan Losses

Amounts receivable arising from loans provided to clients are stated at the outstanding principal amount and accrued interest and fees, net of provisions. Accrued interest income is included in the carrying amount of these receivable balances.

Receivables are reviewed for recoverability. Based on such reviews, provisions are created for individual receivables. The level of provisioning is established in accordance with CNB Regulation 163/2014, as amended, stipulating rules for the assessment of receivables arising from financial activities and the creation of provisions and reserves, and rules for the acquisition of certain classes of assets. In case of credit exposures in categories Substandard, Doubtful or Loss, the provisions are created on an individual basis. Loans classified as Standard are included in the collective assessment of impairment and impaired for incurred but not reported losses, because impairment to Standard is not identified on an individual basis. Provisions for Standard loans have been created since 2015. The guidance used in recognising provisions for the period is set out in Note 29 (a) of these financial statements. Provisions charged against expenses are presented in 'Write-offs, charge for and use of provisions and reserves for receivables and guarantees'.

The tax-deductible portion of the period's charge for the recognition of reserves and provisions for loan losses is calculated in accordance with the requirements of Section 5 ('Banking Reserves and Provisions') of Provisioning Act 593/1992 Coll.

The write-off of irrecoverable receivables is accounted for as 'Write-offs, charge for provisions and reserves for receivables and guarantees' in the profit and loss account as well as the relevant balance of provisions and reserves. Recoveries from receivables previously written off are included in 'Release of provisions and reserves for receivables and guarantees and recoveries of receivables previously written off'.

## (e) Securities

Pursuant to Section 9 of Building Savings and Building Savings State Support Act 96/1993 Coll., the Bank acquires Government bonds or bonds guaranteed by the Government, bonds issued by the CNB, mortgage bonds issued by credit institutions established in the member states of the Organization for Economic Cooperation and Development (OECD), bonds issued by the OECD states, the central banks and financial institutions of these states and banks seated in these states, and bonds issued by the European Investment Bank (EIB), Nordic Investment Bank (NIB) and the European Central Bank (ECB).

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy.

At settlement, debt securities, treasury bills and mortgage bonds are initially recognised in the balance sheet at cost which comprises the net purchase cost, the proportionate part of the discount or premium and direct transaction costs related to the acquisition of securities. Accrued interest income is reflected in the carrying amount of these securities.

### Securities Available for Sale

Securities available for sale are measured at fair value with the changes in fair values being recognised through the balance sheet in equity. If there is objective evidence that a security may be impaired, the amount corresponding to the impairment is included in the profit and loss account with a corresponding entry to gains or losses from revaluation.

The fair value of securities is determined by reference to the market value prevailing at the fair value measurement date if the Bank proves that the security can be sold at the market value.

The fair values of publicly tradable securities are equal to the prices of the debt securities published by the informational system Reuters at the fair value measurement date. In circumstances where this price is not readily obtainable, the fair value is equal to the value published by the market maker.

### **Securities held to maturity**

Securities held to maturity are initially recognised at cost, which includes direct transaction costs. Valuation of the security from the purchase settlement to maturity/sale settlement will gradually increase to reflect accrued interest income. If the security is sold the difference between the amortised cost and the selling price at the time of the sale is taken to income or expense as profit or loss from sale of security. The difference between the purchase price and the nominal value (discount or premium) is amortised to maturity by EIR and reported in 'Interest income and similar income' or 'Interest expense and similar expense' in the profit and loss account.

### **Publicly non-tradable debt securities acquired in primary placements**

Upon initial recognition, publicly non-tradable debt securities acquired in primary placements are carried at the acquisition cost which includes direct transaction costs. The valuation from the purchase settlement date to maturity or the sale settlement date is gradually increased (decreased) to reflect accrued interest income (expenses). If debt securities acquired in primary placements not held for trading are sold, the difference between the accrued amount not adjusted for provisions and the selling price at the sale/sale settlement date is recognised in income or expenses as profit or loss from the sale of securities.

### **Transfers between portfolios**

The transfers between portfolios of the securities are possible if original intentions are changed, except as follows:

- The transfer from/to the portfolio of the securities at fair value on expense or income account is not allowed.
- In case of a sale or transfer of more than an insignificant part of securities held to maturity the Bank has to transfer the rest of the portfolio of securities held to maturity to available-for-sale securities and cannot assign any securities to the securities held to maturity for the following two accounting periods. Exceptions to this rule are allowed in case of a sale within three months before maturity, in case of a significant deterioration of an issuer's riskiness or changes in tax legislation, legislative or regulatory requirements.

### **Repo transactions**

Transactions under which securities are sold with a commitment to repurchase the securities (repo transactions) for a pre-determined price or are purchased with a commitment to sell the securities (reverse repo transactions) are treated as collateralised received or provided loans. The ownership title underlying these securities passes to the entity issuing the loan. Securities transferred under repo transactions continue to be reported within the relevant securities accounts on the Bank's balance sheet, with the amount acquired through the transfer of securities under repo transactions being included in 'Amounts owed to banks and savings associations'. Securities acquired under reverse repo transactions are maintained off-balance sheet in the line 'Received collateral'. Loans provided under reverse repo transactions are presented within 'Amounts due from banks and savings associations'.

Income/expenses arising under reverse repo transactions/repo transactions representing the difference between the cost and the selling price are accrued over the life of the transaction and are reported in the profit and loss account lines 'Interest income and similar income' or 'Interest expense and similar expenses' as appropriate.

## **(f) Financial Derivatives and Hedging**

In the ordinary course of business, derivative transactions classified at the date of contract are realised as hedging operations.

Hedging derivatives fulfil simultaneously the following conditions:

- The appropriate strategy of the Bank within risk management;
- At the beginning of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged items and hedging instruments, the definition of risk that is being hedged and the approach to identify and authenticate the efficiency of the hedge;
- It is expected that the hedge is highly effective at inception and throughout the period; and
- Current fair value changes, respective cash flows of the hedged and hedging instruments are almost aligned (in the range 80–125%).

Hedging derivatives are accounted for according to the type of the hedging relationship which can be either:

- i. A fair value hedge of a recognised asset or liability or firm commitment (fair value hedge); or
- ii. Hedging of the future cash flow attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge).

During the accounting period the Bank used a type of hedging relationship as fair value hedges. Changes in the fair value of derivatives that are identified as fair value hedges and qualify for hedge accounting in relation to hedged risk are charged to income along with the change in fair value of the hedged asset or liability that is attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment of the accounting value of a hedged interest-bearing financial instrument is written off to the profit over the period to maturity of the hedged item.

The fair values of derivatives classified as hedges are set out in Note 16.

The fair values of financial derivatives are obtained based on discounted cash flow using market parameters.

## (g) The Equity

The registered capital of the Bank is stated at the amount recorded in the Register of Companies of the Municipal Court. Contributions in excess of share capital are recorded as share premium. Capital funds are created by monetary or non-monetary contributions in excess of capital, donations into tangible assets etc. Allocation to the reserve fund is made in accordance with the Articles of Association.

## (h) Tangible and Intangible Fixed Assets

Tangible fixed assets include tangible assets with a cost greater than CZK 40,000 and an estimated useful life exceeding one year.

Intangible fixed assets include assets with a cost of individual components greater than CZK 60,000 and an estimated useful life exceeding one year.

Tangible and intangible fixed assets are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives. Depreciation periods of individual classes of tangible and intangible fixed assets are as follows:

### Terms for depreciation of tangible and intangible assets

	Depreciation period for accounting purposes
Buildings	40 years
Machinery and equipment	12 years
Energy machines	20 years
Furniture and fixtures	6 years
Office equipment	5 years
Software	5 years or based on the estimated useful life, as appropriate

Assets with a cost lower than CZK 60,000 and CZK 40,000 are not treated as intangible and tangible fixed assets, respectively, and are expensed in the period of acquisition.

The external cost of technical improvements in respect of tangible and intangible fixed assets are capitalised and increase the acquisition cost of the related fixed asset. Asset maintenance costs are charged directly to the profit and loss account when the expenditure is incurred. Internal (staff) costs incurred in respect of the project involving software development are also capitalised.

Assets held under finance leases are depreciated by the lessor.

## **(i) Reserves**

The Bank recognises reserves for liabilities with uncertain timing and amount in the event that:

- It has an obligation (legal or constructive);
- It is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; “likely” means a likelihood of higher than 50%; and
- An appropriately reliable estimate can be made of the amount of the obligation.

Reserves are used only for the purposes for which they were recognised. If there is no longer a reason for maintaining the reserve, the Bank releases the reserve to income.

## **(j) Provisioning**

The Bank recognises provisions for assets that are not revalued at fair value in circumstances where the carrying amount of the assets as stated in the books is temporarily impaired. Provisions are recognised in respect of amounts due from clients and due from other receivables. The recognition of provisions is charged to expenses and credited to the relevant provisioning account. The recognition, use and release of provisions is reported in the relevant profit and loss account lines.

## **(k) Recognition of Income and Expense**

Interest income and expense are recognised with the exception of interest on late payment on an accrual basis, i.e. they are recognised in the periods in which the actual flow of the related services occurs, regardless of when the related monetary flow arises. Accrued interest income and expenses related to assets and liabilities are accounted for together with these assets and liabilities.

Interest income on securities held is recognised using the effective interest rate method (EIR). The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument.

The Bank reports mainly fees and commissions for the conclusion of building savings contracts and for processing of the loan contract. Commission and fee income and expenses are recognised on an accruals basis in the period to which they relate, irrespective of when they are paid or received and are classified in Income/Expense from fees and commissions. Other operating income and expenses and administrative expenses are recognised under the same principle.

Past due interest or interest where the management of the Bank expects that it is not likely to be recovered is recognised in income and provisions in the corresponding amount are recorded and charged to the profit and loss account.

Default interest is recognised when collected (default interest payments are disclosed in Note 3).

All Bank's income is generated in the territory of the Czech Republic.

## **(l) Use of Estimates**

The presentation of financial statements in line with the accounting regulations applicable in the Czech Republic requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and their reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments, valuation of intangible assets, impairment of assets and provisions, are based on the information available at the balance sheet date.

The management of the Bank has determined these estimates and assumptions by reference to the relevant information available to it.

The Bank recognises an estimated receivable, also reported as a payable to clients, as equal to the amount of the estimated state subsidy which will be added to the deposit accounts of clients in the following year.

### (m) Finance Lease

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, the ownership title to the asset transfers from the lessor to the lessee; pending the transfer of the title, the lessee makes lease payments to the lessor for the assets that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

Leasehold improvements are depreciated over the lease term. Following the transfer of the ownership title of the leased asset to the lessee, the cost of improvements is added to the value of acquired assets and the depreciation of this increased amount continues.

### (n) Income Taxes

The income tax base is calculated using the profit for the period adjusted by adding tax non-deductible expenses and deducting non-taxable income. The income tax base is additionally adjusted to reflect tax relief and tax credits, if any. Taxation is calculated at the period-end in accordance with the Income Taxes Act 586/1992 Coll., as subsequently amended. The currently enacted tax rate is 19% for 2017.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax is provided using the balance sheet liability method on all temporary differences between the tax base of an asset or liability and the carrying amounts stated in the balance sheet. The amount of a deferred tax asset or liability is calculated as equal to the resulting difference multiplied by the income tax rate effective pursuant to Income Taxes Act 586/1992 Coll., or the income tax rate that is expected to apply in the period when the tax liability is settled or the asset recovered. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

A deferred tax liability is always recognised. A deferred tax asset is recognised only to the extent that there is no doubt about its future recoverability and only up to the amount of the likely future taxable income.

Deferred tax assets and liabilities are offset and reported on a net basis in 'Other assets' or 'Other liabilities'.

### (o) Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognised in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date occurred between the balance sheet date and the date of the financial statements preparation, the consequences of these events are disclosed in the notes to the financial statements but not recognised in the financial statements.

### 3. Net Interest Income

CZK '000	2017	2016
<b>Total interest income</b>	<b>2,538,524</b>	<b>2,621,516</b>
On deposits (deposits with financial institutions, interbank transactions including repurchase transactions)	932,646	952,364
On loans	1,304,216	1,383,400
On securities (including premium and discount amortisation)	81,233	95,585
On interest rate swap	220,429	190,167
<b>Total interest expense</b>	<b>1,041,569</b>	<b>1,162,693</b>
On client deposits	890,013	1,078,177
On interest rate swap	128,889	82,295
Other	22,667	2,221
<b>Net interest income</b>	<b>1,496,955</b>	<b>1,458,823</b>

In 2017, net interest income on loans and client deposits is CZK 414,203 thousand (2016: CZK 305,223 thousand). The increase is mainly due to a year on year decline in the average interest rate of client deposits and increase of loan portfolio.

In 2017, net interest income from hedging interest rate derivatives is CZK 91,540 thousand (2016: CZK 107,872 thousand). The increase was mainly caused by the higher average volume of derivatives. Hedging interest rate derivatives are used to hedge the change in the fair value. The fair value of interest rate derivatives is disclosed in Notes 16.

During the year ended 31 December 2017, the Bank collected default interest of CZK 21,494 thousand (2016: CZK 22,941 thousand).

### 4. Net Fees and Commissions

CZK '000	2017	2016
<b>Commission and fee income</b>		
on client transactions including commission from the KB financial group and other companies	405,903	421,541
<b>Total</b>	<b>405,903</b>	<b>421,541</b>
<b>Commission and fee expenses</b>		
on transactions with securities	968	1,019
on client transactions including commission to the KB financial group	319,005	272,094
Other	49,165	48,927
<b>Total</b>	<b>369,138</b>	<b>322,040</b>
<b>Net fees and commissions</b>	<b>36,765</b>	<b>99,501</b>

### 5. Net Profit or Loss on Financial Operations

In 2017, the Bank realised 1 sale of securities in the nominal value of 300 Mio CZK. Realized profit reached 0 CZK (2016: no sales of securities).



## 6. Staff Costs

CZK '000	2017	2016
<b>Staff costs</b>		
Staff salaries and bonuses	215,313	209,403
Social security and health insurance	67,965	66,391
Other social costs	17,771	16,713
<b>Total</b>	<b>301,049</b>	<b>292,507</b>

### Average Headcount

	2017	2016
Staff	327	330

Stated as the average number of employees since the beginning of the year.

## 7. General Operating costs

### Administrative Costs

CZK '000	2017	2016
Rent and other services relating to rent	49,943	49,489
Low-value assets	2,944	5,377
Costs of technical equipment	49,499	47,083
Consumed material	6,858	7,543
Audit, advisory	13,803	12,163
Of which: Obligatory audit of annual report	3,028	1,815
Legal advisory	5,037	4,917
Other advisory	5,738	5,431
Taxes and fees	5,334	4,422
Consumed energy	9,502	10,133
Repairs and maintenance	7,921	7,503
Postage, transportation and telecommunication	12,346	12,576
Sales promotion	16,508	12,068
Public relations, advertising	68,595	70,808
Other	20,423	19,416
<b>Total administrative costs</b>	<b>263,676</b>	<b>258,581</b>

### Other Operating Income

CZK '000	2017	2016
Other	5,463	5,063
Income from the transfer of assets	303	517
<b>Total</b>	<b>5,766</b>	<b>5,580</b>

### Other Operating Expenses

CZK '000	2017	2016
Annual contribution to the Deposit Insurance Fund	28,287	28,570
State support covered from internal funding	104	226
Other	4,179	3,408
<b>Total</b>	<b>32,570</b>	<b>32,204</b>

## 8. Depreciation

CZK '000	2017	2016
Depreciation of tangible and intangible fixed assets	58,386	56,729
<b>Total</b>	<b>58,386</b>	<b>56,729</b>

## 9. Write-offs, Charge for, Use and Release of Provisions for Receivables and Recoveries of Receivables written off

### Provisions for Loans Receivables

CZK '000	
<b>Provisions for loans receivables</b>	
<b>Balance at 1 January 2016</b>	<b>959,155</b>
<b>Charge during the year</b>	<b>173,465</b>
Standard loans	4,430
Monitored loans	62,959
Substandard loans	22,069
Doubtful loans	6,288
Loss loans	77,719
<b>Use and release during the year</b>	<b>(291,242)</b>
Write-off of loans	(121,578)
Release of redundant provisions	(169,664)
<b>Balance of provisions at 31 December 2016</b>	<b>841,378</b>
<b>Balance at 1 January 2017</b>	<b>841,378</b>
<b>Charge during the year</b>	<b>113,097</b>
Standard loans	8,323
Monitored loans	25,085
Substandard loans	19,650
Doubtful loans	5,779
Loss loans	54,260
<b>Use during the year</b>	<b>(276,815)</b>
Write-off of loans	(103,095)
Release of redundant provisions	(173,720)
<b>Balance of provisions at 31 December 2017</b>	<b>677,660</b>

In 2017, the Bank created non-tax deductible provisions for receivables' accessories amounting to CZK 652 thousand (2016: CZK 484 thousand).

### Release of provisions and reserves against receivables and guarantees, income from receivables previously written off

CZK '000	2017	2016
Release of provisions against loans receivables	173,720	169,663
Release of provision against other receivables	1,154	1,479
Recoveries of receivables previously written off	20,127	39,841
<b>Release of provisions and reserve against receivables and guarantees, recoveries of receivables previously written off</b>	<b>195,001</b>	<b>210,983</b>

## Write-offs, recognition and use of provisions and reserves against receivables and guarantees

CZK '000	2017	2016
Recognition of provisions against loans receivables	(113,097)	(173,465)
Recognition of provisions against other receivables	(2,377)	(4,589)
Write-off of receivables	(32,401)	(82,590)
Assignment of receivables from clients	(87,056)	(66,682)
Use of provisions against written-off receivables	103,095	121,578
Use of provisions against other receivables	2,968	4,661
<b>Write-offs, recognition and use of provisions and reserves against receivables and guarantees</b>	<b>(128,868)</b>	<b>(201,087)</b>

## 10. Income Tax

CZK '000	2017	2016
Pre-tax profit or loss for the period	949,033	934,319
Non-taxable income	(750,354)	(741,051)
Non-tax deductible expenses	74,256	71,867
Other items (tax and accounting depreciation charges)	12,211	18,048
Sponsorship	(400)	(540)
<b>Tax liability (19 percent)</b>	<b>54,102</b>	<b>53,702</b>
Used tax relief and deductions	(36)	(54)
<b>Income tax charge</b>	<b>54,066</b>	<b>53,648</b>
Deferred tax credit/charge (Note 25)	(2,733)	(3,604)
Tax refunds and arrears	(512)	1,180
<b>Total income taxation</b>	<b>50,821</b>	<b>51,224</b>

As at 31 December 2017, refunds and arrears of taxes mainly represent a payment of the corporate income tax for 2016.

## 11. Allocation of Profit

The Bank's profit for the year ended 31 December 2017 amounted to CZK 898,212 thousand. A profit distribution proposal for the year 2017 was not available at the date of preparation of the annual financial statements.

The Bank's profit for the year ended 31 December 2016 amounted to CZK 883,094 thousand and the General Meeting approved a dividend payment to the sole shareholder, KB, on 18 April 2017.

## 12. Cash in Hand and Deposits at the Czech National Bank

CZK '000	2017	2016
Deposits at the Czech National Bank	139,505	8,247,892
<b>Total</b>	<b>139,505</b>	<b>8,247,892</b>

Balances with the Czech National Bank represent interest-bearing mandatory minimum reserves and deposit facilities. As at 31 December 2017, the interest rate was 0.5% (31 December 2016: 0.05%).

### 13. Amounts due from Banks

CZK '000	2017	2016
Operating account with KB (repayable at call)	4,440	1,625
Term deposits	0	0
Granted loans	6,500,271	2,100,006
Mortgage bonds issued by financial institutions	29,714,917	31,087,022
Of which: accrued interest income	356,431	375,821
<b>Total amounts due from banks</b>	<b>36,219,628</b>	<b>33,188,653</b>

Granted loans represent repo operation with the central bank where as guarantee treasury bills are used. Value of the guarantee reaches CZK 6,501,264 thousand (2016: CZK 2,100,041 thousand).

Mortgage bonds issued by financial institutions are publicly non-tradable debt securities acquired in primary placements consisting of a security in certificate form with and booked:

- fixed interest income in the aggregate amount of CZK 10,700,924 thousand (2016: CZK 11,774,534 thousand),
- variable interest rate fixed for determined periods, as at the fixing date, both the investor and the issuer have the possibility to sell/repurchase the securities at an aggregate amount of CZK 19,013,993 thousand (2016: CZK 19,312,488 thousand).

These securities held by the Bank at the balance sheet date are not listed.

### 14. Amounts due from Clients

#### Classification of amounts due from clients

Since 1996, the Bank has been providing clients with both bridging loans until they become entitled to receive a building savings loan and loans arising under the Building Savings Act.

#### Amounts due from clients

CZK '000	2017	2016
Assigned loans	3,737,953	3,915,387
Bridging loans	40,064,309	35,085,693
<b>Total loans (gross)</b>	<b>43,802,262</b>	<b>39,001,080</b>
Other amounts due from clients	24,548	29,719
Revaluation of the clients loan portfolio hedged – fair value	(251,371)	31,713
<b>Total amounts due from clients (gross balance)</b>	<b>43,575,439</b>	<b>39,062,512</b>
Provisions against assigned loans	(34,001)	(38,889)
Provisions against bridging loans	(621,279)	(781,469)
Provisions against Standard loans	(22,380)	(21,020)
Provisions against other amounts due from clients	(9,168)	(10,368)
<b>Total provisions</b>	<b>(686,828)</b>	<b>(851,746)</b>
<b>Total amounts due from clients (net balance)</b>	<b>42,888,611</b>	<b>38,210,766</b>

#### Assigned loans

CZK '000	2017	2016
Standard	3,502,004	3,649,929
Monitored	133,455	148,197
Substandard	47,368	53,089
Doubtful	1,846	2,184
Loss	53,280	61,988
<b>Assigned loans (gross balance)</b>	<b>3,737,953</b>	<b>3,915,387</b>

## Bridging loans

CZK '000	2017	2016
Standard	37,479,308	31,896,355
Monitored	1,368,174	1,677,504
Substandard	492,565	613,676
Doubtful	25,642	32,941
Loss	698,620	865,217
<b>Total bridging loans (gross balance)</b>	<b>40,064,309</b>	<b>35,085,693</b>

## Restructured loans

During 2017, the Bank restructured receivables in the amount of CZK 190,126 thousand (2016: CZK 217,533 thousand). Receivables are considered to be restructured in case the Bank grants relief to a client because it is likely that the Bank would incur losses if it did not do so.

## Analysis of assigned loans and bridging loans to clients by type of collateral

Type of collateral (CZK '000)	2017	2016
Bank guarantees	161,588	186,627
Real estate	27,770,717	23,953,804
Guarantors	636,566	837,916
Deposits	5,835,945	5,658,089
Uncollateralised	9,397,446	8,364,644
<b>Total</b>	<b>43,802,262</b>	<b>39,001,080</b>

The collateral values presented above represent the types of collateral accepted by the Bank but only up to the amount of the loan balances. If collateral is combined, the loan is split into portions and reported on several lines based on the collateral quality.

## Carrying value of collaterals in off-balance sheet

Type of collateral (CZK '000)	2017	2016
Bank guarantees	224,165	239,405
Real estate	57,996,617	52,387,440
Guarantors	1,250,944	1,643,891
Deposits	5,887,819	5,703,586
<b>Total</b>	<b>65,359,545</b>	<b>59,974,322</b>

## Analysis of loans to clients by sector – gross balance

CZK '000	2017	2016
Resident individuals	41,418,682	36,525,878
Legal entities, housing associations, etc.	2,383,580	2,475,202
<b>Total (gross amount)</b>	<b>43,802,262</b>	<b>39,001,080</b>

## 15. Securities held to Maturity

### State bonds and other securities eligible for refinancing with the central bank

CZK '000	2017	2016
Carrying amount of state bonds	2,586,937	2,642,429
Of which: accrued interest income	47,928	47,928

### Fair value of state bonds and other securities eligible for refinancing with the central bank

CZK '000	2017	2016
State bonds at fair value	2,720,122	2,950,862

All securities held to maturity held by the Bank at the balance sheet date are listed on the Prague Stock Exchange.

## 16. Financial Derivative Instruments

### Financial derivative instruments designated as hedging

CZK '000	Interest rate swaps for fair value hedging		
<b>At 31 December 2016</b>			
Nominal value	Assets		19,350,000
	Liabilities		19,350,000
Fair value	Positive		711,092
	Negative		54,985
<b>At 31 December 2017</b>			
Nominal value	Assets		29,300,000
	Liabilities		29,300,000
Fair value	Positive		343,626
	Negative		139,295

### Remaining contractual maturities of derivatives

CZK '000	Up to 1 year	1 year to 5 years	Over 5 years
At 31 December 2016 – Interest rate swaps for fair value hedging	950,000	10,000,000	8,400,000
At 31 December 2017 – Interest rate swaps for fair value hedging	900,000	21,850,000	6,550,000

## 17. Deferred Expenses, Accrued Income and other assets

### Deferred expenses and accrued income

CZK '000	2017	2016
Car lease	1,956	2,605
Entrance fees and commissions from building savings and loans	964,733	739,791
Other (rental, meal tickets, newspaper subscriptions, magazines, etc.)	6,758	6,320
<b>Total</b>	<b>973,447</b>	<b>748,716</b>

## Other assets

CZK '000	2017	2016
Prepayments made to suppliers	17,714	22,435
Estimated receivables for state subsidy	665,392	668,262
Estimated commission, invoices not issued, other	25,191	28,956
Settlement with the State budget	1,363	1,887
Various debtors	19,403	16,445
Positive fair value of interest rate swap	343,626	711,092
<b>Total other assets</b>	<b>1,072,689</b>	<b>1,449,077</b>
Provisions against other receivables	(8,941)	(9,485)
<b>Total other assets</b>	<b>1,063,748</b>	<b>1,439,592</b>

## 18. Intangible Assets

### Movements of intangible assets

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
<b>Purchase price at 1 January 2016</b>	<b>434,236</b>	<b>13,078</b>	<b>58,574</b>	<b>505,888</b>
Additions	29,359	0	33,103	62,462
Disposals	0	0	(32,771)	(32,771)
<b>Purchase price at 31 December 2016</b>	<b>463,595</b>	<b>13,078</b>	<b>58,906</b>	<b>535,579</b>
<b>Purchase price at 1 January 2017</b>	<b>463,595</b>	<b>13,078</b>	<b>58,906</b>	<b>535,579</b>
Additions	24,900	0	51,779	76,679
Disposals	0	0	(25,689)	(25,689)
<b>Purchase price at 31 December 2017</b>	<b>488,495</b>	<b>13,078</b>	<b>84,996</b>	<b>586,569</b>

### Accumulated amortisation and provisions

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
<b>At 1 January 2016</b>	<b>(280,251)</b>	<b>(13,078)</b>	<b>0</b>	<b>(293,329)</b>
Annual charges	(38,649)	0	0	(38,649)
Disposals	0	0	0	0
Impairment	0	0	0	0
<b>At 31 December 2016</b>	<b>(318,900)</b>	<b>(13,078)</b>	<b>0</b>	<b>(331,978)</b>
<b>At 1 January 2017</b>	<b>(318,900)</b>	<b>(13,078)</b>	<b>0</b>	<b>(331,978)</b>
Annual charges	(42,933)	0	0	(42,933)
Disposals	0	0	0	0
Impairment	0	0	0	0
<b>At 31 December 2017</b>	<b>(361,833)</b>	<b>(13,078)</b>	<b>0</b>	<b>(374,911)</b>

### Net book value

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
<b>At 31 December 2016</b>	<b>144,693</b>	<b>0</b>	<b>58,908</b>	<b>203,601</b>
<b>At 31 December 2017</b>	<b>126,662</b>	<b>0</b>	<b>84,996</b>	<b>211,658</b>

## 19. Tangible Assets

### Movements of intangible assets

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
<b>Purchase price at 1 January 2016</b>	<b>525,995</b>	<b>211,313</b>	<b>3,615</b>	<b>740,923</b>
Additions	0	8,922	9,283	18,205
Disposals	(127)	(1,562)	(5,510)	(7,199)
<b>Purchase price at 31 December 2016</b>	<b>525,868</b>	<b>218,673</b>	<b>7,388</b>	<b>751,929</b>
<b>Purchase price at 1 January 2017</b>	<b>525,868</b>	<b>218,673</b>	<b>7,388</b>	<b>751,929</b>
Additions	2,774	3,210	13,542	19,526
Disposals	0	(3,753)	(5,984)	(9,737)
<b>Purchase price at 31 December 2017</b>	<b>528,642</b>	<b>218,130</b>	<b>14,946</b>	<b>761,718</b>

### Accumulated amortisation and provisions

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
<b>At 1 January 2016</b>	<b>(197,958)</b>	<b>(194,396)</b>	<b>0</b>	<b>(392,354)</b>
Annual charges	(10,308)	(7,772)	0	(18,080)
Disposals	28	1,528	0	1,556
Impairment	0	0	0	0
<b>At 31 December 2016</b>	<b>(208,238)</b>	<b>(200,640)</b>	<b>0</b>	<b>(408,878)</b>
<b>At 1 January 2017</b>	<b>(208,238)</b>	<b>(200,640)</b>	<b>0</b>	<b>(408,878)</b>
Annual charges	(10,329)	(5,123)	0	(15,452)
Disposals	0	3,753	0	3,753
Impairment	0	0	0	0
<b>At 31 December 2017</b>	<b>(218,567)</b>	<b>(202,010)</b>	<b>0</b>	<b>(420,577)</b>

### Net book value

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
<b>At 31 December 2016</b>	<b>317,630</b>	<b>18,033</b>	<b>7,388</b>	<b>343,051</b>
<b>At 31 December 2017</b>	<b>310,075</b>	<b>16,120</b>	<b>14,946</b>	<b>341,141</b>

In addition to the above, at the balance sheet date the Bank reported 22 cars (2016: 23 cars) acquired under a long-term finance lease contract; the acquisition cost of the cars amounts to CZK 9,215 thousand (2016: CZK 10,023 thousand).

In addition to the above, at the balance sheet date the Bank reported 780 PCs (2016: 700 PCs) acquired under a long-term finance lease contract; the acquisition cost of the PCs amounts to CZK 12,995 thousand (2016: CZK 11,779 thousand).

## 20. Equity Investments

The Bank held no equity investments in other companies in 2017 and 2016.

## 21. Amounts Owed to Banks

### Amounts owed to banks and savings associations

CZK '000	2017	2016
Amounts owed to banks and savings associations	14,410,522	12,900,056

Amounts owed to banks and savings associations consist of a short term and long term loan to KB. The Bank does not provide other banks with guarantees for loans to its clients and does not accept any bills of exchange.



## 22. Amounts Owed to Clients

### Total amounts owed to clients

CZK '000	2017	2016 ADJ*	2016*
Deposits received from clients under building savings schemes	62,018,717	63,481,178	63,481,178
Revaluation of the clients savings portfolio hedged – fair value	(77,391)	630,083	630,083
Estimate for advantageous interest	159,034	184,096	0
Other payables to clients	142,593	184,717	226,739
State subsidy claims	665,392	668,262	668,262
Received term deposits from other financial institutions	0	0	0
Other accruals	2	0	0
<b>Total</b>	<b>62,908,347</b>	<b>65,148,336</b>	<b>65,006,262</b>
<b>Of which: Repayable at call</b>	<b>217,139</b>	<b>259,913</b>	<b>302,107</b>

\*) In 2017, because of improvement of faithful presentation, there was a change in presentation of Estimate for advantageous interest from Accrued Expenses and Deferred Income to Amounts owed to clients and change in the reporting of settlement accounts for outgoing client payments from other liabilities to clients to Other temporary liabilities (Other Liabilities). Column 2016 ADJ shows recalculated balance for items in 2016 if the 2017 rules would be applied.

The estimate for interest benefits to clients represents accrued expenses for client deposits in respect of the Profit tariff which are recognised on an ongoing basis and to which the clients become entitled under certain conditions (building savings contracts concluded prior to 30 June 2001) and advantageous interest provided to clients within the marketing activities.

The level of the state subsidy arising under building savings schemes as at 31 December 2017 and 2016 is estimated on the basis of the client deposit balance at the end of the month. The state subsidy for 2017 will be credited to client accounts after its level is approved by the Czech Finance Ministry during 2018.

## 23. Accrued Expenses and Deferred Income and Other Liabilities

### Accrued Expenses and Deferred Income

CZK '000	2017	2016 ADJ*	2016*
Annual bonuses, overtime hours, outstanding vacation days, fine, social security and health insurance	38,525	38,317	38,317
Estimate for advantageous interest	0	0	184,096
Entrance fees and commissions from building savings and loans	182,843	187,581	187,581
Other	0	80	80
<b>Total</b>	<b>221,368</b>	<b>225,978</b>	<b>410,074</b>

\*) In 2017, because of improvement of faithful presentation, there was a change in presentation of Estimate for advantageous interest from Accrued Expenses and Deferred Income to Amounts owed to clients. Column 2016 ADJ shows recalculated balance for items in 2016 if the 2017 rules would be applied.

### Other liabilities

CZK '000	2017	2016 ADJ*	2016*
Estimated payables	192,126	145,317	145,317
Of which: Commission for mediating building savings contracts and loan contracts	146,574	77,364	77,364
Other (predominantly unbilled supplies)	45,552	67,953	67,953
Suppliers	9,338	10,880	10,880
Settlement with employees	14,249	13,338	13,338
Settlement with the state budget	117,513	137,453	137,453
Settlement with social authorities	6,247	6,011	6,011
Deferred tax liability (Note 25)	35,838	43,888	43,888
Other temporary liabilities	80,844	42,825	803
Negative in fair value of interest rate swap	139,295	54,985	54,985
<b>Total other liabilities</b>	<b>595,450</b>	<b>454,697</b>	<b>412,675</b>

\*) In 2017, because of improvement of faithful presentation, there was a change in the reporting of settlement accounts for outgoing client payments from other liabilities to clients to Other temporary liabilities (Other Liabilities). Column 2016 ADJ shows recalculated balance for items in 2016 if the 2017 rules would be applied.

In 2017, there was a change in the reporting of settlement accounts for outgoing client payments from other liabilities to clients to Other temporary liabilities (Other Liabilities). Column 2016 ADJ shows a recalculated balance for items in 2016 if the 2017 rules would be applied.

## 24. Reserves

The development of the reserve and the other tax non-deductible reserves in 2017 and 2016 was as follows:

CZK '000	
<b>Balance at 1 January 2016</b>	<b>4,314</b>
Release of the reserve for claims	(750)
Recognition of a reserve for employee jubilees and loyalty bonuses (net)	(809)
Recognition of the reserve for legal disputes	1,090
Release of the reserve for legal disputes	(70)
Use of the reserve for legal disputes	0
Recognition of a reserve for other personnel costs	0
Release and use of the reserve for other personnel costs	0
<b>Balance of tax non-deductible reserves at 31 December 2016</b>	<b>3,775</b>
<b>Balance at 1 January 2017</b>	<b>3,775</b>
Recognition of a reserve for employee jubilees and loyalty bonuses (net)	859
Recognition of the reserve for legal disputes	250
Release of the reserve for legal disputes	(169)
Use of the reserve for legal disputes	(81)
Recognition of a reserve for other liabilities	45
<b>Balance of tax non-deductible reserves at 31 December 2017</b>	<b>4,679</b>

### Balances of reserves

CZK '000	2017	2016
Reserve for other liabilities	45	0
Reserve for employee jubilees and loyalty bonuses	2,980	2,121
Reserve for legal disputes with clients	1,654	1,654
<b>Total balance of tax non-deductible reserves</b>	<b>4,679</b>	<b>3,775</b>

## 25. Deferred Tax

Deferred tax is calculated from temporary differences between the tax base and carrying value using tax rates effective in the period when the use of the temporary tax difference is estimated, i.e. 19% applicable in 2018 and used for 2017 (in 2016: i.e. 19% applicable for 2017).

The deferred income tax for the year ended 31 December 2017 reflects the difference between the accounting and tax net book values of assets, the amount estimated of planned bonuses for managers to be paid in the following year, the costs of social security and health insurance on planned bonuses for managers and an estimate made in respect of outstanding vacation days for 2017 and social and health insurance on unpaid vacation days for 2017 and temporary differences of allowances and reserves. The deferred tax liability with an impact on equity represents a difference on the fair value re-measurement of the portfolio of securities available for sale (including amount of unrealised gains and losses recognised in equity because of reclassification of securities available for sale to securities held to maturity).

## Deferred tax asset and liability

CZK '000	2017	2016
Intangible and tangible fixed assets – difference between accounting and tax net book values	(114,577)	(125,530)
Planned bonuses to be paid in the following year, estimate of unpaid vacation, social security and health insurance	37,787	37,519
Allowances non-tax	29,943	27,688
Reserves non-tax	4,679	3,775
<b>Total balance of temporary differences</b>	<b>(42,168)</b>	<b>(56,548)</b>
<b>Deferred tax asset with an impact on the profit and loss account at 31 December</b>	<b>(8,011)</b>	<b>(10,744)</b>
Re-measurement of available for sale securities	(146,530)	(174,515)
Change estimate the anniversary bonuses	74	74
<b>Balance of the deferred tax asset charged against equity</b>	<b>(27,827)</b>	<b>(33,144)</b>

## 26. Equity

As at 31 December 2017 and 2016, the Bank's share capital amounts to CZK 562,500 thousand and is composed of 5,625 registered shares that are not tradable with a nominal value of CZK 100 thousand each. The shares are registered in book-entry form. The sole shareholder of the Bank with a 100% equity investment is KB.

As at 31 December 2017 and 2016, the Bank has a reserve fund of CZK 112,500 thousand, a general reserve fund of CZK 1,007,138 thousand, a share premium CZK 487,500 thousand and valuation differences of CZK 118,689 (in the year ended 31 December 2016: CZK 141,357 thousand).

## 27. Contingent Assets, Liabilities and Loan Commitments

### Loan Commitments

Loan Commitments of the Bank as at 31 December were as follows:

CZK '000	2017	2016
Commitments – assigned loans	30,639	32,454
Commitments – bridging loans	9,174,361	5,134,718
<b>Total loan commitments</b>	<b>9,205,000</b>	<b>5,167,172</b>

### Legal Disputes and Administrative Proceedings

In 2017, the Bank was not involved in any legal disputes, which would have a significant impact on MPSS.

### Other items not recognised in the balance sheet

As at 31 December 2017 and 2016, the Bank did not recognize any assets that were encumbered as collateral for own obligations or obligations of third parties.

## 28. Related Party Transactions

### Transactions with the KB financial group

CZK '000	2017	2016
<b>Assets</b>		
Operating accounts with KB	4,440	1,625
KB mortgage bonds – non-current financial investment	29,714,917	31,087,022
Estimate of the commission of the KB financial group (sale of products)	7,700	23,577
Of which KB	5,726	23,577
Other assets (deferred expenses, operating receivables, rebilling)	52,852	54,072
Of which KB	52,834	54,072
Positive fair value of interest rate swap with KB	343,626	711,092
Nominal value of interest rate swap with KB in off-balance sheet	29,300,000	19,350,000
<b>Total</b>	<b>59,423,605</b>	<b>51,227,388</b>

CZK '000	2017	2016
<b>LIABILITIES</b>		
Short term loan to KB	14,410,522	12,900,056
Other payables to KB	876	1,537
Estimated payables – services and commissions to KB financial group	16,381	17,205
Of which KB	16,381	17,175
Negative fair value of interest rate swap incl. off-balance sheet	139,295	54,985
Nominal value of interest rate swap with KB in off-balance sheet	29,300,000	19,350,000
<b>Total</b>	<b>43,867,074</b>	<b>32,323,783</b>

CZK '000	2017	2016
<b>EXPENSES</b>		
Commissions and fees (KB)	20,272	16,441
Interest (KB)	151,555	84,516
Loss on fair value of interest rate swap	424,390	0
Net expenses for securities transactions (KB)	923	980
Other operating expenses (KB)	28,926	22,945
<b>Total</b>	<b>626,066</b>	<b>124,882</b>

CZK '000	2017	2016
<b>INCOME</b>		
Interest KB (term deposit, IRS)	220,429	190,522
Earnings on fair value of interest rate swap	0	48,083
Income from mortgage bonds of KB	931,420	951,637
Other operating income (KB)	104	104
Commission to the KB financial group (sale of products)	38,551	96,283
<b>Total</b>	<b>1,190,504</b>	<b>1,286,629</b>

Regulatory value of derivatives with KB as of the end of quarters was in 2017 (in thousands of CZK):

31 March 2017	30 June 2017	30 September 2017	31 December 2017
693,709	589,265	486,017	361,368

Regulatory value of derivatives with KB as of the end of quarters was in 2016 (in thousands of CZK):

31 March 2016	30 June 2016	30 September 2016	31 December 2016
982,549	1,054,377	1,030,717	823,818

#### Remuneration and receivables from members of the Board of Directors and the Supervisory Board

CZK '000	2017	2016
<b>Salaries and bonuses</b>		
to members of the Board of Directors	13,880	13,700
to members of the Supervisory Board	24	48
<b>Total</b>	<b>13,904</b>	<b>13,748</b>
<b>Number of members of the Board of Directors at 31 December</b>	<b>3</b>	<b>3</b>
<b>Number of members of the Supervisory Board at 31 December</b>	<b>6</b>	<b>6</b>

In the case of the Board of Directors, the assumption of an annual bonus for 2017 was included (to be paid in March 2018). The salaries of the members of the Supervisory Board elected by the Bank's employees have not been reflected in the above table.

As at 31 December 2017, a receivable was registered from loans provided to members of the Board of Directors in the amount of CZK 250 thousand (2016: CZK 250 thousand) and the members of the Supervisory Board in the amount of CZK 1,650 thousand (2016: CZK 1,650 thousand).

## 29. Risk Management

The inclusion of the Bank into the Société Générale (SG)/Komerční banka Group requires the gradual introduction of risk management standards adhered to by the whole Group which has a positive impact on the quality of management of all risks to which the Bank is exposed. The cooperation involves, for example, the implementation of tools for managing operational risks developed within the Group, the introduction of scoring models in the area of retail receivables or risk associated with property collateral assessment, and the implementation of the Internal Ratings-Based approach based on the model established in Société Générale with respect to exposures on the financial market, etc.

#### Capital Management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Bank takes both internal and external factors into account which are reflected in the corresponding internal targets expressed in the targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and the maintenance of a balanced capital structure.

The Bank uses the Internal Rating Based Advanced approach for the credit risk capital requirement calculation in respect of amounts due from banks, central banks and central governments. The Bank uses the model elaborated by **Société Générale**. Since the end of 2017, the Bank applies Internal Rating Based Advanced approach also to client exposure (both retail and non-retail loans), which has led to an improvement in the capital adequacy ratio.

The Bank uses the Advanced Approach (AMA) for the operational risk capital requirement calculation.

## (a) Credit Risk

### **Credit Risk Arising from Building Savings (bridging and assigned loan)**

In the credit risk management process, the roles of individual departments are established so as to comply with the CNB's regulatory requirements. Risk management and loan approval is separate from business activities. Any important decisions in the area of credit risk management are adopted by the Credit Risk Management Committee.

In addition to assigned loans, the Bank provides also 'bridging loans' that are designed to bridge the period over which the client is not yet entitled to receive a assigned loan. The client drawing a bridging loan pays interest on the bridging loan account and, at the same time, makes mandatory additional payments to a savings account. The additional payments made to the savings account make the client eligible for state support. Once the terms and conditions for the provision of a loan from the building savings are met, the bridging loan is repaid partly from the amount accumulated in the savings account and partly from the newly provided assigned loan.

Pursuant to the Building Savings Act, loans advanced to the participants in the building savings scheme must be used to accommodate their housing needs. The purpose of each loan is subject to the Bank's review.

The Building Savings Act places a limit on the proportion of loans entered into with legal entities. A similar restriction is put in place in respect of loans to persons whose products and services are designed to meet housing needs and bridging loans granted to clients. In addition to these regulatory limits, the Bank maintains other internal limits as well.

### **Individuals ('fyzicke osoby')**

The providing of loans to individuals represents the principal business of the Bank. As such, the loan portfolio is composed of a significant number of loan transactions of a relatively small volume and similar characteristics. With a view to limiting situations where the debtor is unable to repay the loan as required, the Bank specifically refers to the following information (depending on the product type) in making a loan underwriting decision:

- Assessment of a client's repayment ability based on documented income which is anticipated to be sustained in the future (after taking into account the expenses of the client);
- Assessment of a client using the scoring models that reflect both the savings and credit history of the client in the Bank and other available information on clients;
- Assessment of negative information on a client (the Bank uses the banking and non-banking client data registers operated by CBCB and CNCB and the register operated by SOLUS as well as other internal or freely available information); and
- Assessment of the quality of provided collateral.

Internal rules set out requirements for loan collateral. The Bank uses primarily the following forms of collateral: collateral by real estate, by deposits and by guarantors. In the assessment of the risks associated with the real estate collateral the Bank uses synergies with the parent company. Uncollateralised loans are provided only to clients with a history with the KB Group or with using the application scoring. Synergies within the KB Group have been reflected in the area of provided loans where the Bank uses the scoring models developed by KB.

### **Legal Entities ('pravnicke osoby')**

Loans to legal entities are provided specifically to associations of owners and housing cooperatives. Loans provided to legal entities are assessed with reference to the financial position, debt service and payment health of the client at regular intervals. For synergies within the KB Group the Bank uses the scoring model developed by KB.

### **Recovery, Restructuring and Write-Offs of Receivables from Debtors**

The loan recovery process has three phases involving the pre-collection, the out-of-court recovery phase and the court recovery phase. Classified loan receivables are recovered by the Loan Debt Collection Department and each overdue loan transaction is assessed on an individual basis.

At any phase of the loan recovery process, loan restructuring can be performed. In cases of contract termination the restructuring is primarily effected by writing a notary deed. Since October 2009, the Bank has also used restructuring in the form of a short postponement of principal payments (additional payments).

A receivable is written off when the Bank determines that the receivable has become irrecoverable specifically through its assessment of a debtor's financial and economic position and hence other recovery of the loan cannot be expected to be successful.

### Credit Risk Monitoring

The Bank regularly monitors the development of the loan portfolio and, as part of its regular monitoring activities, it analyses the loan portfolio by individual types of products, clients, distribution channels, collateral, individual classification grades of receivables and other criteria.

The Bank uses a standard methodology for monitoring according to default rates, i.e. by client default to repay the loan in particular periods. This approach makes it possible to identify early indications of portfolio quality impairment as well as to compare the quality of the Bank's portfolio to the quality of the parent company's portfolio.

### Loan Portfolio Quality

During 2017, the proportion of classified loans decreased from 8.86% as at 31 December 2016 to 6.44% as at 31 December 2017, mainly due to successful collection of debts on problematic loans and positive development of the Czech economy, resulting in improvement of payment behaviour of the clients. Within classified loans, there was a decrease of the share of classified loans throughout all the classification categories. For example, share of loss loans decreased from 2.38% to 1.72%. The share of distressed loans decreased from 4.18% to 3.01%.

In case the classification was purely based on the observed number of days past due, the share of classified loans in the Bank would be at the end of individual years: 2008: 2.84%, 2009: 2.85%, 2010: 2.63%, 2011: 2.76%, 2012: 2.97%, 2013: 3.38%, 2014: 3.34%, 2015: 3.24%, 2016: 2.51%, 2017: 1.74%.

In addition to the number of days past due, the final classification of loans into categories is influenced by other factors, see a further description below.

### Loan Categorisation

The Bank classifies loans primarily by reference to the number of days past due. The calculation of the number of the days past due reflects both the outstanding past due amounts on the loan account (interest on the bridging loans and annuity repayments of loans under a building savings scheme) and the savings debts in respect of the bridging loans.

Special rules for the classification of receivables are applied to loans which are restructured by the Bank.

The classification of the receivable may also be impacted by 'default contagions', i.e., downgrading in circumstances where the debtor or co-debtor in the assessed loan participates in another classified loan at the Bank either as a debtor, co-debtor or guarantor. The default contagion is also applied to mutual clients of the Bank and KB.

Loan categorisation is further influenced by the following factors: information about a client's bankruptcy, termination of the loan contract, worsening of a client's financial position.

### Provisioning

The provisions are recognised for individual classified receivables and also on the portfolio level for homogenous individually unimpaired receivables. Loans are categorised into individual classification grades in accordance with Czech National Bank Regulation 163/2014 Coll. The Bank categorises its loans into standard exposures and classified exposures (watch, substandard, doubtful and loss). The substandard, doubtful and loss exposures are collectively referred to as defaulted loans. The Bank performed monthly provisioning following the classification. Provisions are made at the same level in respect of both the principal and receivables' accessories.

For provisioning purposes the amount and quality of collateral is also taken into account; this is done by one of the following methods:

- Reducing the risk / receivables – the discounted collateral amount is deducted from the total receivable and the provisions are calculated from the adjusted receivable. This approach is used in respect of deposit collateral and bank guarantee.
- Classification to the pool – this approach is used, for example, in respect of real estate collateral. Clients with a higher amount of collateral are included in the less risky pool (and a lower provisioning rate is applied to them), than clients with low or no collateral.

### Provisioning loans to individuals

In determining coefficients the Bank uses the statistical model. Within this model, the loans receivables are classified to different pools according to risk. The model consist of two parameters, namely probability of default (PD) and loss given default (LGD). The calculation of these parameters is at the level of individual pools, but applied on an individual basis, so each loan is assigned individual provision.

### **Provisioning loans to Legal Entities**

Due to the smaller number of loans to legal entities and the absence of the defaults for these clients, it is not possible to determine the coefficients in this portfolio, based on a statistical model, such as loans for individuals. In determining coefficients to arrive at provisioning for individual classification grades, the Bank reflects the mandated coefficient ranges applicable to individual classification grades according to the CNB Regulation. The settings of the coefficients in the Bank are almost at the maximum level as set in Regulation 163/2014 Coll.

### **Credit Risk Associated with Financial Markets**

Available funds are invested in Czech government bonds or mortgage bonds or in fixed term deposits in KB. The Bank does not hold any assets issued by any other entity and has no financial market exposure to any other entities than the Czech state and KB. The Czech state and KB are the only counterparties for which the Bank maintains a credit limit.

## **(b) Market Risks**

Given that the Bank complies with Building Savings Act 96/1993 Coll. as amended, the possibility of using financial instruments are limited. In 2016, in addition to bridging loans and building savings loans, the Bank used the following financial instruments: depository transactions on the interbank market, investment in government bonds, and mortgage bonds, and hedging transactions. The Bank does not include any of these instruments in the trading book. The Bank performs these financial operations to assess available funds and to decrease the exposure to the interest rate risk. The Bank additionally carries no open currency, commodity or other positions that would depend on the development of market prices.

As the Bank does not hold foreign currency assets and liabilities, it does not present an analysis of assets and liabilities by balance sheet categories and principal currencies.

### **Assets and Liabilities Management – Interest Rate Risk**

#### **Interest Rate Characteristics of the Bank's Assets and Liabilities**

Given the structure of assets and liabilities which show a timing mismatch and have different maturities or repricing dates, the Bank is exposed to interest rate risk. The bulk of liabilities consist of client deposits bearing a fixed interest rate throughout the entire life of the building savings contract.

All securities held by the Bank in its portfolio bear interest at fixed interest rates or variable interest rates fixed for determined periods. The Bank may review the interest rate attached to the long-term bridging loans after the lapse of the fixing period. The possibility of reviewing interest rates attached to bridging loans relates only to contracts entered into subsequent to 1 July 2004. This fact is also reflected in the Bank's interest rate model.

#### **Interest Rate Risk Management**

The Bank manages interest rate risk through its investment policy, changes in the setting of interest rate terms underlying new building savings contracts, adjustments of client contractual arrangements and realisation of hedging transactions. The Assets and Liabilities Management Committee approves the rules and techniques used for management of interest rate and liquidity positions. Cooperation with KB in assets and liabilities management involves KB's representatives taking part in the Assets and Liabilities Management Committee meetings and cooperation in the development of the interest rate risk management model.

#### **Interest Rate Risk Measurement Techniques**

Interest rate risk is the risk that net interest income will fluctuate due to changes in market interest rates. The basic instrument for monitoring and measuring interest rate risk is a gap analysis which represents an analysis of the difference in maturities (or validity of rate interest) of individual assets and liabilities. The substance of this technique involves comparing how quickly assets and liabilities respond to changes in market interest rates and how these changes impact the Bank's net interest income. The technique is based on the allocation of assets and liabilities into time bands according to the period of their repricing (contractual change of the interest rate) or maturity.

In measuring interest rate risk, the Bank uses the model which reflects both the existing balance sheet amounts and the future increase in the volume of deposits and loans, but only in respect of the existing loan and building savings contracts.



In addition, the Bank uses the sensitivity indicator to quantify the level of interest rate risk taken. The sensitivity indicator quantifies the impact of a parallel shift of the yield curve by 1% to the position of unsecured position. The sensitivity indicator is calculated for all time periods. The Bank has established an internal limit in respect of this indicator.

The table below describes balances allocated to individual time buckets at the balance sheet date (a static model which does not reflect the increase in the balance sheet amounts in respect of the existing contracts and which the Bank uses only as a supporting model for interest rate risk measurement).

### Interest Rate Sensitivity of the Bank's Assets and Liabilities

CZK million	Up to 1 year	1 year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	Undefined	Total net balance
<b>At 31 December 2017</b>							
<b>Total assets</b>	<b>14,973</b>	<b>50,550</b>	<b>15,268</b>	<b>1,677</b>	<b>33</b>	<b>1,924</b>	<b>84,425</b>
Cash in hand and balances with central banks	139	0	0	0	0	0	139
State zero-coupon bonds and other securities eligible for refinancing with the central bank	48	1,393	1,146	0	0	0	2,587
Amounts due from banks and savings associations	9,586	16,020	8,996	1,618	0	0	36,220
Amounts due from clients – members of savings associations	4,534	33,137	5,126	59	33	0	42,889
Debt securities	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	212	212
Tangible fixed assets	0	0	0	0	0	341	341
Other assets	666	0	0	0	0	398	1,064
Expenses and income of the next period	0	0	0	0	0	973	973
<b>Total liabilities and equity</b>	<b>41,774</b>	<b>30,114</b>	<b>5,512</b>	<b>0</b>	<b>0</b>	<b>7,025</b>	<b>84,425</b>
Amounts owed to banks and savings associations	9,401	5,010	0	0	0	0	14,411
Amounts owed to clients – members of savings associations	32,292	25,104	5,512	0	0	0	62,908
Other liabilities	81	0	0	0	0	515	596
Deferred income and accrued expenses	0	0	0	0	0	221	221
Reserves	0	0	0	0	0	5	5
Total equity	0	0	0	0	0	6,284	6,284
<b>Off balance sheet assets – risk of the interest rate</b>	<b>17,400</b>	<b>5,350</b>	<b>5,700</b>	<b>850</b>	<b>0</b>	<b>0</b>	<b>29,300</b>
Interest rate swap	17,400	5,350	5,700	850	0	0	29,300
<b>Off balance sheet liabilities – risk of the interest rate</b>	<b>12,800</b>	<b>16,500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>29,300</b>
Interest rate swap	12,800	16,500	0	0	0	0	29,300
<b>Gap</b>	<b>(22,201)</b>	<b>9,286</b>	<b>15,456</b>	<b>2,527</b>	<b>33</b>	<b>(5,101)</b>	<b>0</b>
<b>Cumulative Gap</b>	<b>(22,201)</b>	<b>(12,915)</b>	<b>2,541</b>	<b>5,068</b>	<b>5,101</b>	<b>0</b>	<b>0</b>

CZK million	Up to 1 year	1 year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	Undefined	Total net balance
<b>At 31 December 2016</b>							
<b>Total assets</b>	<b>17,983</b>	<b>40,523</b>	<b>21,991</b>	<b>2,455</b>	<b>7</b>	<b>2,067</b>	<b>85,025</b>
Cash in hand and balances with central banks	8,248	0	0	0	0	0	8,248
State zero-coupon bonds and other securities eligible for refinancing with the central bank	48	656	1,939	0	0	0	2,642
Amounts due from banks and savings associations	3,790	14,357	12,611	2,431	0	0	33,189
Amounts due from clients – members of savings associations	5,229	25,510	7,441	24	7	0	38,211
Debt securities	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	204	204
Tangible fixed assets	0	0	0	0	0	343	343
Other assets	668	0	0	0	0	771	1,440
Expenses and income of the next period	0	0	0	0	0	749	749
<b>Total liabilities and equity</b>	<b>49,506</b>	<b>22,298</b>	<b>5,657</b>	<b>0</b>	<b>0</b>	<b>7,564</b>	<b>85,025</b>
Amounts owed to banks and savings associations	12,900	0	0	0	0	0	12,900
Amounts owed to clients – members of savings associations	36,421	22,298	5,657	0	0	630	65,006
Other liabilities	1	0	0	0	0	412	413
Deferred income and accrued expenses	184	0	0	0	0	226	410
Reserves	0	0	0	0	0	4	4
Total equity	0	0	0	0	0	6,292	6,292
<b>Off balance sheet assets – risk of the interest rate</b>	<b>7,450</b>	<b>3,800</b>	<b>6,400</b>	<b>1,700</b>	<b>0</b>	<b>0</b>	<b>19,350</b>
Interest rate swap	7,450	3,800	6,400	1,700	0	0	19,350
<b>Off balance sheet liabilities – risk of the interest rate</b>	<b>12,850</b>	<b>6,200</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19,350</b>
Interest rate swap	12,850	6,200	300	0	0	0	19,350
<b>Gap</b>	<b>(36,923)</b>	<b>15,825</b>	<b>22,433</b>	<b>4,155</b>	<b>7</b>	<b>(5,497)</b>	<b>0</b>
<b>Cumulative Gap</b>	<b>(36,923)</b>	<b>(21,098)</b>	<b>1,335</b>	<b>5,490</b>	<b>5,497</b>	<b>0</b>	<b>0</b>

### Assets and Liabilities Management – Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its financial commitments when they fall due or will not be able to refinance its assets. The principal objective of liquidity management is to ensure the Bank's ability to settle its payables at any point of time. The Bank has developed a liquidity management strategy which was approved by the Board of Directors.

In 2017, the Bank meets the reporting obligation under Regulation of the European Parliament and Council of EU No. 575/2013 and performed regular monitoring and reporting of required indicators LCR and NSFR. The Bank is also part of the calibration process of regulatory indicators mentioned above, which is managed by the European Banking Authority (EBA).

Liquidity management can be divided into two areas:

#### 1) Short-term Liquidity Management (Operational Liquidity)

The Bank monitors and controls liquidity in the context of managing the mandatory minimum reserves placed on the account in the CNB Clearing Centre. Current liquidity is monitored on a daily basis. Monitoring is performed with no less than a three-month forecast.

The Bank outsources short-term liquidity management to KB which enables further drawing from the KB synergy potential as KB is in a better position to deposit and/or lend cash on financial markets.

#### 2) Long-term Liquidity Management (Strategic Liquidity)

As a part of its risk management strategy, the Bank maintains a proportion of its assets in highly liquid instruments such as interbank market deposits with maturity of less than three months, reverse repo transactions by ČNB, treasury bills, and securities related to repo guarantee. For measurement purposes, the Bank uses, inter alia, the quick assets ratio which represents the proportion of highly liquid assets net of loan commitments to total assets and to the amount of deposits where the blocking period has expired.

In addition, the Bank uses the liquidity gap as a strategic liquidity management tool, which shows the liquidity position based on a model and shows the situation that would occur if the Bank ceased to enter into new building savings contracts and to provide bridging loans. It simulates the state in which the Bank would only settle the current contracts and all payables arising from them. The model foresees the acceptance of new deposits and the conclusion of new building savings loans but only as part of the already existing building savings contracts. This indicator is prepared and reported to the management on a monthly basis. The Bank has set the limit for this indicator.

For liquidity risk management purposes, the Bank uses the limits specified in its internal regulations.

The table below shows the allocation of balances to individual time buckets as at the balance sheet date (using a static model which does not reflect the increase in balances of the existing contracts and which serves only as a liquidity risk measurement supporting tool).

#### The remaining maturity of the Bank's assets and liabilities

CZK million	Up to 7 days	7 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Maturity undefined	Total remaining maturity
<b>At 31 December 2017</b>										
<b>Total assets</b>	<b>156</b>	<b>6,800</b>	<b>321</b>	<b>1,152</b>	<b>3,567</b>	<b>6,187</b>	<b>19,306</b>	<b>43,113</b>	<b>3,823</b>	<b>84,425</b>
Cash in hand and balances with central banks	139	0	0	0	0	0	0	0	0	139
State zero-coupon bonds and other securities eligible for refinancing with the central bank	0	0	0	32	15	0	1,393	1,147	0	2,587
Amounts due from banks and savings associations	5	6,574	110	37	2,860	3,425	12,595	10,614	0	36,220
Amounts due from clients – members of savings associations	12	226	211	417	692	2,762	5,318	31,352	1,899	42,889
Debt securities	0	0	0	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	0	0	0	212	212
Tangible fixed assets	0	0	0	0	0	0	0	0	341	341
Other assets	0	0	0	666	0	0	0	0	398	1,064
Expenses and income of the next period	0	0	0	0	0	0	0	0	973	973
<b>Total liabilities and equity</b>	<b>30</b>	<b>7,803</b>	<b>29,722</b>	<b>1,548</b>	<b>2,671</b>	<b>12,303</b>	<b>17,811</b>	<b>5,512</b>	<b>7,025</b>	<b>84,425</b>
Amounts owed to banks and savings associations	0	6,501	2,900	0	0	5,010	0	0	0	14,411
Amounts owed to clients – members of savings associations	30	1,221	26,822	1,548	2,671	7,293	17,811	5,512	0	62,908
Other liabilities	0	81	0	0	0	0	0	0	515	596
Deferred income and accrued expenses	0	0	0	0	0	0	0	0	221	221
Reserves	0	0	0	0	0	0	0	0	5	5
Total equity	0	0	0	0	0	0	0	0	6,284	6,284
<b>Gap</b>	<b>126</b>	<b>(1,003)</b>	<b>(29,401)</b>	<b>(396)</b>	<b>896</b>	<b>(6,116)</b>	<b>1,495</b>	<b>37,601</b>	<b>(3,202)</b>	<b>0</b>
<b>Cumulative gap</b>	<b>126</b>	<b>(877)</b>	<b>(30,278)</b>	<b>(30,674)</b>	<b>(29,778)</b>	<b>(35,894)</b>	<b>(34,399)</b>	<b>3,202</b>	<b>0</b>	<b>0</b>

CZK million	Up to 7 days	7 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Maturity undefined	Total for remaining maturity
<b>At 31 December 2016</b>										
<b>Total assets</b>	<b>8,258</b>	<b>2,282</b>	<b>431</b>	<b>1,178</b>	<b>2,183</b>	<b>4,118</b>	<b>17,054</b>	<b>44,819</b>	<b>4,702</b>	<b>85,025</b>
Cash in hand and balances with central banks	8,248	0	0	0	0	0	0	0	0	8,248
State zero-coupon bonds and other securities eligible for refinancing with the central bank	0	0	0	32	15	0	656	1,939	0	2,642
Amounts due from banks and savings associations	2	2,174	110	37	1,467	2,755	11,602	15,042	0	33,189
Amounts due from clients – members of savings associations	9	108	321	440	700	1,363	4,796	27,838	2,636	38,211
Debt securities	0	0	0	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	0	0	0	204	204
Tangible fixed assets	0	0	0	0	0	0	0	0	343	343
Other assets	0	0	0	668	0	0	0	0	771	1,440
Expenses and income of the next period	0	0	0	0	0	0	0	0	749	749
<b>Total liabilities and equity</b>	<b>10,940</b>	<b>687</b>	<b>29,462</b>	<b>3,384</b>	<b>5,033</b>	<b>6,267</b>	<b>16,031</b>	<b>5,657</b>	<b>7,564</b>	<b>85,025</b>
Amounts owed to banks and savings associations	10,800	0	2,100	0	0	0	0	0	0	12,900
Amounts owed to clients – members of savings associations	140	686	27,178	3,384	5,033	6,267	16,031	5,657	630	65,006
Other liabilities	0	1	0	0	0	0	0	0	412	413
Deferred income and accrued expenses	0	0	184	0	0	0	0	0	226	410
Reserves	0	0	0	0	0	0	0	0	4	4
Total equity	0	0	0	0	0	0	0	0	6,292	6,292
<b>Gap</b>	<b>(2,682)</b>	<b>1,595</b>	<b>(29,031)</b>	<b>(2,206)</b>	<b>(2,850)</b>	<b>(2,149)</b>	<b>1,023</b>	<b>39,161</b>	<b>(2,861)</b>	<b>0</b>
<b>Cumulative gap</b>	<b>(2,682)</b>	<b>(1,087)</b>	<b>(30,118)</b>	<b>(32,324)</b>	<b>(35,174)</b>	<b>(37,323)</b>	<b>(36,300)</b>	<b>2,861</b>	<b>0</b>	<b>0</b>

### (c) Operational Risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, from human error, and the risk of loss resulting from external events. Legal and reputational risks are part of operational risk.

All significant decisions relating to operational risk management are adopted by the Operational Risk Management Committee.

The Bank collects data on losses arising from operational risks. Data collection also relates to loan fraud which is treated as losses from operational risk with a credit risk component. The loss data is forwarded to KB and used in the group model for calculating capital requirements under the Advanced Measurement Approach (AMA) managed within the SG group. However, the capital requirements are also calculated by reference to the standard method (TSA) on the Bank's level.

During 2017, the Bank continued in the implementation of operational risk advanced approach instruments for risk management and continuous modification. Currently, as part of Operational risk management the Bank uses, besides collecting data on operational risk events, also key risk indicators monitoring, risk and control environment (RCSA), self assessment, scenarios analysis and formalised first level controls. When defining particular instruments the Bank very closely cooperates with KB, which represents the coordinator of operational risk management for the Group.

The Bank's internal regulations define practices and procedures to be followed in recovering IT systems in disaster situations (disaster recovery planning) and IT security management principles. In 2017, the Bank successfully carried out 11 tests of business continuity.

Procedures for the management of information system security and personal data protection are applied in accordance with Czech/EU legislation and "best practices". The level of information security is regularly verified by an independent audit.

### 30. Post Balance Sheet Events

Based on the decision of the sole shareholder KB and in accordance with the Accounting Act, MPSS has implemented IFRS (International Financial Reporting Standards) since 1 January 2018.

Differences at the date of transition between CAS and IFRS were recognized as retained earnings in accordance with IFRS 1 (First-time Adoption of International Financial Reporting Standards).

The Bank expects an impact on retained earnings mainly due to adoption of IFRS 9 – Financial Instruments. The estimated negative impact on equity after tax is CZK 162 million.

There were no other significant events after the financial statements as at 31 December 2017.

### 31. Other Information

The Bank did not acquire its own shares during 2017.

During 2017, the Bank did not expend any financial sources on research and development (when conditions for capitalisation were not met) through a charge to 'Operating expenses' (2016: CZK 0 thousand).

During 2017, remuneration to the auditor of the Bank for audit services performed by the company Deloitte Audit s.r.o. was booked in the amount of CZK 3,028 thousand (incl. VAT).

# Report on Relations between Related Parties for the 2017 Accounting Period

(hereinafter the “**Relations Report**”)

Modrá pyramida stavební spořitelna, a.s., with the registered office at Bělehradská 128, indication No. 222, Company ID 60192852, incorporated in the Companies Register, kept with the Municipal Court in Prague, Section B, Insert 2281, (hereinafter the “Company”), is a member of the business group (concern) where the following relationships between the Company and its controlling entity and also relationships between the Company and other entities controlled by the same controlling entity (hereinafter the “**Business Group**”) exist.

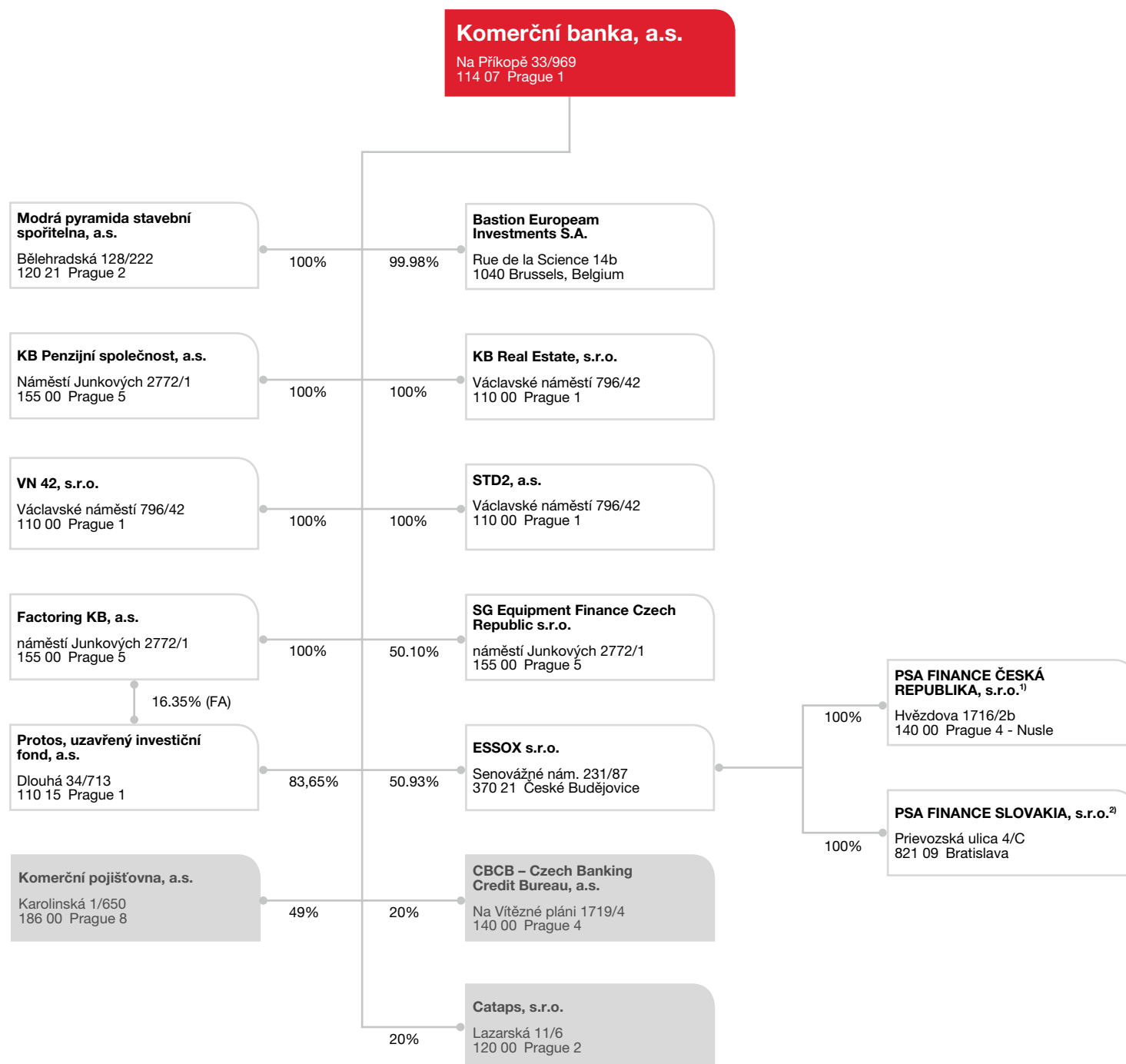
This Report on relations has been drawn up in compliance with the provision of Article 82 a(9) of Act No. 90/2012, on Commercial Companies and Cooperatives (Business Corporations Act), for the accounting period of 2017, i.e. from 01/01/2017 till 31/12/2017 (hereinafter the “**Accounting Period**”).

## I. Introduction

### **Structure of relationships between members of the Business Group**

In the period from 1 January 2017 to 31 December 2017, the Company was a member of the group of Komerční banka, a.s., with the registered office at Na Příkopě 33, 114 07 Praha 1, Company ID 45317054, incorporated in the Companies Register kept with the Municipal Court in Prague, Section B, Insert 1360 (hereinafter “KB”).

KB is a part of Société Générale S.A., with the registered office 29, BLD Hausmann, 75009 Paris, France, registration number in the French companies register: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter “**SG**” or “**SG Paris**”). The structure of KB Group relations is shown below and the structure of the entire SG Group is in Annex:



<sup>1)</sup> As of 1 January 2018, the company merged with ESSOX, s.r.o.

<sup>2)</sup> As of 1 January 2018, the company changed its trade name to ESSOX Finance, s.r.o., and its registered office moved to Karadžičova 16, 821 08 Bratislava, Slovakia.

In the 2017 Accounting Period, the Bank was in relations with the following persons that are members of the group: <sup>1)</sup>

Company	Registered office	The SG's share in voting rights of the Company
<b>Komerční banka, a.s.</b>	Na Příkopě 33, postcode 114 07 Prague 1	60.735%
<b>ALD Automotive s.r.o.</b>	U Stavoservisu 527/1, postcode 100 40 Prague 10	100%
<b>ESSOX s.r.o.</b>	Senovážné náměstí 231/7, postcode 370 21 České Budějovice	100%
<b>Factoring KB, a.s.</b>	náměstí Junkových 1, postcode 155 00 Prague 5	100%
<b>Komerční pojišťovna, a.s.</b>	Karolinská 1/650, postcode 186 00 Prague 8	100%
<b>KB Penzijní společnost, a.s.</b>	náměstí Junkových 1, postcode 155 00 Prague 5	100%
<b>SG Equipment Finance Czech Republic s.r.o.</b>	náměstí Junkových 1, postcode 155 00 Prague 5	100%
<b>Société Générale S.A.</b>	29, BLD Hausmann, 75009 Paris, France	0%

<sup>1)</sup>These are companies controlled by SG Paris, both directly or indirectly within the meaning of Section 74 (1) of the Business Corporations Act

### The Bank's role in the Group:

The Company is a fully-owned subsidiary of KB, which is a member of the international financial group Société Générale (hereinafter the "SG Group"). The company provides specialized building savings services pursuant to Act No. 96/1993 Sb. on Building Savings, as amended, financial brokerage services and brokers the conclusion of contractual relationships with KB, other subsidiaries of KB Group, subsidiaries of international financial group SG and other entities in the Czech Republic with a wide array of products in the field of retail and investment banking, other specialized services, including but not limited to pension savings plans, leasing, factoring, consumer finance and insurance, through a network of financial consultants of the Company. Since 2011 the internal audit has been outsourced to KB. In KB Group, KB provides the Company with some other services in the area of information technologies and data processing, consulting in the field of HR management, Compliance, and risk management including credit financial and operational risks. In addition, some IT infrastructure as well as knowledge in the field of banking and provision of financial services, development of financial products, instruments and services, operation of information technologies and data processing, risk management, regulation of financial markets, trading and business management are shared in SG Group. The building savings products are sold through KB distribution network.

As part of management and controlling systems, KB obtains data related to the controlling and management system of the Company and at the same time, provides this data, including KB data to Société Générale /These are mostly data for compiling consolidated financial statements and consolidated reporting to regulators or for disclosures, budgets, business plans, business continuity plans, anti money laundering measures/.

The Company participates in the design of group-wide policies in the Czech Republic through KB.

The KB products are offered through the Company distribution network.

### Methods and means of control

KB is a sole shareholder of the Company and exercises its influence over its activities through decisions of a sole shareholder that substitute activities of the general meeting. In 2017, it had four representatives in the Supervisory Board of the Company composed of six members and one representative in the Audit Committee consisting of three members. KB, on the basis of its decision and following consultations with the Company management, takes some positions in the Company by its employees who continue to work as Company employees in its management structures. In return, selected employees of the Company work on some positions in KB.

Within the meaning of Section 79 of the Business Corporations Act, KB is a controlling entity in relation to the Company, and the management is conducted formally by implementation of KB methodologies into internal regulations of the Company, particularly in the area of risk management and capital adequacy ratio. In addition, the management is conducted informally through consultations in each field of the Company's activity.



## II. Relationships in the business group

### A. Significant dealings in the accounting period made at impulse or in the interest of the controlling person or persons controlled by it and related to assets exceeding 10% of equity

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date	Description and quantification of damage (if any)*
2016 dividend (CZK 883,094.62) 04/05/2017	Komerční banka, a.s.		did not occur

### B. Overview of mutua contracts between the controlled and controlling person or between controlled persons

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
Contract on opening and running a current account including amendments (the most recent amendment Change of debit card limits Jiří Veselý of 17 February 2017) – OF	Komerční banka, a.s.	27.06.1995, Agreement on setting individual prices of 31.08.2012, Change of debit card limits Jiří Veselý 17/02/2017
Contract on issuing and using a payment card for a current account, VISA Gold Card – OF	Komerční banka, a.s.	27/11/2007
Contract on issuing and using a payment card for a current account, VISA Business Silver Card – OF.	Komerční banka, a.s.	12/05/2010
Contract on issuing and using a payment card for a current account, MasterCard card – OF.	Komerční banka, a.s.	17/06/2014
Contract on issuing and using a payment card for a current account, MasterCard card – OF.	Komerční banka, a.s.	30/09/2014
Contract on issuing and using a payment card for a current account, MasterCard card – OF.	Komerční banka, a.s.	30/09/2014
Contract on issuing and using a payment card for a current account, MasterCard card – OF.	Komerční banka, a.s.	11/12/2014
Contract on providing direct banking services (internet banking for a current account), including Amendments, the most recent one of 07/06/2017 – OF	Komerční banka, a.s.	17/06/2009, Amendment of 22/10/2012, including Amendments, the most recent one of 07/06/2017
Contract on providing services on the Short-term Bond Market, incl. Amendment No. 1 – OF	Komerční banka, a.s.	22/06/1999, Amendment No. 1 of 07/12/2000
Outsourcing Agreement – treasury – OF	Komerční banka, a.s.	07/02/2008
Contract on custody services provided by KB of 2010 – OF	Komerční banka, a.s.	07/07/2010
General contract on financial market trading – OF	Komerční banka, a.s.	18/11/2015
Credit contract reg. No 99019133466 (operating credit)	Komerční banka, a.s.	19/10/2017
Contract (No. 494) on using a safe deposit box of Komerční banka, a.s., No. 833 – OF	Komerční banka, a.s.	28/08/2003
Contract (No. 863) on using a safe deposit box of Komerční banka, a.s., No. 723 – OF	Komerční banka, a.s.	19/07/2004
Contract (No. 867) on using a safe deposit box of Komerční banka, a.s., No. 921 – OF	Komerční banka, a.s.	01/11/2004
Universal contract on transfer of cash in packages – OF	Komerční banka, a.s.	15/05/2011
Contract on installation of a cash dispenser No. 2004/2011/9526 – OF	Komerční banka, a.s.	03/10/2011
Contract on installation of a cash dispenser No. 20076/0000 – OF	Komerční banka, a.s.	27/02/2012
Contract on installation of a cash dispenser No. 20162/0000 – OF	Komerční banka, a.s.	02/04/2012
Contract on cooperation within the Group according to Article 5a of Act No. 235/2004, as amended, on value added tax, including Amendment No. 1, Amendment No. 2 – OF	Komerční banka, a.s.	27/11/2008, Amendment No. 1 of 22/10/2009, Amendment No. 2 of 22/08/2014
Service Level Agreement, accounting and reporting cooperation – OF	Komerční banka, a.s.	10 December 2014, with effect from 1 January 2015
Agreement on cost re-invoicing from KB to MPSS – OF	Komerční banka, a.s.	for 2017
Contract on use of the selling network of Komerční banka, a.s. – DIST	Komerční banka, a.s.	01/03/2005, Amendments No. 1 of 12/06/2009, No. 2 of 30/09/2010, No. 3 of 01/10/2011, No. 4 of 30/04/2014 and No 5 of 30/01/2015
General agreement on personal data processing (KB – administrator, MPSS – processing party) of 30/05/2009 – DIST	Komerční banka, a.s.	30/05/2009

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
General agreement on personal data processing (MPSS – administrator, KB – processing party) of 30/05/2009, incl. Amendment No. 1 of 12/09/2011 – DIST	Komerční banka, a.s.	30/05/2009, Amendment No. 1 of 12/09/2011
Call Centre Services Agreement (Agreement on KB call centre services) of 1 January 2010, incl. re-invoicing of costs from KB to MPSS in 2014 – DIST	Komerční banka, a.s.	01/01/2010, Amendment No. 1 of 01/09/2016
Individual distribution agreement (Perfect Loan) of 01/04/2011, incl. Amendment No.1, No.2 and No.3 – DIST	Komerční banka, a.s.	01/04/2011, Amendment No. 1 of 31/03/2013, Amendment No. 2 of 21/01/2014, Amendment No. 3 of 29/05/2014
Individual distribution agreement (MůjÚčet, G2.2) of 01/04/2011, incl. Amendments Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9 – DIST	Komerční banka, a.s.	01/04/2011 Amendment No. 1 of 27/04/2012, Amendment No. 2 of 31/01/2013, Amendment No. 3 of 29/05/2014, Amendment No. 4 of 29/05/2014, Amendment No. 5 of 21/10/2014, Amendment No. 6 of 10/11/2015, Amendment No. 7 of 30/11/2015, Amendment No. 8 of 15/08/2016 and Amendment No 9 of 30/12/2016
Individual distribution agreement (A Card, Lady Card, VISA Elektron Credit Card) of 01/04/2011, including Amendments No. 1, No. 2, No. 3 and No. 4 – DIST	Komerční banka, a.s.	01/04/2011, Amendment No. 1 of 31/01/2013, Amendment No. 2 of 21/01/2014, Amendment No. 3 of 29/05/2014 and Amendment No. 4 of 10/11/2015
Individual distribution agreement (Mortgage Loan, Pre-Mortgage Loan of 09/09/2011, including Amendments Nos. 1, 2, 3, 4 and 5 – DIST	Komerční banka, a.s.	09/09/2011, Amendment No. 1 of 19/12/2011, Amendment No. 2 of 31/01/2013, Amendment No. 3 of 10/11/2015, Amendment No. 4 of 01/04/2016 and Amendment No. 5 of 12/01/2017
Agreement on cooperation at performance of the Contract on Group risk insurance for employees No. 3280000000, as amended by Amendment No. 1 of 29/06/2012 – DIST	Komerční banka, a.s., Komerční pojišťovna, a.s.	10/09/2012
General contract on providing advantageous conditions for the employees of KB and Societé Générale Group – participants in the building saving account plan in MPSS, incl. Amendment No. 1 – DIST	Komerční banka, a.s.	01/11/2013, Amendment No. 1 of 10/10/2018
Cooperation agreement, including Amendment No. 1 – DIST	Komerční banka, a.s.	31/01/2013, Amendment No. 1 of 16/05/2015
Distribution agreement for products “Úvěry pro bytová družstva a společenství vlastníků bytových jednotek” (“Loans for housing cooperatives and homeowners partnerships”), including Amendment No. 1 – DIST	Komerční banka, a.s.	01/11/2013, Amendment No. 1 of 10/11/2015
Distribution agreement concerning the product “Spotřebitelský úvěr” (“Consumer Credit”) – DIST	Komerční banka, a.s.	18/12/2014
Confidentiality Agreement related to “Agreement on using the HP OV DS licence” – IT	Komerční banka, a.s.	09/02/2009
Agreement on paying costs of licence use (replaced the 2007 verbal agreement on paying costs of licence use), incl. Amendment No. 1 – IT	Komerční banka, a.s.	28/05/2009, Amendment No. 1 of 11/02/2010, validity extended verbally
Contract on provision of services – outsourcing – data warehouse of 30/06/2011, including Amendments Nos 1, 2, 3, 4 and 5 – IT	Komerční banka, a.s.	30/06/2011, Amendment No. 1 of 15/10/2011, Amendment No. 2 of 13/05/2013, Amendment No. 3 of 31/12/2013, Amendment No. 4 of 03/11/2014, Amendment No 5 of 22/01/2016, cancelled by Contract on provision of services – outsourcing – data warehouse of 20/01/2017
Sub-Contract No. 2 of 31/10/2011 according to the General Agreement on Supply of IT Services of 24/01/2011, including Amendment No. 1 – IT	Komerční banka, a.s.	31/10/2011, incl. Amendment No. 1 of 22/12/2016
Sub-Contract. No. 3 of 31/10/2011 according to the General Agreement on Supply of IT Services of 24/01/2011, incl. Amendment No. 1 of 15/02/2017 and Amendment No. 2 of 15/02/2017 – IT	Komerční banka, a.s.	31/10/2011, incl. Amendments Nos. 1 and 2 of 15/02/2017
Sub-Contract No. 4 of 31/10/2011 according to the General Agreement on Supply of IT Services of 24/01/2011, including Amendment No. 1 of 05/10/2012 – IT	Komerční banka, a.s.	31/10/2011, Amendment No. 1 of 05/10/2012, Amendment No. 2 of 29/12/2017
Sub-Contract No. 1 of 30/11/2011 according to the General Agreement on Supply of IT Services of 24/01/2011, including Amendments Nos. 1 and 2 – IT	Komerční banka, a.s.	31/11/2011, Amendment No. 1 of 05/10/2012 and of Amendment No. 2 of 01/01/2014
Sub-Contract No. 5 to the General Agreement on Supply of IT Services of 24/01/2011 – IT	Komerční banka, a.s.	29/06/2012

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
User rights assignment and termination confirmation (ORACLE) – IT	Komerční banka, a.s.	31/10/2016
Memorandum of Understanding – ORACLE licence transfer – IT	Komerční banka, a.s.	31/10/2016
Sub-Contract No. 6 to the General Agreement on Supply of IT Services of 24/01/2011 – IT	Komerční banka, a.s.	15/02/2017
Contract on provision of services – outsourcing – data warehouse of 20/12/2017 – IT	Komerční banka, a.s.	20/12/2017
Cooperation Agreement – Clients Scoring – RISK	Komerční banka, a.s.	31/08/2007
Contract on provision of services – outsourcing, Assessment of risks related to the immovable pledge for MPSS in the KB system – RISK	Komerční banka, a.s.	20/12/2011
Agreement on KBxMPSS Risk Management Cooperation and related SLA (8 pcs) – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Scoring Calculator for MPSS – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Pre-Scoring of Clients and Negative Information Delivery – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Scoring Model for HC and AO – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Delivery of Inputs for Real Estate Revaluation – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Exchange of Fraud Lists – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Cooperation on IRBA Implementation in MPSS – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Data Administration and delivery for Collecte Reporting – RISK	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Risk Services Remuneration – RISK	Komerční banka, a.s.	31/03/2014
Agreement – Services PD/LGD Models for RWA calculation – RISK	Komerční banka, a.s.	18/12/2014
Agreement on sharing negative information in FS KB/SG in the Czech Republic – RISK	Komerční banka, a.s.	19/02/2016
Agreement on provision and protection of confidential information (debt collection) – RISK	Komerční banka, a.s.	29/02/2016
Memorandum of Understanding – cooperation within FS KB at collective assignment of claims – RISK	Komerční banka, a.s.	03/03/2016
General agreement on employees' secondment, including Amendment No. 1 – HR	Komerční banka, a.s.	01/12/2006, Amendment No. 1 of 31/07/2007
Contract on mutual cooperation of 31/08/2007, incl. Amendment No. 1 – HR	Komerční banka, a.s.	01/08/2007, Amendment No. 1 of 01/07/2010
Confidentiality Agreement related to "Contract on service provision – outsourcing (HR services)"	Komerční banka, a.s.	27/04/2010
Contract on provision of services – outsourcing (HR services), incl. Amendment No. 1 – HR	Komerční banka, a.s.	30/11/2010, Amendment No. 1 of 20/12/2013
Agreement – outsourcing of HR services (excluding Payroll) – HR	Komerční banka, a.s.	29/01/2016
Agreement on maintaining confidential nature of information (Confidentiality Agreement) – quadripartite agreement – OTS	Komerční banka, a.s. BHW Holding AG and Česká pojišťovna, a.s.	11/08/2006
Lease contract – garage parking, incl. Amendment No. 1 – OTS	Komerční banka, a.s.	31/01/2007, Amendment No. 1 of 30/04/2013
Contract on lease of non-residential space and payment of services related to its use (Uherský Brod) – OTS	Komerční banka, a.s.	20/11/2008
Confidentiality Agreement related to "Contract on cooperation in the fields of outsourcing and purchasing" – OTS	Komerční banka, a.s.	09/07/2010
Adoption of the rules for cooperation of KB and FS members in the fields of outsourcing and purchasing of 13/09/2010 – OTS	Komerční banka, a.s.	16/09/2010
Agreement on the Organisation of Periodic Control of 17/12/2010, including Amendment No. 1 – OTS	Komerční banka, a.s. and Société Générale S.A.	17/12/2010, Amendment of 06/12/2012
General Agreement on provision of services of 24/01/2011, including Amendment No. 1 – OTS	Komerční banka, a.s.	24/01/2011, Amendment No. 1 of 11/10/2011
Contract for future sublease of non-residential space and settlement of services related to its use – OTS	Komerční banka, a.s.	01/09/2014
Contract for sublease of non-residential space and settlement of services related to its use – OTS	Komerční banka, a.s.	01/09/2014

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
Contract on lease of non-residential space and payment of services related to its use (Antala Staška 2059, Prague 4), incl. Amendment No. 1 – OTS	Komerční banka, a.s.	01/12/2014, Amendment No. 1 of 30/12/2016
Contract for sublease of non-residential space and settlement of services related to its use (Kyjov) – OTS	Komerční banka, a.s.	27/07/2015
Insurance Contract No. 7720935797 Property risk insurance	Komerční banka, a.s.	01/01/2016–31/12/2017
Agreement on cooperation at performing Group Insurance Agreement of Work-Related Accident and Occupational Disease Insurance for Members of Board of Directors of the Financial Group of Komerční banka/SG N*333000000	Komerční banka, a.s. and Sociétés Générale S.A.	01/07/2016–30/06/2017
Agreement on cooperation at performing Group Insurance Agreement of Work-Related Accident and Occupational Disease Insurance for Members of Board of Directors of the Financial Group of Komerční banka/SG N*334000000	Komerční banka, a.s. and Sociétés Générale S.A.	01/07/2017–30/06/2018
Agreement on payment of insurance premium and on payment of insurance broker's remuneration – OTS	Komerční banka, a.s.	30/06/2016
Agreement on collective co-insurance of VSSKB clients in case of death to secure the loan No. 37-9861 – DIST	Komerční pojišťovna, a.s., Česká pojišťovna, a.s.	05/12/1995 (terminated as of 30/06/2007, effective from 01/01/2008, individual cases are still being settled under the agreement)
Operational contract to provide collective co-insurance of VSSKB clients, Česká pojišťovna, a.s., Komerční pojišťovna, a.s. – DIST	Komerční pojišťovna, a.s., Česká pojišťovna, a.s.	05/12/1995 (terminated as of 30/06/2007, effective from 01/01/2008, individual cases are still being settled under the agreement)
General Cooperation Agreement No. 3010000246 (SPEKTRUM PROGRAMME) – DIST	Komerční pojišťovna, a.s.	09/04/2008
GENERAL DISTRIBUTION AGREEMENT, including Amendment No. 1 – DIST	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 15/11/2012
Distribution sub-contract for "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE" incl. Amendment No. 1 and Amendment No. 2 – DIST	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 19/12/2012, Amendment No. 2 of 10/01/2017
Distribution sub-contract for "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE", incl. Amendments Nos.1, 2 and 3 – DIST	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 19/12/2012, Amendment No. 2 of 10/01/2017, Amendment No. 3 of 06/04/2017
Contract on providing advantageous conditions for the employees of KP – participants in the building saving account in MPSS – DIST	Komerční pojišťovna, a.s.	01/11/2013
Report about the Agreement on reduction of administrative costs of one-time, ordinary and extraordinary insurance premium in the cancelled product VITAL INVEST as a source for calculating the commission.	Komerční pojišťovna, a.s.	02/01/2017
Separate Distribution Agreement for Product „MojePojištění majetku! (My Property Insurance), incl. Amendment No. 1 of 12/10/2017 – DIST	Komerční pojišťovna, a.s.	23/09/2016, Amendment No. 1 of 12/10/2017
Agreement on cooperation in the field of supplementary pension insurance with a state contribution – DIST	Penzijní fond Komerční banky, a.s. – now KB Penzijní společnost, a.s.	06/05/2005
Contract on commercial representation, incl. Amendment – DIST	Penzijní fond Komerční banky, a.s. – now KB Penzijní společnost, a.s.	04/01/2013, Amendment No. 1 of 27/11/2013 and Amendment No. 2 of 01/01/2016 and re-invoicing of marketing costs from MPSS to KBPS for 2016
Contract on providing advantageous conditions for the employees of KP – participants in the building saving account in MPSS – DIST	Penzijní fond Komerční banky, a.s. – now KB Penzijní společnost, a.s.	01/11/2013
Contract on advertising for the day of 24/01/2017 – DIST	Penzijní fond Komerční banky, a.s. – now KB Penzijní společnost, a.s.	28/12/2016
Contract on commercial representation of 18/07/2012 – DIST	ESSOX s.r.o.	18/07/2012
Contract on providing advantageous conditions for the employees of ESSOX – participants in the building saving account in MPSS – DIST	ESSOX s.r.o.	01/11/2013
Contract on assignment of claims – OTS	ESSOX s.r.o.	25/01/2017
Contract on providing advantageous conditions for the employees of Factoring KB – participants in the building saving account in MPSS – OTS	SG Equipment Finance Czech Republic s.r.o.	01/11/2013
Financial Leasing Agreement – OTS.	SG Equipment Finance Czech Republic s.r.o.	12/04/2013

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
Financial Leasing Agreement – OTS.	SG Equipment Finance Czech Republic s.r.o.	02/09/2013
Financial Leasing Agreement, incl. Amendment No. 1 – OTS	SG Equipment Finance Czech Republic s.r.o.	23/04/2014, Amendment No. 1 of 23/04/2014
Financial Leasing Agreement, incl. Amendment No. 1 – OTS	SG Equipment Finance Czech Republic s.r.o.	29/01/2015, Amendment No. 1 of 29/01/2015
Contract on providing advantageous conditions for the employees of Factoring KB – participants in the building saving account in MPSS – OTS	Factoring KB, a.s.	01/11/2013
Financial Leasing Agreement No. 11009659/17 – OTS	SG Equipment Finance Czech Republic s.r.o.	19/04/2017
Financial Leasing Agreement No. 11009660/17, incl. Amendment No. 1 – OTS	SG Equipment Finance Czech Republic s.r.o.	19/04/2017, Amendment No. 1 of 19/04/2017
Contract on personal data processing in Société Générale S.A., France – OTS	Société Générale, S.A.	02/11/2011
Insurance premiums paid as per contract concluded between Société Générale S.A. and Komerční banka, a.s. for MPSS – OTS	Société Générale, S.A.	30/08/2013
Contract on provision of advantageous conditions for the employees of ALD Automotive s.r.o. – participants of the building savings plan in MPSS, incl. Amendment No. 1 – DIST	ALD Automotive s.r.o.	01/11/2013, incl. Amendment No. 1 of 10/10/2017
General agreement of 18/10/2007 – conclusion of contracts on financial leasing – OTS	ALD Automotive s.r.o.	18/10/2007
Contract on financial leasing and subsequent purchase of the leased goods No. 310045804 – OTS	ALD Automotive s.r.o.	25/05/2010
Contract on financial leasing and subsequent purchase of the leased goods No. 310050680 – OTS	ALD Automotive s.r.o.	05/09/2011
Contract on financial leasing and subsequent purchase of the leased goods No. 310050822 – OTS	ALD Automotive s.r.o.	05/11/2011
Contract on financial leasing and subsequent purchase of the leased goods No. 310056190 and Agreement on premature termination of the Contract – OTS	ALD Automotive s.r.o.	15/02/2013, the Agreement on premature termination of the Contract of 28/02/2017
Contract on financial leasing and subsequent purchase of the leased goods No. 310056191 – OTS	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310056192 – OTS	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310056193 – OTS	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310056194 – OTS	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310058390 – OTS	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310058392 – OTS	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310058393 – OTS	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods No. 310060225 – OTS	ALD Automotive s.r.o.	04/02/2014
Contract on financial leasing and subsequent purchase of the leased goods No. 310062017 – OTS	ALD Automotive s.r.o.	21/07/2014
Contract on procurement of services No. 150062315 and Agreement on premature termination of the Contract – OTS	ALD Automotive s.r.o.	29/07/2014 and the Agreement on premature termination of the Contract of 20/02/2017 as of 28/02/2017
Contract on procurement of services No. 150062316 – OTS	ALD Automotive s.r.o.	29/07/2014
Contract on financial leasing and subsequent purchase of the leased goods No. 310067397 – OTS	ALD Automotive s.r.o.	17/07/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310067398 – OTS	ALD Automotive s.r.o.	17/07/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310067399 – OTS	ALD Automotive s.r.o.	17/07/2015

Name of the contract/agreement and, as the case may be, the subject of the contract/agreement unless specified in the name.	Contracting party	Contract conclusion date
Contract on financial leasing and subsequent purchase of the leased goods No. 310067400 – OTS	ALD Automotive s.r.o.	17/07/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310067401 – OTS	ALD Automotive s.r.o.	17/07/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310067402 – OTS	ALD Automotive s.r.o.	17/07/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310070289 – OTS	ALD Automotive s.r.o.	21/12/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310070290 – OTS	ALD Automotive s.r.o.	21/12/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310070291 – OTS	ALD Automotive s.r.o.	21/12/2015
Contract on financial leasing and subsequent purchase of the leased goods No. 310071176 – OTS	ALD Automotive s.r.o.	18/02/2016
Contract on financial leasing and subsequent purchase of the leased goods No. 310076905 – OTS	ALD Automotive s.r.o.	29/11/2016
Contract on financial leasing and subsequent purchase of the leased goods No. 310076906 OTS	ALD Automotive s.r.o.	29/11/2016
Contract on lease of tangible asset No. 140073556, including Amendments Nos. 1, 2, 3, 4, 5, 6 and 7 – DIST	ALD Automotive s.r.o.	09/06/2016, Amendment No. 1 of 17/06/2016, Amendment No. 2 of 13/07/2016, Amendment No. 3 of 10/08/2016, Amendment No. 4 of 14/09/2016, Amendment No. 5 of 11/09/2016, Amendment No. 6 of 08/12/2016 and Amendment No. 7 of 01/02/2017
Verbal agreement on general contract on provision of IT services – IT	ALD Automotive s.r.o.	01/01/2016
Verbal agreement on sub-contract on provision of IT services – IT	ALD Automotive s.r.o.	01/01/2016
Purchase contract SKODA VIN 2AL 0663 – OTS	ALD Automotive s.r.o.	28/02/2017
Contract on lease of a tangible asset (vehicle) – motivational promotion campaign “A car for a newcomer” (“Auto pro nováčka”) No. 140078439 – DIST	ALD Automotive s.r.o.	14/02/2017
Cooperation contract – general contract on purchase of Škoda Auto vehicles for financial advisors – DIST	ALD Automotive s.r.o.	09/03/2017
Contract on lease of a tangible asset No. 1400079940, including Amendments Nos. 1, 2, 3, and 4 – DIST	ALD Automotive s.r.o.	18/04/2017, Amendment No. 1 of 09/06/2017, Amendment No. 2 of 10/07/2017, Amendment No. 3 of 07/08/2017, Amendment No. 4 of 07/09/2017
Contract on financial leasing and subsequent purchase of the leased goods No. 310085037 – OTS	ALD Automotive s.r.o.	03/11/2017
Contract on financial leasing and subsequent purchase of the leased goods No. 31008606 – OTS	ALD Automotive s.r.o.	04/12/2017



## C. Evaluation of benefits and disadvantages arising from relationships in the business group and assessment of harm

### Benefits and disadvantages arising from relationships in the business group

KB Group provides universal banking services both in the Czech Republic and abroad. The whole group makes use of mutual synergies including sharing of projects, strong international brand and know-how of SG. In the business area, the Company benefits from the membership in KB Group. Thanks to KB Group, the Company may use the network of KB branches in the entire territory of the Czech Republic that also offer products of the Company, which means a significant competitive advantage on the Czech banking market. To sell its products, KB uses distribution network of the Company. In the area of management of financial, credit and operational risks, the procedures and tools developed in SG Group represent advanced solutions in global comparison allowing KB and the Company to effectively anticipate and respond to changes in the market and regulatory environment. The benefits of the integration of the Company in KB Group and SG Group respectively, contribute to the positive economic result of the Company.

### Assessment of harm

The Company Board of Directors reviewed any and all relationships between the Company and companies that are members of the business group for the accounting period of 2017 and notes that as a result of any concluded contracts, agreements, other legal acts made or accepted by the Company or any under other asserted influence by KB, no harm was incurred by the Company.

Prague, on 14 February 2018

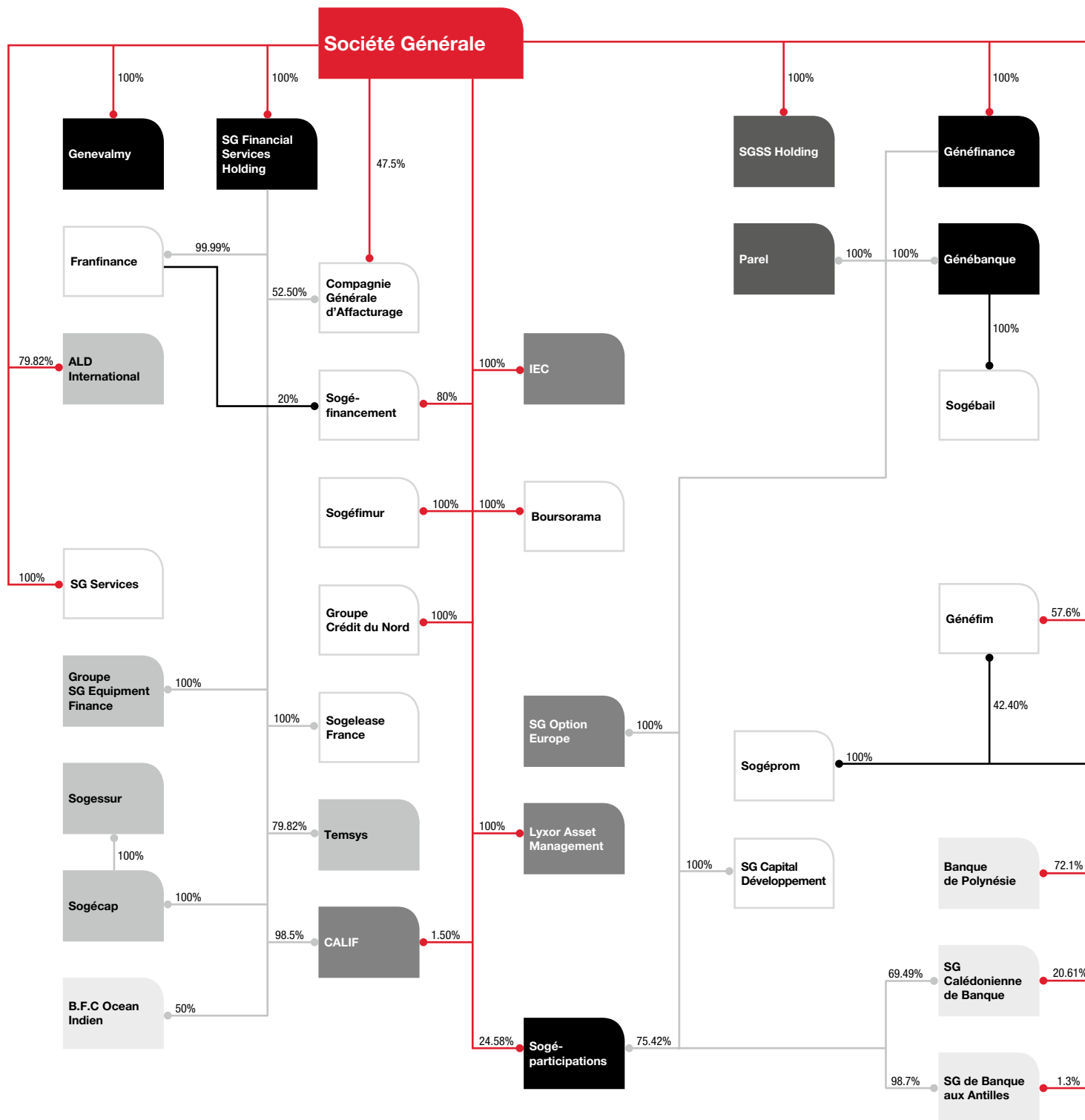
**Ing. David Formánek**  
Chairman of the Board of Directors

**Mgr. Ladislav Šilha**  
Member of the Board of Directors

# The structure of relationships SG Group –

% of the share capital

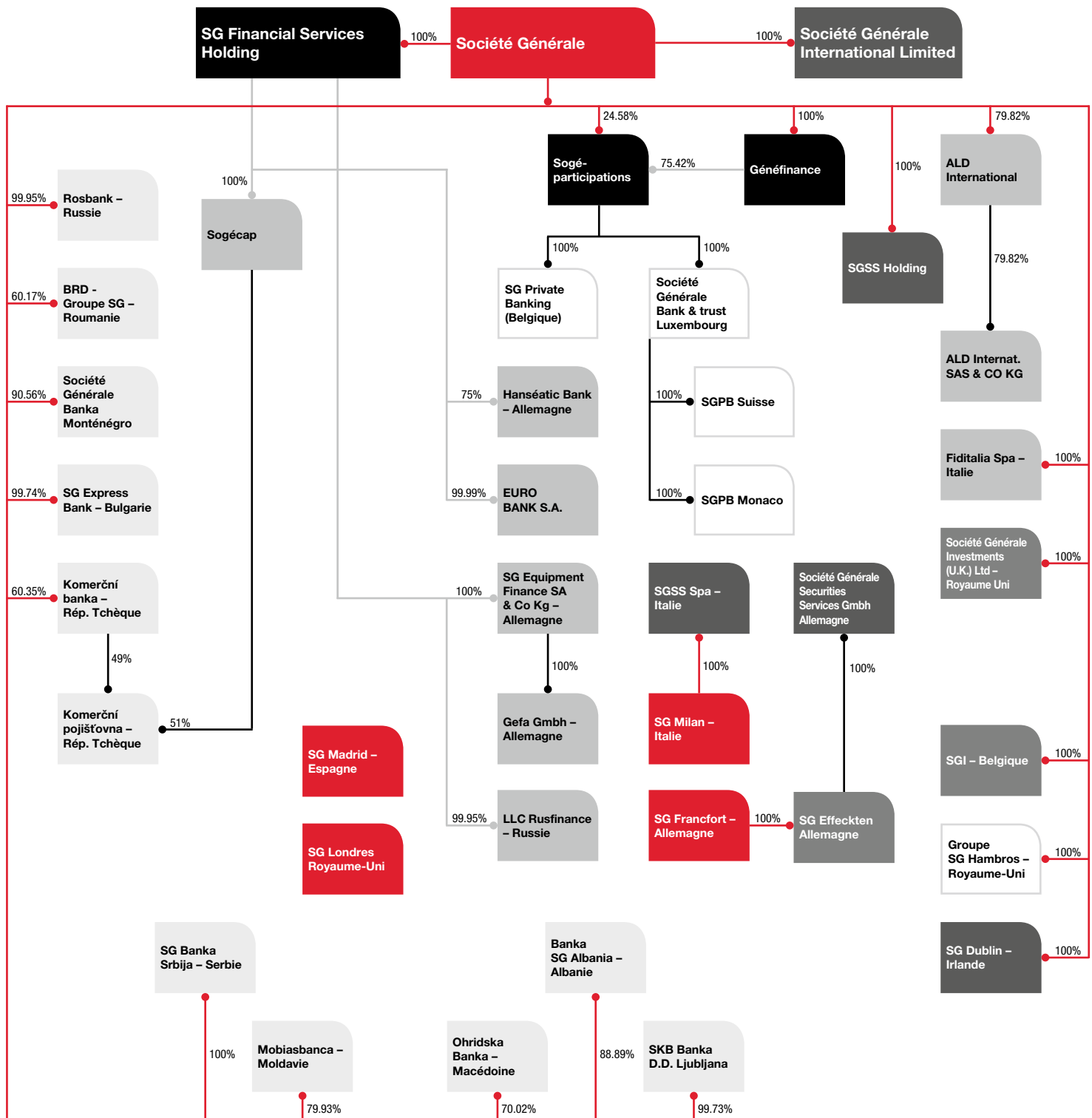
## FRANCE



Note: Share capital and of the voting rights may vary

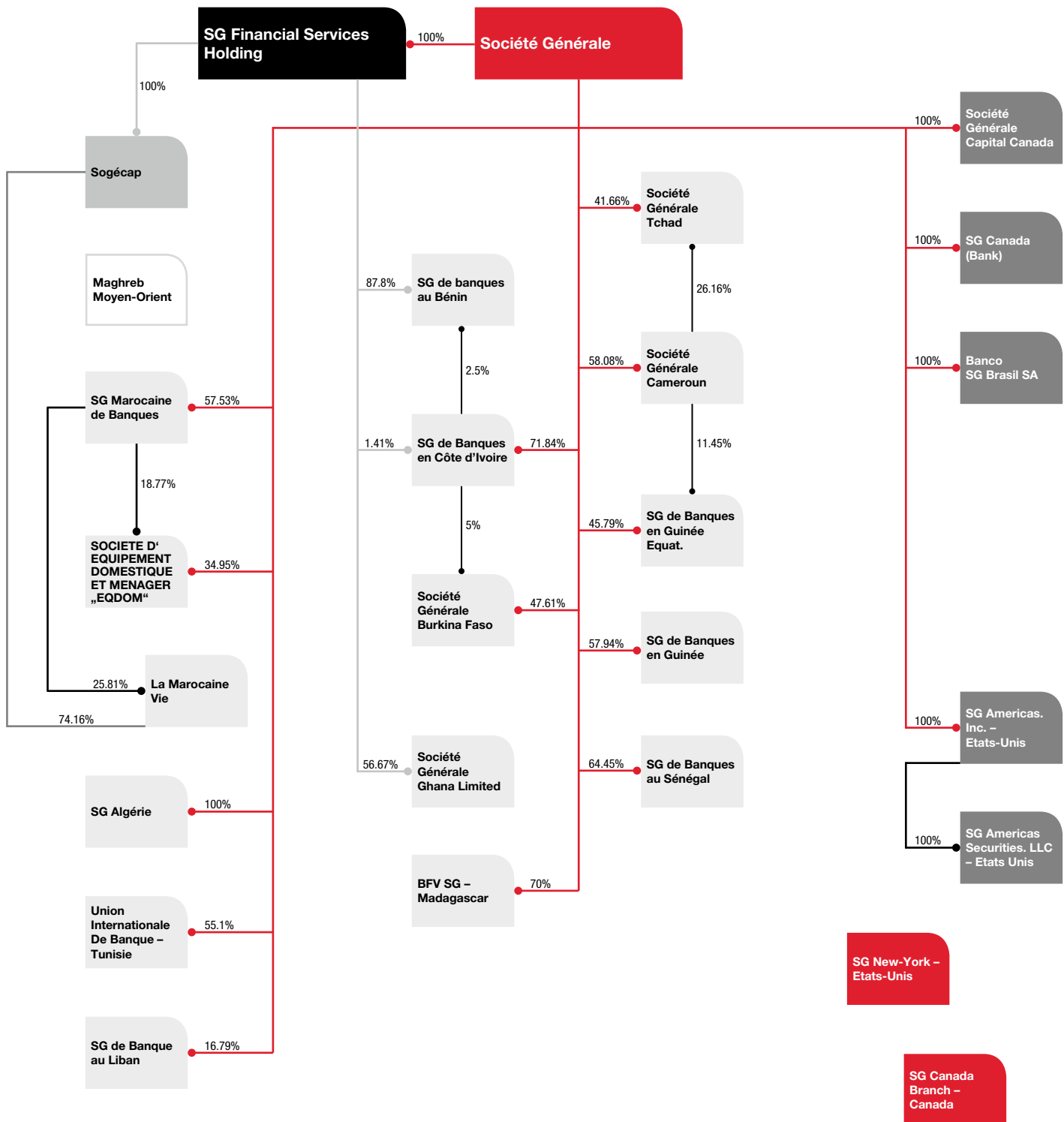


EUROPE

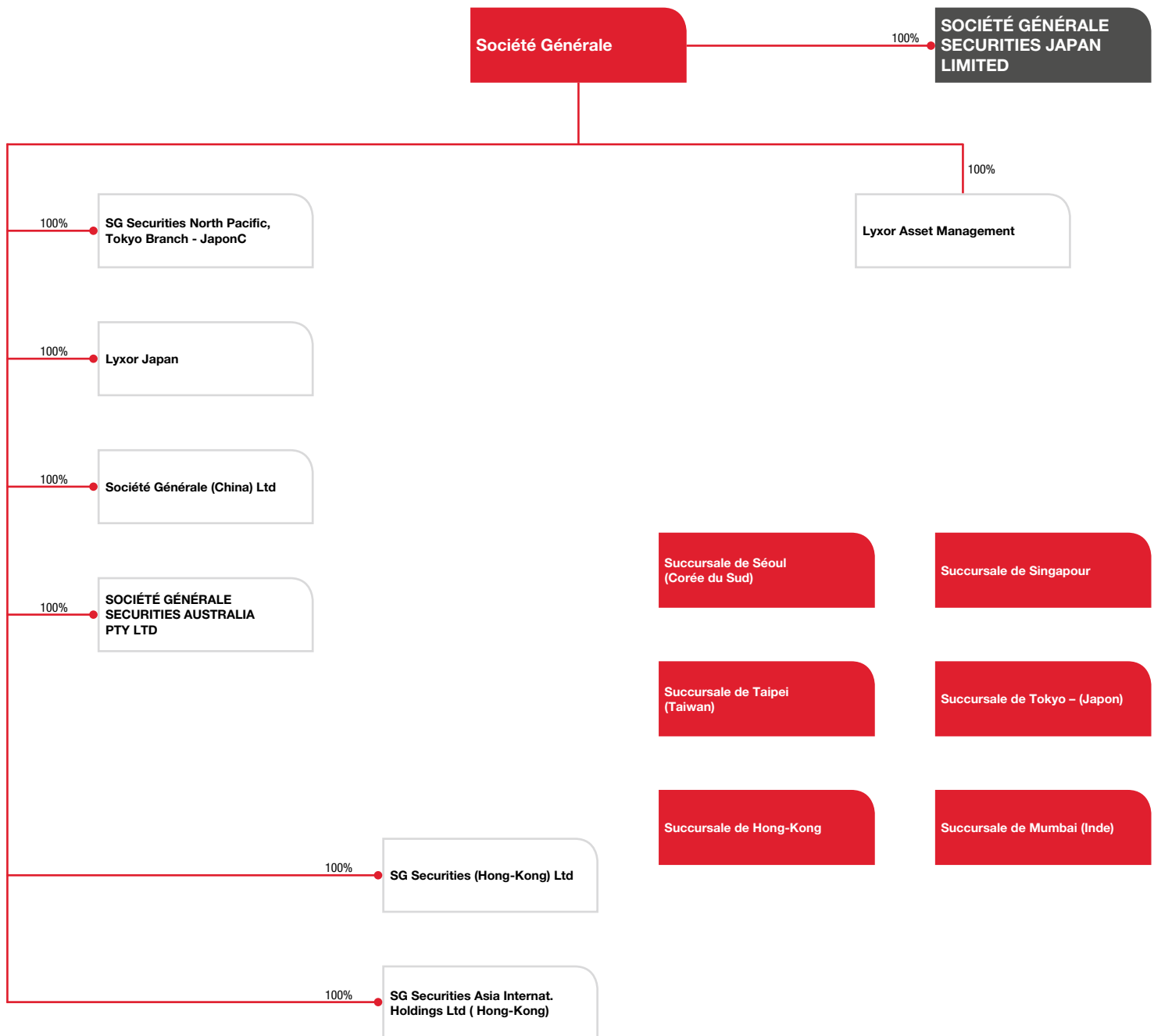


Note: Share capital and of the voting rights may vary

# AFRIQUE AND AMERIQUE



Note: Share capital and of the voting rights may vary



Note: Share capital and of the voting rights may vary

## Data on capital and capital requirements

Information valid as of

(31/12/2017)

Data on capital and capital requirements are published according to the article 438 letters c) to f) regulation 575/2013 EU Item 1 letter b)

In the case of institutions, which calculate a volume of risk-weighted exposures according to the third title III of the chapter 2, 8% of volume of risk-weighted exposures for each exposure category stated in the article 112 regulation 2013/575/EU	Exposures towards central governments and central banks	
	Exposures towards regional governments or local authorities	
	Exposures towards subjects of public sector	
	Exposures towards international development banks	
	Exposures towards international organizations	
	Exposures towards institutions	
	Exposures towards corporations	
	Retail exposures	
	Exposures secured by real estates	Article 438 letter c) regulation 575/2013 EU
	Exposures in failure	
	Exposures connected with especially high risk	
	Exposures in covered bonds	
	Items presenting securitized positions	
	Exposures towards institutions and corporations with short-term loan assessment	
	Exposures in the form of share units or shares in the subjects of collective investment	
Share exposures		
Other items		
Capital requirements calculated according to the article 92 section 3 letter b) and c) regulation 2013/575/EU	Of position risk	
	For large exposures exceeding limits stated in articles 395 to 401, if it is allowed to exceed these limits to institution.	Article 438 letter e) regulation 575/2013 EU
	Of currency risk	
	Of settlement risk	
	Of commodity risk	
Capital requirements calculated according to the part of the third title III of the chapters 2, 3 and 4 regulation 2013/575/EU and assessed separately	Capital requirement according to the title III of the chapter 2 Regulation 2013/575/EU	
	Capital requirement according to the title III of the chapter 3 Regulation 2013/575/EU	Article 438 letter f) regulation 575/2013 EU
	Capital requirement according to the title III of the chapter 4 Regulation 2013/575/EU	144,998

Data on capital and capital requirements			Public notice No. 163/2014 Coll., appendix 14
Information valid as of		(31/12/2017)	
In case of institutions, which calculate the volume of risk –weighted exposures according to the third title II of the chapter 3, 8% of volume of risk-weighted exposures for each exposure category stated in the article 147. In the case of retail exposure category, this requirement will be used for each exposure category, to which respond different correlation according to the article 154 sections 1 to 4 regulation 2013/575/EU	Exposures towards central governments or central banks	25,953	
	Exposures towards institution	708,771	
	Exposures towards corporations	99,959	
	Retail exposures	719,647	
	Share exposures		
	Items presenting securitized positions		
	Other assets do not have a nature of loan commitment	109,191	
	Share exposures traded on regulated markets		Article 438 letter d) regulation 575/2013 EU
	Share exposures not traded on regulated markets in enough diversified portfolio and other exposures		
	In the case of share exposure category this requirement will be used for	Exposures which in the area of the capital requirements subordinate to the transition control rules	
Exposures which in the area of the capital requirements subordinate to the assignation on conservation of legal effects			
Each from approaches stated in the article 155 regulation 2013/575/EU			

Capital ratio			Public notice No. 163/2014 Coll., appendix 14
Information valid as of		(31/12/2017)	
in %		To the end of the reported period	
Capital ratio of liable entity	Capital ratio for equity capital tier 1	20.39	
	Capital ratio for capital tier 1	20.39	Item 2 letter a)
	Capital ratio for total capital	20.39	
Capital ratio of bank branch from other than a member state	Capital ratio for capital tier 1		Item 2 letter b)
	Capital ratio for total capital		

Ratio indicators

Information valid as of		(31/12/2017)	
in %		To the end of the reported period	
Ratio indicators of the liable entity, which is bank or savings and loan cooperative	Return on average assets (ROAA)	1.16	
	Return on average equity tier 1 (ROAE)	19.09	
	Assets per 1 employee	259,768	Item 3 letter a)
	Administrative costs per 1 employee	1,825	
	Profit or loss after taxation per 1 employee	2,764	
Ratio indicators of the liable entity, which is businessman with securities	Indebtedness I (total debt without clients estate/assets without clients property)		
	Indebtedness II (total debt without clients property/own capital)		
	Return on average assets (ROAA, assets without clients property)		Item 3 letter b)
	Return on average equity tier 1 (ROAE)		
	Return of sales revenues (profit after taxation/revenues from investment services)		
Ratio indicators of the bank branch from other than a member state	Administrative costs per 1 employee		
	Return on average assets (ROAA)		
	Return on average equity tier 1 (ROAE)		
	Assets per 1 employee		Item 3 letter c)
	Administrative costs per 1 employee		
	Profit or loss after taxation per 1 employee		

**Announcement on non-application of the transitional arrangements for introduction of IFRS 9**

Modrá pyramida stavební spořitelna, a.s., with its registered office at Bělehradská 128/222, 120 21 Prague 2, corporate ID 60192852, entered in the register of companies maintained with the Metropolitan Court of Prague, section B, file No. 2281 (hereinafter Modrá pyramida), announces that Modrá pyramida has decided not to apply the transitional arrangements according to article 473a "Introduction of IFRS 9" of the regulation (EU) 575/2013 as amended by the regulation (EU) 2017/2395.

This information is disclosed in accordance with art. 1(9) of the regulation (EU) 2017/2395.





**Modrá pyramida**  
Váš rádce na finance

[www.modrapyramida.cz](http://www.modrapyramida.cz)