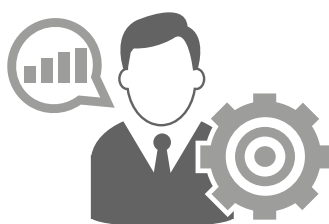


Annual Report 2016

Modrá pyramida
stavební spořitelna, a.s.



Modrá pyramida

Váš rádce na finance

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	2012	2013	2014	2015	2016
Total assets	CZK '000	82,146,845	82,155,312	82,774,685	89,103,638	85,024,701
Volume of clients' deposits	CZK '000	71,075,961	71,673,736	71,809,152	67,812,325	63,481,111
Total volume of loans	CZK '000	49,359,889	43,685,807	38,444,951	37,171,614	39,001,080
Volume of assigned loans	CZK '000	6,253,643	5,425,244	4,719,453	4,259,382	3,915,387
Volume of bridging loans	CZK '000	43,106,246	38,260,563	33,725,498	32,912,232	35,085,693
Net profit	CZK '000	1,122,736	1,065,526	994,683	915,071	883,095
Dividend designed for the business year	CZK '000	1,122,736	1,065,526	994,683	1,915,071	883,095
ROAE	%	19.92	17.62	17.10	15.80	17.41
Assets per employee	CZK '000	240,195	242,346	247,828	265,981	257,768
Profit per employee (FTE)	CZK '000	3,283	3,143	2,978	2,732	2,677
Capital adequacy	%	20.8	21.1	19.8	19.3	15.1
Headcount (at 31 st December)	persons	342	339	334	335	330
Valid contracts	pcs	669,662	632,826	614,239	571,931	537,836
Active assigned loans	pcs	66,728	56,892	49,550	44,165	38,899
Active bridging loans	pcs	57,244	51,656	47,539	46,880	48,008

Contents

Volume of bridging loans (CZK ´000)

2012	43,106,246
2013	38,260,563
2014	33,725,498
2015	32,912,232
2016	35,085,693

Total volume of loans (CZK ´000)

2012	49,359,889
2013	43,685,807
2014	38,444,951
2015	37,171,614
2016	39,001,080

Contacts

Modrá pyramida stavební spořitelna, a.s.

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

Komerční banka, a.s.

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

Further information

Information about Modrá
pyramida's products and services
is accessible from the home page
www.modrapyramida.cz.

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

2	STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS Statement of the Chairman of the Board of Directors
3	MODRÁ PYRAMIDA Profile
4	COMPANY BODIES Company Bodies
6	REPORT OF THE BOARD OF DIRECTORS Report of the Board Directors
7	New loan product
7	Paperless company
7	Financial advisors
7	Risk management
8	ADDITIONAL INFORMATION Employees, Corporate responsibility, Environment
9	Report of the Supervisory Board
12	FINANCIAL SECTION Independent Auditor´s Report
15	Financial Statements
51	Report on relations between related parties for the 2016 accounting period
65	Data on capital

Statement of the Chairman of the Board of Directors



DAVID FORMÁNEK

Chairman of the Board of Directors

Dear shareholder, dear business partners, dear clients,

I can proudly pronounce that year 2016 will certainly become one of commercially most successful years in history of Modrá pyramida. We managed to reach excellent business results, especially in the area of housing finance and at the same time the quality of our financial advisory moved into another level. We have strengthened the clients' confidence area which is prerequisite for building a long term relationships, and we managed to keep the experienced and educated financial advisors in our team despite of highly competitive market.

In 2016 the Czech economy was in a good shape, the real-estate and mortgage markets experienced dynamic growth and the extremely low interest rates period continued. Also competition in the housing finance area kept on strengthening. The more I appreciate the results which we have reached last year in this particular area and

I dare to claim it is a clear evidence of a success of the new business model of Modrá pyramida a provider of complex financial advisory with its clear mission – to help clients create their new, happy homes.

From the volume of provided loans point of view the year 2016 was the second most successful one in the history of Modrá pyramida. Only in connection with building saving we provided to our clients almost 11 thousand loans in volume of CZK 9.4 billion. In year on year comparison it is an increase in volume by roughly 50 percent. According to available statistics Modrá pyramida was the second most successful building saving bank last year having contracted approximately 20 percent of volume of building saving loans. Moreover Modrá pyramida concluded Komerční bank mortgages in total volume of CZK 2.4 billion. Also good news is that total volume of provided housing loans increased in 2016 by 4.9% and reached CZK 39.0 billion.

Whereas in line with the overall development of the market, also Modrá pyramida recorded slight decrease in volume of clients' deposits to CZK 63.5 billion.

Personally I am delighted with how the work of Modrá pyramida's financial advisors contributed to the parent Group of Komerční banka. Sales of day-to-day banking products increased year-on-year by 13 percent, mainly due to higher sales of Komerční bank current account. Our financial advisors were the ones who opened almost every other fifth new current account in KB. They also have their noticeable share on distribution of investment and insurance products in KB Group.

In the second half of 2016 we invested a great effort in development of a new loan product which responds to requirements in new Consumer Loan Act and also to regulation in the area of providing mortgages. I consider a great success implementation of dynamic biometric signature thanks to which an impact of Modrá pyramida into an environment will be greatly reduced and at the same time it enables the financial advisors resolve clients' requirements faster, more efficiently and safer than in case of traditional paper documentation.

I would like to thank our employees and all representatives of Modrá pyramida's distribution network for managing so well with the help of Rychloúvěř and Mortgage-like loan to fulfil the clients' requirements in the real-estate financing investment area. It is a result of continuous quality improvement of financial advisory which is subject to investment and education of the advisory network and continuous development of skills of the experienced team of people.

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 215 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.

Company Bodies as at 31 December 2016

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

Albert Marie Le Dirac'h

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

Peter Palečka

Chairman of the Audit Committee

Petr Špaček

Vice Chairman of the Audit Committee

Jiří Příbyl

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 2016

2016 was a year of revival of the Czech economy and dynamic growth of the mortgage market. Due to the persisting low interest rate environment and further decrease of interest rates in the course of the whole year, it was another difficult year for the whole financial sector.

Modrá pyramida reached excellent business results in 2016, when after years of loan stagnation we successfully managed to return to the pre-crisis volumes of provided loans. The 2016 results fully confirmed successful transformation of Modrá pyramida's business model from a building savings bank to a provider of comprehensive financial advisory with wide products offer and loan "comeback".

In 2016 there were nearly 474 thousand new building savings contracts with a total target amount of CZK 171.1 billion concluded and loans in the volume of CZK 47.9 billion granted on the Czech building savings market. In total the clients' savings deposits amounted to CZK 362.6 billion and loans to CZK 240.6 billion in the balance sheets of building savings banks at the end of 2016.

The building savings continued to be influenced by persisting low interest rate environment and high volume of early repaid loans. Modrá pyramida concluded 89,770 new contracts and target amount increases with a target amount of CZK 28.1 billion in the past year. Measured by the volume of concluded new contracts, Modrá pyramida's market share reached 16.4%, which signifies growth by 1.5% and the third place in the ranking of building savings banks.

Modrá pyramida recorded in 2016 decrease in volume of clients' deposits. Their volume reached CZK 63.5 billion, signifying decrease compared to the previous year by 6.4%. The company's total assets amounted to CZK 85 billion and dropped by 4.6% compared to 2015.

The number of valid building savings contracts was 537,836 contracts with the target amount of CZK 189 billion at the end of the past year.

In 2016 Modrá pyramida granted its clients almost 11 thousand loans in the volume of CZK 9.4 billion, signifying year-on-year increase by 50% in volume. The market share of Modrá pyramida corresponds to 19.7% as measured by the contractual volume of all concluded loans, signifying year-on-year increase by 5.9% and the 2nd place in the building savings market. Besides core loans, Modrá pyramida also concluded mortgages of Komerční banka in the total volume of CZK 2.4 billion.

The total volume of provided housing loans increased by 4.9% in 2016 and reached CZK 39.0 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 2016. The sales of day-to-day banking products increased by 13% mainly due to higher sales of Komerční banka current accounts.

The sales of saving and investment products slightly decreased year-on-year by 2%, mainly due to lower sales of Komerční pojišťovna products and sales of IKS mutual funds. The decrease of sales was partially compensated by the growth of KB Penzijní společnost product sales and new product of Komerční pojišťovna – MyProperty Insurance (as of May 2016).

Sales of loan products, in year-on-year comparison decreased by 31% and that due to lower sales of KB Mortgage and credit cards.

The ordinary financial statements for 2016 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 2016 and of the results of its financial performance in accordance with the accounting regulations applicable in the Czech Republic.

Modrá pyramida reached great financial results with its profit after tax in the amount of CZK 883.1 mainly due to high production on new housing loans.

New loan product

In 2016 we started working on development of a new loan product of Modrá pyramida which will not only meet legislation requirements of so called mortgage directive (new consumer loan law effective as of 1st December 2016) but primarily it can compete better with the mortgage banks offer. The new loan product of Modrá pyramida will be more flexible and, we believe, more simple and easier for clients to understand which we tried to take into account also in the new loan documentation. We are currently undergoing the final phase of the project with the release date beginning of April 2017.

Paperless company

Modrá pyramida successfully launched dynamic biometric signature which enables the financial advisors to solve the clients' requests faster and more efficiently. Security of the signed documentation also increased. Implementation of the biometric signature was enabled by extensive digitalization and automation of processes – processing of contracts, financial advisors support and connection to other bank systems. This digitalization and automation of connected processes significantly reduced the time necessary for concluding of building saving or loan approval. Modrá pyramida in planning a gradual release of biometric signature also for the new loan product.

Financial advisors

Year 2016 was marked by confirmation of high loan production of small unsecured loans (Rychlouněv) and mortgage-like loans (Hypouněv). In comparison with the year 2015 Modrá pyramida business network managed to increase its production of bridging building saving bridging loans by 83% in volume.

Educational activities within the Financial Planning Academy continued. Through this academy we encourage the financial advisors to provide comprehensive financial advisory to the clients which is built on fair approach and building of a long-term relationship between financial advisor and client, base of which is a financial analysis and related financial plan.

Less emphasis was placed on sales of building saving in 2016. The business network focused mainly on sales of banking, insurance and investment products in order to find appropriate investment opportunities for the client even in the persisting low interest rate environment.

In spite of the many changes and decrease of building saving sales, we managed to maintain the stability and income of the business network.

Risk management

In 2016 Modrá pyramida continued its implementation of risk management advanced methods, enabling to achieve decrease in regulatory capital requirements as well and submitted official request to ECB to approve these advanced methods. In course of this year we expect their favourable decision and validation. Since the 2014 the company has been using the advanced method for management of operational risks "AMA" and calculation of regulatory requirement on the capital for operational risks.

In the regulatory area, Modrá pyramida focused on fulfilment of requirements or regulators, mainly in the area of credit risk management. In the collection area a number of tools was successfully implemented with the aim of active support of the clients in distress and their return to the current regime, same as with the aim to minimize the company losses in relevant cases. Modrá pyramida carried out three mass sales of old receivables, withdrawn before the year 2007.

In Prague, March 8th, 2017

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

Employees, Corporate responsibility, Environment

Employees

In 2016 started another successful two-year programme "Strategic Talent Management" that is intended for chosen employees and managers. We support our managers in their development and training in order to have the real leaders in the company, to employees we offer courses focused mainly on development of their professional qualifications.

We work with feedback from our employees. Employees have the opportunity to comment on their activities in the company during the annual reviews, every two years we hold employees 'satisfaction and motivation survey. The survey called "Employee Barometer" took place in 2015 and 82% of employees participated. Another Barometer cycle is planned for 2017 but also other smaller surveys are planned, so that our reaction to the outcome is more flexible and employees felt happy in 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 special 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 we organized a first year 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 Černé koně society and last year we participated in "Biking to work" and thus supported Černé 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. Last year we prepared for launch of 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 2016

Throughout 2016, 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 30 March, 14 September and 14 December 2016, 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 30 March 2016, 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 2016, 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 2016 in the amount of CZK 883,094,980.62 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 2016. 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 2016 in the amount of CZK 883,094,980.62 as follows:

- 100% dividend pay-out of net profit CZK 883,094,980.62

The Supervisory Board, in compliance with legal regulations, also reviewed the Report on Relations between related parties as at 31 December 2016, 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 2016 to 31 December 2016.

In Prague, on 5 April 2017

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

Financial section

Contents

	FINANCIAL STATEMENTS
12	Independent Auditor's Report
15	Balance Sheet as at 31 December 2016
17	Profit and Loss Account for the Year Ended 31 December 2016
18	Off Balance Sheet Accounts
19	Statement of Changes in Equity for the Year Ended 31 December 2016
20	Notes to the Financial Statements for the Year Ended 31 December 2016
	REPORT ON RELATIONS BETWEEN RELATED PARTIES FOR THE 2016 ACCOUNTING PERIOD
51	Report on relations between related parties for the 2016 accounting period
	DATA ON CAPITAL
65	Data on capital and capital requirements

Independent Auditor's Report

Deloitte.

INDEPENDENT AUDITOR'S REPORT

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

Having its registered office at: Bělehradská 128, č.p. 222, 120 21 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 2016, 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 2016, 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.

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; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the 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.

Deloitte Audit s.r.o.
Nile House
Karolínská 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

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 and the Audit Committee are 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, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Report on relations among related entities

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2016 which is included in this annual report on pages 51 to 64. This report on relations among related entities is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report 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 related party transactions report 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 related party transactions report 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 related party transactions report of Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2016 contains material factual misstatements.

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

In Prague on 7 April 2017

Audit firm:

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



Statutory auditor:

David Batal
registration no. 2147



Balance Sheet as at 31 December 2016

No.	ASSETS CZK '000	Row no.	2016			2015
			Gross	Corrections	Net	Net
1	Cash in hand and balances with central banks	1	8,247,892	0	8,247,892	12,079,209
2	State zero-coupon bonds and other securities eligible for refinancing with the central bank	2	2,642,429	0	2,642,429	7,043,454
	Of which: a) Issued by Government institutions	3	2,642,429	0	2,642,429	7,043,454
	b) Other	4	0	0	0	0
3	Amounts due from banks and savings associations	5	33,188,654	0	33,188,654	31,141,791
	Of which: a) Repayable on demand	6	1,626	0	1,626	1,306
	b) Other receivables	7	33,187,028	0	33,187,028	31,140,485
4	Amounts due from clients - members of savings associations	8	39,062,512	851,746	38,210,766	36,253,300
	Of which: a) Repayable on demand	9	0	0	0	0
	b) Other receivables	10	39,062,512	851,746	38,210,766	36,253,300
5	Debt securities	11	0	0	0	0
	Of which: a) Issued by Government institutions	12	0	0	0	0
	b) Issued by other entities	13	0	0	0	0
6	Shares, share certificates and other equity investments	14	0	0	0	0
7	Equity investments in associates	15	0	0	0	0
	Of which: In banks	16	0	0	0	0
8	Equity investments in subsidiaries	18	0	0	0	0
	Of which: In banks	19	0	0	0	0
9	Intangible fixed assets	21	535,579	331,978	203,601	212,559
	Of which: a) Start-up costs	22	0	0	0	0
	b) Goodwill	23	0	0	0	0
10	Tangible fixed assets	25	751,929	408,878	343,051	348,569
	Of which: Land and buildings for operating activities	26	525,868	208,238	317,630	328,037
11	Other assets	28	1,449,077	9,485	1,439,592	1,425,490
12	Subscribed capital unpaid	29	0	0	0	0
13	Deferred expenses and accrued income	30	748,716	0	748,716	599,266
	Total assets	31	86,626,788	1,602,087	85,024,701	89,103,638

LIABILITIES		Row	2016	2015
No.	CZK '000	no.		
1	Amounts owed to banks and savings associations	31	12,900,056	11,500,128
	Of which: a) Repayable on demand	32	0	0
	b) Other payables	33	12,900,056	11,500,128
2	Amounts owed to clients - members of savings associations	34	65,006,262	69,432,212
	Of which: a) Repayable on demand	35	302,107	433,501
	b) Other payables	37	64,704,155	68,998,711
3	Payables from debt securities	42	0	0
	Of which: a) Issued debt securities	43	0	0
	b) Other payables from debt securities	44	0	0
4	Other liabilities	45	412,675	451,896
5	Deferred income and accrued expenses	46	410,074	357,587
6	Reserves	47	3,775	4,314
	Of which: a) For pensions and similar liabilities	48	0	0
	b) For taxes	49	0	0
	c) Other charges	50	3,775	4,314
7	Subordinated liabilities	51	0	0
8	Share capital	52	562,500	562,500
	Of which: a) Share capital paid up	53	562,500	562,500
	b) Treasury shares	54	0	0
9	Share premium	55	487,500	487,500
10	Reserve funds and other funds from profit	56	1,119,638	1,119,638
	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
11	Revaluation reserve	62	0	0
12	Capital funds	63	0	0
13	Gains or losses from the revaluation of	64	141,357	175,022
	Of which: a) Assets and liabilities	65	141,357	175,022
	b) Hedging derivatives	66	0	0
	c) The retranslation of equity holdings	67	0	0
14	Retained earnings or accumulated losses brought forward	68	3,097,770	4,097,770
15	Profit or loss for the period	69	883,094	915,071
	Total liabilities	70	85,024,701	89,103,638

Profit and Loss Account for the Year Ended 31 December 2016

No.	CZK '000	Row no.	2016	2015
1	Interest income and similar income	1	2,621,516	3,111,355
	Of which: Interest income from debt securities	2	95,585	283,916
2	Interest expense and similar expense	3	(1,162,693)	(1,679,433)
	Of which: Interest expense from debt securities	4	0	0
3	Income from shares and equity investments	5	0	0
	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
4	Commission and fee income	9	421,541	452,123
5	Commission and fee expense	10	(322,040)	(300,276)
6	Net profit or loss on financial operations	11	0	0
7	Other operating income	12	5,580	9,897
8	Other operating expenses	13	(32,204)	(54,719)
9	Administrative expenses	14	(551,088)	(556,474)
	Of which:	15	0	0
	a) Staff costs	16	(292,507)	(293,731)
	which: aa) Social security and health insurance	18	(66,391)	(65,882)
	b) Other administrative expenses	19	(258,581)	(262,743)
10	Release of reserves and provisions for tangible and intangible fixed assets	20	0	0
11	Depreciation, charge for and use of reserves and provisions for tangible and intangible fixed assets	24	(56,729)	(53,334)
12	Release of provisions and reserves for receivables and guarantees, recoveries of receivables written off	30	210,983	272,391
13	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	34	(201,087)	(240,014)
14	Release of provisions for equity investments in associates and subsidiaries	38	0	0
15	Losses on the transfer of equity investments in associates and subsidiaries, charge for and use of provisions for equity investments in associates and subsidiaries	39	0	0
16	Release of other reserves	40	2,033	5,060
17	Charge for and use of other reserves	41	(1,494)	(2,948)
18	Share of profits or losses of subsidiaries and associates	42	0	0
19	Profit or loss for the period from ordinary activities before taxes	44	934,318	963,628
20	Extraordinary income	45	0	0
21	Extraordinary expenses	46	0	0
22	Profit or loss for the period from extraordinary activities before taxes	47	0	0
23	Income tax	48	(51,224)	(48,556)
24	Net profit or loss for the period after taxes	51	883,094	915,071

Off Balance Sheet Accounts

No.	CZK '000	Row no.	2016	2015
1	Issued commitments and guarantees	1	5,167,172	2,686,045
2	Provided collateral	2	113,335	123,562
3	Amounts due from spot transactions	3	0	0
4	Amounts due from term transactions	4	19,350,000	18,550,000
5	Amounts due from option transactions	5	0	0
6	Receivables written off	6	165,973	191,550
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	1,883,296	2,423,656
10	Received collateral	10	60,191,067	57,485,168
11	Amounts owed from spot transactions	11	0	0
12	Amounts owed from term transactions	12	19,350,000	18,550,000
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 2016

	Share capital	Treasury shares	Share premium	Reserve funds	Retained earnings/ accumulated losses of prior periods	Valuation gains or losses	Profit or loss	Total
Balance at 1 January 2015	562,500	0	487,500	1,119,638	4,097,770	349,263	994,684	7,611,355
Change of accounting policies								
Corrections of significant errors								
FX differences and valuation differences not included in profit or loss						(174,241)		(174,241)
Net profit or loss for the period							915,071	915,071
Dividends							(994,684)	(994,684)
Directors' fees								
Allocation to funds								
Allocation to retained earnings								
Share issues								
Share capital decrease								
Acquisition of treasury shares								
Other changes								
Balance at 31 December 2015	562,500	0	487,500	1,119,638	4,097,770	175,022	915,071	7,357,501
Balance at 1 January 2016	562,500	0	487,500	1,119,638	4,097,770	175,022	915,071	7,357,501
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								
Allocations to funds								
Allocation to retained earnings								
Share issues								
Share capital decrease								
Acquisition of treasury shares								
Other changes								
Balance at 31 December 2016	562,500	0	487,500	1,119,638	3,097,770	141,357	883,094	6,291,859

Notes to the Financial Statements for the Year Ended 31 December 2016

CONTENTS

21	1. General information
22	2. Basis of preparation
28	3. Net interest income
28	4. Net fees and commissions
29	5. Net profit or loss on financial operations
29	6. Staff costs
29	7. General operating costs
30	8. Depreciation
30	9. Write-offs, charge for, use and release of provisions for receivables and recoveries of receivables written off
31	10. Income tax
31	11. Allocation of profit
32	12. Cash in hand and deposits at the Czech national bank
32	13. Amounts due from banks
32	14. Amounts due from clients
34	15. Securities available for sale
34	16. Securities held to maturity
35	17. Financial derivative instruments
35	18. Deferred expenses, accrued income and other assets
36	19. Intangible assets
36	20. Tangible assets
37	21. Equity investments
37	22. Amounts owed to banks
38	23. Amounts owed to clients
38	24. Accrued expenses and deferred income and other liabilities
39	25. Reserves
39	26. Deferred tax
40	27. Equity
40	28. Contingent assets, liabilities and loan commitments
41	29. Related party transactions
42	30. Risk management
50	31. Post balance sheet events

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 2016, 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.

1.2. Board of Directors and Supervisory Board

Changes in the Composition of the Bank's Board of Directors in 2016

There were no changes in the Bank's Board of Directors in 2016.

With effect from 4 May 2016, change of acting behalf of the Bank was recorded into the Register of Companies. The Chairman of the Board was authorised to the legal acts to Bank's employees.

Changes in the Composition of the Bank's Supervisory Board in 2016

With effect from 18 September 2015, Mr Peter Palečka was elected as Vice-Chairman of the Supervisory Board. A record into the Register of Companies was made on 12 January 2016.

With effect from 27 September 2016, Mr Vladimír Jeřábek was again elected as a member of the Supervisory Board. A record into the Register of Companies was made on 18 November 2016.

The composition of the Board of Directors and the Supervisory Board as at 31 December 2016

	Position	Name
Board of Directors		
	Chairman	David Formánek
	Member	Aleš Mašanský
	Member	Ladislav Šilha
Supervisory Board		
	Chairman	Albert Marie Le Dirac'h
	Vice-Chairman	Peter Palečka
	Member	Vladimír Jeřábek
	Member	Josef Květoň
	Member	Kristýna Železná
	Member	Libor Löfler

1.3. Events in the Year 2016

The bank sector was affected by the continuing low interest rates environment/negative interest rates environment. During 2016, 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.

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 2016.

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 30 (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 17.

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.

(k) 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 2016.

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	2016	2015
Total interest income	2,621,516	3,111,355
On deposits (deposits with financial institutions, interbank transactions including repurchase transactions)	952,364	953,557
On loans	1,383,400	1,565,537
On securities (including premium and discount amortisation)	95,585	283,916
	190,167	308,345
Total interest expense	1,162,693	1,679,433
On client deposits	1,078,177	1,468,819
On interest rate swap	82,295	210,187
Other	2,221	427
Net interest income	1,458,823	1,431,922

In 2016, net interest income on loans and client deposits is CZK 305,223 thousand (2015: CZK 96,718 thousand). The increase is mainly due to a year on year decline in the average interest rate of client deposits.

In 2016, net interest income from hedging interest rate derivatives is CZK 107,872 thousand (2015: CZK 98,158 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 Note 17.

During the year ended 31 December 2016, the Bank collected default interest of CZK 22,941 thousand (2015: CZK 24,017 thousand).

4. Net Fees and Commissionss

CZK '000	2016	2015
Commission and fee income		
on client transactions including commission from the KB financial group and other companies	421,541	452,123
Total	421,541	452,123
Commission and fee expenses		
on transactions with securities	1,019	1,471
on client transactions including commission to the KB financial group	272,094	243,807
Other	48,927	54,998
Total	322,040	300,276
Net fees and commissions	99,501	151,847

5. Net Profit or Loss on Financial Operations

In 2016, the Bank realised no sales of securities.

6. Staff Costs

CZK '000	2016	2015
Staff costs		
Staff salaries and bonuses	209,403	210,641
Social security and health insurance	66,391	65,882
Other social costs	16,713	17,208
Total	292,507	293,731

Average Headcount

	2016	2015
Staff	330	330

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

7. General operating costs

Administrative Costs

CZK '000	2016	2015
Rent and other services relating to rent	49,489	50,474
Low-value assets	5,377	1,609
Costs of technical equipment	47,083	44,152
Consumed material	7,543	8,444
Audit, advisory	12,163	10,740
Of which: Obligatory audit of annual report	1,815	2,307
Legal advisory	4,917	4,756
Other advisory	5,431	3,677
Taxes and fees	4,422	3,523
Consumed energy	10,133	10,682
Repairs and maintenance	7,503	7,230
Postage, transportation and telecommunication	12,576	19,222
Sales promotion	12,068	15,966
Public relations, advertising	70,808	69,831
Other	19,416	20,870
Total administrative costs	258,581	262,743

Other Operating Income

CZK '000	2016	2015
Other	5,063	9,396
Income from the transfer of assets	517	501
Total	5,580	9,897

Other Operating Expenses

CZK '000	2016	2015
Annual contribution to the Deposit Insurance Fund	28,570	50,679
State support covered from internal funding	226	161
Other	3,408	3,879
Total	32,204	54,719

On 1st January 2016, the rules for determining the contributions from financial institutions to the Deposit Insurance Fund were changed. The contribution amount is no longer defined as a flat rate given by the Act, but by the Czech National Bank in the line with the guidelines of the European Banking Authority. This method newly considers not only the volume of insured deposits but also the risk profile of the relevant insured institution.

8. Depreciation

CZK '000	2016	2015
Depreciation of tangible and intangible fixed assets	56,729	53,334
Total	56,729	53,334

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

Provisions for Loans Receivables

CZK '000	
Provisions for loans receivables	
Balance at 1 January 2015	998,071
Charge during the year	228,465
Standard loans	26,224
Monitored loans	29,120
Substandard loans	55,692
Doubtful loans	14,208
Loss loans	103,221
Use during the year	(267,381)
Write-off of loans	(4,431)
Release of redundant provisions	(262,950)
Balance of provisions at 31 December 2015	959,155
Balance at 1 January 2016	959,155
Charge during the year	173,465
Standard loans	4,430
Monitored loans	62,959
Substandard loans	22,069
Doubtful loans	6,288
Loss loans	77,719
Use and release during the year	(291,242)
Write-off of loans	(121,578)
Release of redundant provisions	(169,664)
Balance of provisions at 31 December 2016	841,378

In 2016, the Bank created non-tax deductible provisions for receivables' accessories amounting to CZK 484 thousand (2015: CZK 603 thousand).

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

CZK '000	2016	2015
Release of provisions against loans receivables	169,663	262,950
Release of provision against other receivables	1,479	5,690
Recoveries of receivables previously written off	39,841	3,751
Release of provisions and reserve against receivables and guarantees, recoveries of receivables previously written off	210,983	272,391

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

CZK '000	2016	2015
Recognition of provisions against loans receivables	(173,465)	(228,465)
Recognition of provisions against other receivables	(4,589)	(7,346)
Write-off of receivables	(82,590)	(8,572)
Assignment of receivables from clients	(66,682)	(365)
Use of provisions against written-off receivables	121,578	4,431
Use of provisions against other receivables	4,661	303
Write-offs, recognition and use of provisions and reserves against receivables and guarantees	(201,087)	(240,014)

10. Income Tax

CZK '000	2016	2015
Pre-tax profit or loss for the period	934,319	963,628
Non-taxable income	(741,051)	(773,746)
Non-tax deductible expenses	71,867	85,307
Other items (tax and accounting depreciation charges)	18,048	22,807
Sponsorship	(540)	(350)
Tax liability (19 percent)	53,702	56,553
Used tax relief and deductions	(54)	(120)
Income tax charge	53,648	56,433
Deferred tax credit/charge (Note 26)	(3,604)	(8,443)
Tax refunds and arrears	1,180	566
Total income taxation	51,224	48,556

As at 31 December 2016, refunds and arrears of taxes mainly represent a payment of the corporate income tax for 2015.

11. Allocation of Profit

The Bank's profit for the year ended 31 December 2016 amounted to CZK 883,094 thousand. A profit distribution proposal for the year 2016 was not available at the date of preparation of the annual financial statements.

The Bank's profit for the year ended 31 December 2015 amounted to CZK 915,071 thousand and the General Meeting approved a dividend payment to the sole shareholder, KB, on 19 April 2016. At the same time the General Meeting approved a payment to the sole shareholder, KB, from the Retained earnings in the amount of CZK 1,000,000 thousand.

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

CZK '000	2016	2015
Deposits at the Czech National Bank	8,247,892	12,079,209
Total	8,247,892	12,079,209

Balances with the Czech National Bank represent interest-bearing mandatory minimum reserves and deposit facilities. As at 31 December 2016, the interest rate was 0.05% (31 December 2015: 0.05%).

13. Amounts due from Banks

CZK '000	2016	2015
Operating account with KB (repayable at call)	1,625	1,306
Term deposits	0	0
Granted loans	2,100,006	0
Mortgage bonds issued by financial institutions	31,087,022	31,140,485
Of which: accrued interest income	375,821	80,496
Total amounts due from banks	33,188,653	31,141,791

Granted loans represent repo operation with the central bank where as guarantee treasury bills are used. Value of the guarantee reaches CZK 2,100,041 thousand (2015: CZK 0 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 11,774,534 thousand (2015: CZK 11,830,662 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 19,312,488 thousand (2015: CZK 19,309,822 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	2016	2015
Assigned loans	3,915,387	4,259,382
Bridging loans	35,085,693	32,912,232
Total loans (gross)	39,001,080	37,171,614
Other amounts due from clients	29,719	38,104
Revaluation of the clients loan portfolio hedged – fair value	31,713	17,641
Total amounts due from clients (gross balance)	39,062,512	37,227,359
Provisions against assigned loans	(38,889)	(46,180)
Provisions against bridging loans	(781,469)	(887,359)
Provisions against Standard loans	(21,020)	(25,616)
Provisions against other amounts due from clients	(10,368)	(14,904)
Total provisions	(851,746)	(974,059)
Total amounts due from clients (net balance)	38,210,766	36,253,300

Assigned loans

CZK '000	2016	2015
Standard	3,649,929	4,095,537
Monitored	148,197	24,391
Substandard	53,089	60,548
Doubtful	2,184	3,738
Loss	61,988	75,168
Assigned loans (gross balance)	3,915,387	4,259,382

Bridging loans

CZK '000	2016	2015
Standard	31,896,355	30,819,408
Monitored	1,677,504	373,849
Substandard	613,676	624,845
Doubtful	32,941	39,376
Loss	865,217	1,054,754
Total bridging loans (gross balance)	35,085,693	32,912,232

Restructured loans

During 2016, the Bank restructured receivables in the amount of CZK 217,533 thousand (2015: CZK 251,257 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)	2016	2015
Bank guarantees	186,627	221,762
Real estate	23,953,804	22,594,447
Guarantors	837,916	1,082,460
Deposits	5,658,089	5,638,986
Uncollateralised	8,364,644	7,633,959
Total	39,001,080	37,171,614

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)	2016	2015
Bank guarantees	239,405	267,268
Real estate	52,387,440	51,803,987
Guarantors	1,643,891	2,156,388
Deposits	5,703,586	5,681,181
Total	59,974,322	59 908 824

Analysis of loans to clients by sector – gross balance

CZK '000	2016	2015
Resident individuals	36,525,878	34,608,355
Legal entities, housing associations, etc.	2,475,202	2,563,259
Total (gross amount)	39,001,080	37,171,614

15. Securities available for Sale

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

CZK '000	2016	2015
Carrying amount of state bonds	0	963,608
Of which: accrued interest income	0	58,206*

*) In the Financial Statements for the Year Ended 31 December 2015, the figure included premium and discount. Due to better understanding, in these Financial Statements, the amount does not include premium and discount.

The amount of valuation differences of securities charged against equity before taking into account the effect of deferred tax amounted to CZK 0 thousand (2015: CZK 4,037 thousand) as at 31 December 2016.

All securities available for sale held by the Bank as at 31 December 2015 matured during 2016.

16. Securities held to Maturity

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

CZK '000	2016	2015
Carrying amount of state bonds	2,642,429	6,079,846
Of which: accrued interest income	47,928	252,533*

*) In the Financial Statements for the Year Ended 31 December 2015, the figure included premium and discount. Due to better understanding, in these Financial Statements, the amount does not include premium and discount.

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

CZK '000	2016	2015
State bonds at fair value	2,950,862	6,425,430

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

17. Financial Derivative Instruments

Financial derivative instruments designated as hedging

CZK '000		Interest rate swaps for fair value hedging
At 31 December 2015		
Nominal value	Assets	18,550,000
	Liabilities	18,550,000
Fair value	Positive	635,295
	Negative	37,627
At 31 December 2016		
Nominal value	Assets	19,350,000
	Liabilities	19,350,000
Fair value	Positive	711,092
	Negative	54,985

Remaining contractual maturities of derivatives.

CZK '000	Up to 1 year	1 year to 5 years	Over 5 years
At 31 December 2015 - Interest rate swaps for fair value hedging	2,950,000	5,450,000	10,150,000
At 31 December 2016 - Interest rate swaps for fair value hedging	950,000	10,000,000	8,400,000

18. Deferred Expenses, Accrued Income and other Assets

Deferred expenses and accrued income

CZK '000	2016	2015
Car lease	2,605	2,900
Entrance fees and commissions from building savings and loans	739,791	588,379
Other (rental, meal tickets, newspaper subscriptions, magazines, etc.)	6,320	7,987
Total	748,716	599,266

Other assets

CZK '000	2016	2015
Prepayments made to suppliers	22,435	20,055
Estimated receivables for state subsidy	668,262	698,044
Estimated commission, invoices not issued, other	28,956	31,984
Settlement with the State budget	1,887	33,848
Various debtors	16,445	12,765
Positive fair value of interest rate swap	711,092	635,295
Total other assets	1,449,077	1,431,991
Provisions against other receivables	(9,485)	(6,501)
Total other assets	1,439,592	1,425,490

19. Intangible Assets

Movements of intangible assets

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
Purchase price at 1 January 2015	435,093	13,078	50,374	498,545
Additions	24,983	0	33,183	58,166
Disposals	(25,840)	0	(24,983)	(50,823)
Purchase price at 31 December 2015	434,236	13,078	58,574	505,888
Purchase price at 1 January 2016	434,236	13,078	58,574	505,888
Additions	29,359	0	33,103	62,462
Disposals	0	0	(32,771)	(32,771)
Purchase price at 31 December 2016	463,595	13,078	58,906	535,579

Accumulated amortisation and provisions

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
At 1 January 2015	(271,389)	(12,131)	0	(283,520)
Annual charges	(34,703)	(947)	0	(35,650)
Disposals	25,841	0	0	25,841
Impairment	0	0	0	0
At 31 December 2015	(280,251)	(13,078)	0	(293,329)
At 1 January 2016	(280,251)	(13,078)	0	(293,329)
Annual charges	(38,649)	0	0	(38,649)
Disposals	0	0	0	0
Impairment	0	0	0	0
At 31 December 2016	(318,900)	(13,078)	0	(331,978)

Net book value

CZK '000	Software	Other intangible fixed assets	Investments in progress	Total
At 31 December 2015	153 985	0	58 574	212 559
At 31 December 2016	144 693	0	58 908	203 601

20. Tangible Assets

Movements of intangible assets

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
Purchase price at 1 January 2015	525,995	213,248	2,053	741,296
Additions	0	1,341	2,903	4,244
Disposals	0	(3,276)	(1,341)	(4,617)
Purchase price at 31 December 2015	525,995	211,313	3,615	740,923
Purchase price at 1 January 2016	525,995	211,313	3,615	740,923
Additions	0	8,922	9,283	18,205
Disposals	(127)	(1,562)	(5,510)	(7,199)
Purchase price at 31 December 2016	525,868	218,673	7,388	751,929

Accumulated amortisation and provisions

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
At 1 January 2015	(187 650)	(190 296)	0	(377 946)
Annual charges	(10 308)	(7 376)	0	(17 684)
Disposals	0	3 276	0	3 276
Impairment	0	0	0	0
At 31 December 2015	(197 958)	(194 396)	0	(392 354)
At 1 January 2016	(197,958)	(194,396)	0	(392,354)
Annual charges	(10,308)	(7,772)	0	(18,080)
Disposals	28	1,528	0	1,557
Impairment	0	0	0	0
At 31 December 2016	(208,238)	(200,640)	0	(408,878)

Net book value

CZK '000	Land and buildings	Tools, office equipment	Investments in progress	Total
At 31 December 2015	328,037	16,917	3,615	348,569
At 31 December 2016	317,630	18,033	7,388	343,051

In addition to the above, at the balance sheet date the Bank reported 23 cars (2015: 23 cars) acquired under a long-term finance lease contract; the acquisition cost of the cars amounts to CZK 10,023 thousand (2015: CZK 10,566 thousand).

In addition to the above, at the balance sheet date the Bank reported 700 PCs (2015: 700 PCs) acquired under a long-term finance lease contract; the acquisition cost of the PCs amounts to CZK 11,779 thousand (2015: CZK 11,779 thousand). The Bank did not acquire any PCs under a long term finance lease contract during 2016.

21. Equity investments

The Bank held no equity investments in other companies in 2016 and 2015.

22. Amounts Owed to Banks

Amounts owed to banks and savings associations

CZK '000	2016	2015
Amounts owed to banks and savings associations	12,900,056	11,500,128

Amounts owed to banks and savings associations consist of a short 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.

23. Amounts Owed to Clients

Total amounts owed to clients

CZK '000	2016	2015
Deposits received from clients under building savings schemes	63,481,178	67,812,330
Revaluation of the clients savings portfolio hedged – fair value	630,083	568,152
Other payables to clients	226,739	353,387
State subsidy claims	668,262	698,044
Received term deposits from other financial institutions	0	0
Other accruals	0	299
Total	65,006,262	69,432,212
Of which: Repayable at call	302,107	433,501

The level of the state subsidy arising under building savings schemes as at 31 December 2016 and 2015 is estimated on the basis of the client deposit balance at the end of the month. The state subsidy for 2016 will be credited to client accounts after its level is approved by the Czech Finance Ministry during 2017.

24. Accrued Expenses and Deferred Income and other Liabilities

Accrued Expenses and Deferred Income

CZK '000	2016	2015
Annual bonuses, overtime hours, outstanding vacation days, fine, social security and health insurance	38,317	35,263
Estimate for advantageous interest	184,096	145,947
Entrance fees and commissions from building savings and loans	187,581	176,377
Other	80	0
Total	410,074	357,587

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.

Other liabilities

CZK '000	2016	2015
Estimated payables	145,317	125,269
Of which: Commission for mediating building savings contracts and loan contracts	77,364	67,290
Other (predominantly unbilled supplies)	67,953	57,979
Suppliers	10,880	22,431
Settlement with employees	13,338	11,553
Settlement with the state budget	137,453	193,429
Settlement with social authorities	6,011	6,108
Deferred tax liability (Note 26)	43,888	55,389
Other temporary liabilities	803	90
Negative in fair value of interest rate swap	54,985	37,627
Total other liabilities	412,675	451,896

As at 31 December 2016, settlement with the state budget includes a withholding tax liability amounting to CZK 133,966 thousand (2015: CZK 189,693 thousand) from interest income on deposits credited in December 2016.

25. Reserves

The development of the reserve and the other tax non-deductible reserves in 2016 and 2015 was as follows:

CZK '000	
Balance at 1 January 2015	6,427
Recognition of a reserve for employee jubilees and loyalty bonuses (net)	722
Recognition of the reserve for legal disputes	350
Release of the reserve for legal disputes	(296)
Use of the reserve for legal disputes	(928)
Recognition of a reserve for other personnel costs	623
Release and use of the reserve for other personnel costs	(2,583)
Balance of tax non-deductible reserves at 31 December 2015	4,314
Balance at 1 January 2016	4,314
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
Balance of tax non-deductible reserves at 31 December 2016	3,775

Balances of reserves:

CZK '000	2016	2015
Reserve for claims	0	750
Reserve for employee jubilees and loyalty bonuses	2,121	2,930
Reserve for legal disputes with clients	1,654	634
Total balance of tax non-deductible reserves	3,775	4,314

26. 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 2017 and used for 2016 (in 2015: i.e. 19% applicable for 2016).

The deferred income tax for the year ended 31 December 2016 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 2016 and social and health insurance on unpaid vacation days for 2016 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	2016	2015
Intangible and tangible fixed assets – difference between accounting and tax net book values	(125,530)	(143,581)
Planned bonuses to be paid in the following year, estimate of unpaid vacation, social security and health insurance	37,519	34,670
Allowances non-tax	27,688	29,081
Reserves non-tax	3,775	4,314
Total balance of temporary differences	(56,548)	(75,516)
Deferred tax asset with an impact on the profit and loss account at 31 December	(10,744)	(14,348)
Re-measurement of available for sale securities	(174,515)	(216,077)
Change estimate the anniversary bonuses	74	74
Balance of the deferred tax asset charged against equity	(33,144)	(41,041)

27. Equity

As at 31 December 2016 and 2015, 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 2016 and 2015, 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 141,357 (in the year ended 31 December 2015: CZK 175,022 thousand).

28. Contingent Assets, Liabilities and Loan Commitments

Loan Commitments

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

CZK '000	2016	2015
Commitments – assigned loans	32,454	50,552
Commitments – bridging loans	5,134,718	2,635,493
Total loan commitments	5,167,172	2,686,045

Legal Disputes and Administrative Proceedings

In 2016, 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 2016 and 2015, the Bank did not recognize any assets that were encumbered as collateral for own obligations or obligations of third parties.

29. Related Party Transactions

Transactions with the KB financial group

CZK '000	2016	2015
ASSETS		
Operating accounts with KB	1,625	1,305
KB mortgage bonds – non-current financial investment	31,087,022	31,140,485
Estimate of the commission of the KB financial group (sale of products)	23,577	27,273
Of which KB	23,577	23,272
Other assets (deferred expenses, operating receivables, rebilling)	54,072	48,213
Of which KB	54,072	45,378
Positive fair value of interest rate swap with KB	711,092	635,295
Nominal value of interest rate swap with KB in off-balance sheet	19,350,000	18,550,000
Total	51,227,388	50,402,571

CZK '000	2016	2015
LIABILITIES		
Short term loan to KB	12,900,056	11,500,128
Other payables to KB	1,537	3,400
Estimated payables – services and commissions to KB financial group	17,205	28,968
Of which KB	17,175	9,355
Negative fair value of interest rate swap incl. off-balance sheet	54,985	37,627
Nominal value of interest rate swap with KB in off-balance sheet	19,350,000	18,550,000
Total	32,323,783	30,120,123

CZK '000	2016	2015
EXPENSES		
Commissions and fees (KB)	16,441	115,772
Interest (KB)	84,516	210,358
Interest (Protos)	0	255
Loss on fair value of interest rate swap	0	110,051
Net expenses for securities transactions (KB)	980	1,401
Other operating expenses (KB)	22,945	20,336
Total	124,882	458,173

CZK '000	2016	2015
INCOME		
Interest KB (term deposit, IRS)	190,522	309,494
Earnings on fair value of interest rate swap	48,083	2,996
Income from mortgage bonds of KB	951,637	959,389
Other operating income (KB)	104	104
Commission to the KB financial group (sale of products)	96,283	107,524
Total	1,286,629	1,379,507

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

Regulatory value of derivatives with KB as of the end of quarters was in 2015 (in thousands of CZK):

31 March 2015	30 June 2015	30 September 2015	31 December 2015
1,022,249	603,345	850,733	770,725

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

CZK '000	2016	2015
Salaries and bonuses		
to members of the Board of Directors	13,700	13,800
to members of the Supervisory Board	48	30
Total	13,748	13,830
Number of members of the Board of Directors at 31 December	3	3
Number of members of the Supervisory Board at 31 December	6	6

In the case of the Board of Directors, the assumption of an annual bonus for 2016 was included (to be paid in March 2017). 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 2016, a receivable was registered from loans provided to members of the Board of Directors in the amount of CZK 250 thousand (2015: CZK 250 thousand) and the members of the Supervisory Board in the amount of CZK 1,650 thousand (2015: CZK 1,650 thousand).

30. 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. The Bank uses the Standardised Approach for the credit risk capital requirement calculation in respect of other exposures.

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 CBOB 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 2016, the proportion of classified loans increased from 6,07% as at 31 December 2015 to 8,86% as at 31 December 2016, mainly due to a methodological change in classification in accordance with new laws or regulations. As part of this category, only the proportion of watch loans increased from 1,07% to 4,68% (methodological change in classification), other classified loans decreased, primarily loss loans, from 3,04% to 2,38%. The proportion of distressed loans decreased from 5,00% to 4,18%.

In cases where the classification was purely based on the observed number of days after the maturity of individual loans, 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%.

In addition to the number of days over maturity, 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 term deposits with 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. The Bank may review the interest rate attached to the long-term bridging loans after the lapse of six years. 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
At 31 December 2016							
Total assets	17,983	40,523	21,991	2,455	7	2,067	85,025
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
Total liabilities and equity	49,506	22,298	5,657	0	0	7,564	85,025
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
Off balance sheet assets – risk of the interest rate	7,450	3,800	6,400	1,700	0	0	19,350
Interest rate swap	7,450	3,800	6,400	1,700	0	0	19,350
Off balance sheet liabilities – risk of the interest rate	12,850	6,200	300	0	0	0	19,350
Interest rate swap	12,850	6,200	300	0	0	0	19,350
Gap	(36,923)	15,825	22,433	4,155	7	(5,497)	0
Cumulative Gap	(36,923)	(21,098)	1,335	5,490	5,497	0	0

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
At 31 December 2015							
Total assets	22,701	35,788	24,578	4,124	7	1,906	89,104
Cash in hand and balances with central banks	12,079	0	0	0	0	0	12,079
State zero-coupon bonds and other securities eligible for refinancing with the central bank	4,395	0	2,649	0	0	0	7,043
Amounts due from banks and savings associations	377	12,393	14,271	4,101	0	0	31,142
Amounts due from clients – members of savings associations	5,153	23,395	7,658	23	7	18	36,253
Debt securities	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	213	213
Tangible fixed assets	0	0	0	0	0	349	349
Other assets	698	0	0	0	0	728	1,426
Expenses and income of the next period	0	0	0	0	0	599	599
Total liabilities and equity	52,673	25,364	2,473	0	0	8,594	89,104
	11,500	0	0	0	0	0	11,500
Amounts owed to clients – members of savings associations	41,027	25,364	2,473	0	0	568	69,432
Other liabilities	0	0	0	0	0	452	452
Deferred income and accrued expenses	146	0	0	0	0	212	358
Reserves	0	0	0	0	0	4	4
Total equity	0	0	0	0	0	7,358	7,358
Off balance sheet assets – risk of the interest rate	7,400	2,300	6,850	2,000	0	0	18,550
Interest rate swap	7,400	2,300	6,850	2,000	0	0	18,550
Off balance sheet liabilities – risk of the interest rate	14,100	3,150	1,300	0	0	0	18,550
Interest rate swap	14,100	3,150	1,300	0	0	0	18,550
Gap	(36,672)	9,574	27,656	6,124	7	(6,688)	0
Cumulative Gap	(36,672)	(27,098)	557	6,681	6,688	0	0

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 2016, 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 semi-dynamic 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 for remaining maturity
At 31 December 2016										
Total assets	8,258	2,282	431	1,178	2,183	4,118	17,054	44,819	4,702	85,025
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
Total liabilities and equity	10,940	687	29,462	3,384	5,033	6,267	16,031	5,657	7,564	85,025
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
Gap	(2,682)	1,595	(29,031)	(2,206)	(2,850)	(2,149)	1,023	39,161	(2,861)	0
Cumulative gap	(2,682)	(1,087)	(30,118)	(32,324)	(35,174)	(37,323)	(36,300)	2,861	0	0

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
At 31 December 2015										
Total assets	12,093	4,511	520	1,264	981	2,810	15,765	47,971	3,189	89,104
Cash in hand and balances with central banks	12,079	0	0	0	0	0	0	0	0	12,079
State zero-coupon bonds and other securities eligible for refinancing with the central bank	0	4,347	0	32	15	0	0	2,649	0	7,043
Amounts due from banks and savings associations	1	0	184	37	155	1,327	11,065	18,372	0	31,142
Amounts due from clients – members of savings associations	12	164	336	496	811	1,483	4,700	26,950	1,301	36,253
Debt securities	0	0	0	0	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	0	0	0	213	213
Tangible fixed assets	0	0	0	0	0	0	0	0	349	349
Other assets	0	0	0	698	0	0	0	0	728	1,426
Expenses and income of the next period	0	0	0	0	0	0	0	0	599	599
Total liabilities and equity	11,980	985	30,953	3,071	5,685	9,085	16,279	2,473	8,594	89,104
Amounts owed to banks and savings associations	11,500	0	0	0	0	0	0	0	0	11,500
Amounts owed to clients – members of savings associations	480	984	30,807	3,071	5,685	9,085	16,279	2,473	568	69,432
Other liabilities	0	0	0	0	0	0	0	0	452	452
Deferred income and accrued expenses	0	0	146	0	0	0	0	0	212	358
Reserves	0	0	0	0	0	0	0	0	4	4
Total equity	0	0	0	0	0	0	0	0	7,358	7,358
Gap	113	3,526	(30,434)	(1,807)	(4,704)	(6,275)	(513)	45,498	(5,405)	0
Cumulative gap	113	3,639	(26,794)	(28,601)	(33,305)	(39,580)	(40,094)	5,405	0	0

(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 2016, 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 2016, the Bank carried out five tests of business continuity: alternative external workspace test recovery of backup server applications test, functionality of backup IT data centre test, crisis communication test and crisis staff meeting in alternative external workspace test, evacuation test.

31. Post Balance Sheet Events

There were no significant events after the financial statements as at 31 December 2016.

Report on Relations between Related Parties for the 2016 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 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.

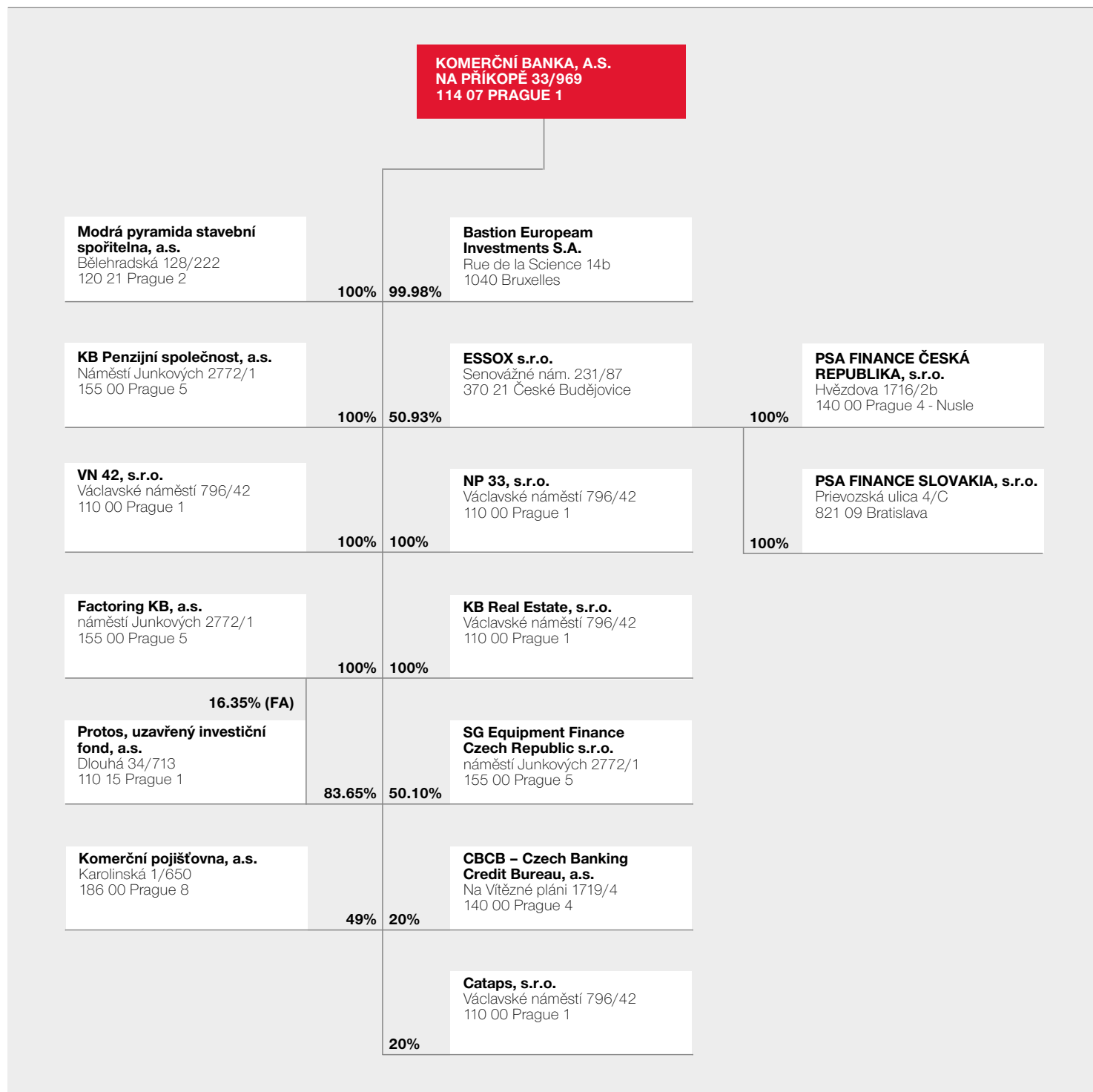
This Report on relations has been drawn up in compliance with the provision of Article 82 a(9) of Act No. 90/2012, on Commercial Companies and Cooperatives (Business Corporations Act), for the accounting period of 2016, i.e. from 01/01/2016 till 31/12/2016 (hereinafter the "**Accounting Period**").

I. Introduction

Structure of relationships between members of the Business Group

In the period from 1 January 2016 to 31 December 2016, the Company was a member of the group - 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., se sídlem 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 the relationships of the KB Group is stated below and the structure of relationships of the whole SG Group is given in the Annex:



Note: The amounts are given by % of its own capital which than differ from % of voting rights shares.

In the 2016 Accounting Period, the Bank was in relations with the following parties that are members of the group: ¹⁾

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

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

The purpose of the Bank 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 2016, KB had four representatives in the supervisory board of the Company composed of six members and two representatives in the audit committee consisting of three members. KB, on the basis of its decision, and following consultations with the Company management, take 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

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
2016 dividend	Komerční banka, a.s.	27/04/2016
Non-distributed profit from previous periods	Komerční banka, a.s.	27/04/2016

In case those are not contracts, specific meetings to be listed.

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

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
Contract on opening and maintaining a current account including amendments – settlement of interest and fees under the contract, including the Agreement on the Setting of Individual Prices	Komerční banka, a.s.	27 June 1995, the Agreement on the Setting of Individual Prices as of 31 August 2012
Contract on issuing and using a payment card for a current account, VISA card Gold Card – Card VISA Gold Cardpayment card for current account	Komerční banka, a.s.	27/11/2009
Contract on issuing and using a payment card for a current account, VISA Card – Card VISA Business Silver Card payment card for current account	Komerční banka, a.s.	12/05/2010
Contract on issuing and using a payment card for a current account, MasterCard card – MasterCard payment card for current account	Komerční banka, a.s.	17/06/2014
Contract on issuing and using a payment card for a current account, MasterCard card – MasterCard payment card for current account	Komerční banka, a.s.	30/09/2014
Contract on issuing and using a payment card for a current account, MasterCard card – MasterCard payment card for current account	Komerční banka, a.s.	30/09/2014
Contract on issuing and using a payment card for a current account, MasterCard card – MasterCard payment card for current account	Komerční banka, a.s.	11/12/2014
Contract on providing direct banking services (internet banking for a current account), including Amendment as of 22 October 2012, Amendment as of 20 October 2013 – internet banking service	Komerční banka, a.s.	17 June 2009, Amendment as of 22 October 2012, Amendment as of 20 December 2013, change of the order for administration as of 01/09/2016
Contract on providing services on the Short-term Bond Market, incl. Amendment No. 1 – services provided by agent – Komerční banka, a.s.	Komerční banka, a.s.	22/06/1999, Amendment No. 1 of 07/12/2000
Outsourcing Agreement – treasury – service provision	Komerční banka, a.s.	07/02/2008
Contract on custody services provided by KB of 2010 – service as per agreement	Komerční banka, a.s.	07/07/2010
General contract on financial market trading of 2015 – trades – trading on the financial market	Komerční banka, a.s.	18/11/2015
Contract (No. 494) on using a safe deposit box of Komerční banka, a.s., No. 833 – use of safe box	Komerční banka, a.s.	28/08/2003
Contract (No. 863) on using a safe deposit box of Komerční banka, a.s., No. 723 – use of safe box	Komerční banka, a.s.	19/07/2004
Contract (No. 867) on using a safe deposit box of Komerční banka, a.s., No. 921 – use of safe box	Komerční banka, a.s.	01/11/2004
Universal contract on transfer of cash in packages – use of cash delivery service in containers	Komerční banka, a.s.	15/05/2011
Contract on installation of a cash dispenser No. 2004/2011/9526 – ATM services at Kounicova 29, Brno	Komerční banka, a.s.	03/10/2011
Contract on installation of a cash dispenser No. 20076/0000 – ATM services at Jindřišská ul. 17/ indication No. 889, Praha 1	Komerční banka, a.s.	27/02/2012
Contract on installation of a cash dispenser No. 20162/0000 – ATM services at Bělehradská 128, indication No. 222, Praha 2	Komerční banka, a.s.	02/04/2012

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
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 – provision of assistance and representation fee	Komerční banka, a.s.	27/11/2008, Amendment No. 1 of 22/10/2009, Amendment No. 2 of 22/08/2014
Service Level Agreement – cooperation in the field of accounting and reporting, accounting and additional information for the needs of KB Group consolidate reports	Komerční banka, a.s.	10 December 2014, with effect from 1 January 2015
Contract on using KB sales network (incl. Amendment No. 1, 2, 3 and 4) – brokerage of transactions – building savings contracts	Komerční banka, a.s.	01/03/2005, Amendment No. 1 of 12/06/2009, Amendment No. 2 of 30/09/2010, Amendment No. 3 of 01/10/2011, Amendment No. 4 of 30/04/2014, and Amendment No. 5 of 30/01/2015
Confidentiality Agreement – quadripartite agreement	Komerční banka, a.s., BHW Holding AG and Česká pojišťovna, a.s.	11/08/2006
Cooperation Agreement – Clients Scoring – client scoring service	Komerční banka, a.s.	31/08/2007
General agreement on personal data processing (KB – administrator, MPSS – processing party) of 30/05/2009 – personal data processing	Komerční banka, a.s.	30/05/2009
General agreement on personal data processing (MPSS – administrator, KB – processing party) of 30/05/2009, incl. Amendment No. 1 of 12/09/2011 – personal data processing	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 2015	Komerční banka, a.s.	01/01/2010, Amendment no. 1 of 01/09/2016
Services of KB Call Centre for MPSS, including re-invoicing of marketing costs in 2016 from KB to MPSS		
Individual distribution agreement (Perfect Loan) of 01/04/2011, incl. Amendment No. 1, No. 2 and No. 3 – loan brokerage as per agreement	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. Amendment No. 1, No. 2, No. 3, No. 4 and No. 5 – arrangement of service as per agreement	Komerční banka, a.s.	01/04/2011, Amendment No. 1 of 20/04/2012, 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 01/11/2015, Amendment No. 7 of 30/11/2015, Amendment No. 8 of 15/08/2016
Individual distribution agreement (A Card, Lady Card, VISA Elektron Credit Card) of 01/04/2011, including Amendment No. 1, No. 2 and No. 3 – arrangement of service as per agreement	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 Amendment No. 1 and Amendment No. 2 – loan brokerage as per agreement	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 and Amendment No. 4 of 01/01/2016
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.	Komerční banka, a.s.	10/09/2012
HR-Accession to insurance policy taken out by Komerční pojišťovna, a.s. (the Insurer) and Komerční banka, a.s. (the Insured). Effective of 01/02/2012, the insurance also covers employees of MPSS. Death of an employee is the insured risk.	Komerční pojišťovna, a.s.	
General contract on providing advantageous conditions for the employees of KB and Societé Générale Group – participants in the building saving account in MPSS – providing favourable conditions to employees of KB and Societé Générale Group – participants in the building saving account in MPSS	Komerční banka, a.s.	01/11/2013
Cooperation agreement, including Amendment No. 1 and incl. re-invoicing of marketing costs in 2016 from MPSS to KB and from KB to MPSS – mutual cooperation in the specified areas, including re-invoicing of marketing costs from KB to MPSS and from MPSS to KB	Komerční banka, a.s.	31/01/2013, Amendment No. 1 of 16/05/2015

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
Distribution agreement for products "Úvěry pro bytová družstva a společenství vlastníků bytových jednotek" ("Loans for housing cooperatives and homeowners partnerships"), including Amendment No. 1 – arrangement of service as per agreement	Komerční banka, a.s.	01/11/2013, Amendment No. 1 of 10/11/2015
Distribution agreement concerning the product "Spotřebitelský úvěr" – arrangement of service as per agreement	Komerční banka, a.s.	18/12/2014
General agreement on employees' secondment, including Amendment No. 1 – settlement of costs for temporary employee assignment	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 – benefits for MPSS employees in KB	Komerční banka, a.s.	01/08/2007, Amendment No. 1 of 01/07/2010
Lease contract – garage parking in MP Hdq., incl. Amendment No. 1	Komerční banka, a.s.	31/01/2007, Amendment No. 1 of 30/04/2013
Confidentiality Agreement related to "Agreement on using the HP OV DS licence" – maintenance of information confidentiality	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 – payment for the service price and provision of cooperation	Komerční banka, a.s.	28/05/2009, Amendment No. 1 of 11/02/2010, validity extended verbally for 2016 (in 2017 a new contract will be signed)
Contract on lease of non-residential space and payment of services related to its use (Uherský Brod) – lease of non-residential space	Komerční banka, a.s.	20/11/2008
Confidentiality Agreement related to "Contract on service provision – outsourcing (HR services)" – maintenance of information confidentiality	Komerční banka, a.s.	27/04/2010
Contract on provision of services – outsourcing (HR services), incl. Amendment No. 1 – provision of services as per agreement	Komerční banka, a.s.	30/11/2010, Amendment No. 1 of 20/12/2013
Confidentiality Agreement related to "Contract on cooperation in the fields of outsourcing and purchasing" – HR services – maintenance of information confidentiality	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 16/09/2010 – provision of services as per agreement	Komerční banka, a.s.	16/09/2010
Agreement on the Organisation of Periodic Control of 17/12/2010, including Amendment No. 1 – provision of services as per agreement	Komerční banka, a.s. and Société Générale S.A.	17/12/2010, Amendment of 17/10/2012
General Agreement on provision of services of 24/01/2011, including Amendment No. 1 – provision of services as per agreement	Komerční banka, a.s.	24/01/2011, Amendment No. 1 of 11/10/2011
Contract on provision of services – outsourcing - data warehouse of 30/06/2011, including Amendment No. 1, No. 2, No. 3, No. 4 and No. 5 – provision of services as per agreement	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 21/01/2016
Sub-Contract. No. 2 of 31/10/2011 incl. Amendment No. 1 according to the General Agreement on Supply of IT Services of 24/01/2011 – provision of services as per agreement	Komerční banka, a.s.	31/10/2011, 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 – provision of services as per agreement	Komerční banka, a.s.	31/10/2011
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 – provision of services as per agreement	Komerční banka, a.s.	31/10/2011, Amendment No. 1 of 05/10/2012
Sub-Contract No. 1 of 31/11/2011 according to the General Agreement on Supply of IT Services of 24/01/2011, including Amendment No. 1 of 05/10/2012 of Amendment No. 2 of 01/01/2014 – provision of services as per agreement	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 – Notification services (SMS Gate)	Komerční banka, a.s.	29/06/2012
Contract on provision of services – outsourcing, Assessment of risks related to the immovable pledge for MPSS in the KB system – provision of services as per agreement	Komerční banka, a.s.	20/12/2011
Agreement on KBxMPSS Risk Management Cooperation and related SLA (8 pcs) – mutual cooperation in the field of risk management – general principles	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Scoring Calculator for MPSS – Scoring Calculator	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Pre-Scoring of Clients and Negative Information Delivery – Pre- coring	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Scoring Model for HC and AO – scoring model for BD/SVJ	Komerční banka, a.s.	31/03/2014

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
SLA – Agreement on Delivery of Inputs for Real Estate Revaluation – Inputs for Real Estate Revaluation	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Exchange of Fraud Lists – cooperation regarding the exchange of fraud lists	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Cooperation on IRBA Implementation in MPSS – cooperation on IRBA implementation	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Data Administration and delivery for Collecte Reporting – cooperation regarding claim reporting	Komerční banka, a.s.	31/03/2014
SLA – Agreement on Risk Services Remuneration – prices for individual Risk Management Cooperation services	Komerční banka, a.s.	31/03/2014
Contract for future sublease of non-residential space and settlement of services related to its use	Komerční banka, a.s.	01/09/2014
Contract for the future sublease of non-residential space and settlement of services related to its use for backup workplace in Praha 5 - Stodůlky building		
Contract for sublease of non-residential space and settlement of services related to its use	Komerční banka, a.s.	01/09/2014
Contract for the sublease of non-residential space and settlement of services related to its use for backup workplace in Praha 5 - Stodůlky building		
Contract on lease of non-residential space and payment of services related to its use (Antala Staška 2059, Prague 4) – lease of non-residential space	Komerční banka, a.s.	01/12/2014
Contract on lease of non-residential space and payment of services related to its use (Kyjov)	Komerční banka, a.s.	27/07/2015
Agreement – Services PD/LGD Models for RWA calculation – provision of service – models for provision of MPSS loans	Komerční banka, a.s.	18/12/2014
Insurance agreement No. 7720935797 Property Risk Insurance as of 01.01.2016 till 31.12.2017	Komerční banka, a.s.	2016
Payment agreement under Group Insurance Agreement of works-related accident and occupational disease insurance for members of board of directors of the financial group of Komerční banka/Société Générale N 333000000 of 01.07.2015 till 30.06.2016	Komerční banka, a.s.	2016
Agreement of fulfilment from Group Insurance Agreement of works-related accidents occupational disease insurance for members of Board of Directors of the financial group of Komerční banka/Société Générale N 334000000 of 01.07.2016 till 30.06.2017	Komerční banka, a.s.	2016, 2017
Agreement – outsourcing of HR services (excluding Payroll)	Komerční banka, a.s.	29/01/2016
Contract on sharing negative information in FS KB/SG in the Czech Republic	Komerční banka, a.s.	19/02/2016
Contract on provision and protection of confidential information (Collection of receivables)	Komerční banka, a.s.	29/02/2016
Memorandum of Understanding – cooperation within FS KB at mass sale of receivables	Komerční banka, a.s.	03/03/2016
Contract on insurance payment and insurance broker commission payment	Komerční banka, a.s.	30/06/2016
Transfer and confirmation of termination of user rights (ORACLE)	Komerční banka, a.s.	31/10/2016
Memorandum of Understanding ORACLE licence transfer	Komerční banka, a.s.	31/10/2016
Agreement of re-invoicing of costs from KB to MPSS	Komerční banka, a.s.	for 2016
Agreement on collective co-insurance of VSSKB clients in case of death to secure the loan No. 37-9861 – arrangement of client's insurance	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. – arrangement of client's insurance	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. 301000246 (PROGRAM SPEKTRUM) – provision of service to the MPSS employees	Komerční pojišťovna, a.s.	09/04/2008
GENERAL DISTRIBUTION AGREEMENT (Všeobecná distribuční smlouva), incl. Amendment No. 1, including re-invoicing of marketing costs from MPSS to KP and from KP to MPSS – framework agreement for the sale of products of Komerční pojišťovna, a.s. in MPSS distribution network	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 15/11/2012 and Amendment No. 2 of 30/12/2016
Partial distribution agreement for "VITAL INVEST", including Amendment No. 1, Amendment No. 2 (+ Record of commission bonus for 2016) – brokerage of "VITAL INVEST" in MPSS distribution network	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 19/12/2012, Amendment No. 2 of 11/2/2013, Termination Agreement of 22./06/2016 as at 31/08/2016

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
Partial distribution agreement for "PYRAMIDA RISK LIFE INSURANCE", incl. Amendment No. 1 and Amendment No. 2 – brokerage of "PYRAMIDA RISK LIFE INSURANCE" in MPSS distribution network	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 19/12/2012, Amendment No. 2 of 01/12/2016
Partial distribution agreement for "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE", incl. Amendment No. 1 and Amendment No. 2 – brokerage of "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE" in MPSS distribution network	Komerční pojišťovna, a.s.	15/10/2012, Amendment No. 1 of 19/12/2012, Amendment No. 2 of 01/12/2016
Partial distribution agreement "Risk Life Insurance Pojištění penze" brokerage of "RISK LIFE INSURANCE Pojištění penze" in MPSS distribution network	Komerční pojišťovna, a.s.	21/12/2012
Contract on providing favourable conditions for the employees of KP – participants in the building saving account in MPSS – provision of advantageous conditions	Komerční pojišťovna, a.s.	01/11/2013
SLA for Product "My property insurance"	Komerční pojišťovna, a.s.	23/09/2016
Contract on arrangement of secession, trilateral, other partner Komici s.r.o.	Komerční pojišťovna, a.s.	25/09/2016
Agreement on cooperation in the field of supplementary pension insurance with a state contribution – brokerage of trading	KB Penzijní společnost, a.s.	06/05/2005
Contract on commercial representation, incl. Amendments of business mediation and re-invoicing of marketing costs from MPSS to KBPS for 2016	KB Penzijní společnost, a.s.	04/01/2013, Amendment No. 1 of 27/11/2013, Amendment No. 2 of 01/01/2016
Contract on providing favourable conditions for the employees of KP – participants in the building saving account in MPSS – provision of advantageous conditions	KB Penzijní společnost, a.s.	01/11/2013
Contract on advertisement	KB Penzijní společnost, a.s.	30/09/2016
Contract on advertisement	KB Penzijní společnost, a.s.	28/12/2016
Cooperation Agreement (including Procedural rules for cooperation and Financial conditions of cooperation) of 16/05/2007 – credit brokerage	ESSOX s.r.o.	16/05/2007, Terminated base on a Notice as at 30/06/2016
General agreement on personal data processing (MPSS – administrator, ESSOX – processing party) of 16/05/2007 – personal data processing	ESSOX s.r.o.	16/05/2007
Contract on commercial representation of 18/07/2012 brokerage of the sale of Bezpečná půjčka loan, including re-invoicing of costs for marketing services from MPSS to ESSOX	ESSOX s.r.o.	18/07/2012
Contract on providing favourable conditions for the employees of ESSOX – participants in the building saving account in MPSS provision of advantageous conditions	ESSOX s.r.o.	01/11/2013
Contract on providing favourable conditions for the employees of SG Equipment Finance Czech Republic – participants in the building saving account in MPSS – provision of advantageous conditions	SG Equipment Finance Czech Republic s.r.o.,	01/11/2013
Financial Leasing Agreement	SG Equipment Finance Czech Republic s.r.o.,	12/04/2013
Financial Leasing Agreement No. 11004573/13 with an option to purchase the subject-matter of leasing	SG Equipment Finance Czech Republic s.r.o.,	02/09/2013
Financial Leasing Agreement	SG Equipment Finance Czech Republic s.r.o.	02/09/2013
Financial Leasing Agreement No. 11005040/13 with an option to purchase the subject-matter of leasing	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	SG Equipment Finance Czech Republic s.r.o.	23/04/2014, Amendment No. 1 of 23/04/2014
Financial Leasing Agreement No. 11005857/14 with an option to purchase the subject-matter of leasing, including the consent of MPSS with purchase agreement for the subject-matter of leasing entered into by and between SGEF and HAWLETT-PACKARD s.r.o., Company ID: 17048851 of 23/04/2014	SG Equipment Finance Czech Republic s.r.o.	23/04/2014, Amendment No. 1 of 23/04/2014
Financial Leasing Agreement No. 11006861/15 with an option to purchase the subject-matter of leasing, including Amendment No. 1	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 – provision of advantageous conditions	Factoring KB, a.s.	01/11/2013
Contract on personal data processing in Société Générale S.A., France – processing of personal of MPSS employees	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	Société Générale, S.A.	2016
Insurance premiums paid as per contract concluded between Société Générale S.A. and Komerční banka, a.s. based on the invoices of Société Générale S.A., premiums from 01/07/2014 to 30/06/2015 and premiums from 1 July 2015 to 30 June 2016	Société Générale, S.A.	2016
Contract on provision of advantageous conditions for the employees of ALD Automotive s.r.o. – participants of the building savings in MPSS – provision of advantageous conditions	ALD Automotive s.r.o.	01/11/2013

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
General agreement of 18/10/2007 – conclusion of contracts on financial leasing – setting of leasing terms for MPSS	ALD Automotive s.r.o.	18/10/2007
Contract on financial leasing and subsequent purchase of the leased goods No. 310040492	ALD Automotive s.r.o.	16/12/2008
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310045804	ALD Automotive s.r.o.	25/05/2010
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310047131	ALD Automotive s.r.o.	30/09/2010
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310047132	ALD Automotive s.r.o.	30/09/2010
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310047133	ALD Automotive s.r.o.	30/09/2010
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310050680	ALD Automotive s.r.o.	05/09/2011
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310050822	ALD Automotive s.r.o.	05/11/2011
Contract on financial leasing and subsequent purchase of the leased goods (advance payment made in February 2012)		
Contract on financial leasing and subsequent purchase of the leased goods No. 310056190	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310056191	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310056192	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310056193	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310056194	ALD Automotive s.r.o.	15/02/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310058390	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310058392	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310058393	ALD Automotive s.r.o.	29/07/2013
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310050225	ALD Automotive s.r.o.	04/02/2014
Contract on financial leasing and subsequent purchase of the leased goods		
Contract on financial leasing and subsequent purchase of the leased goods No. 310052017	ALD Automotive s.r.o.	21/07/2014
Contract on financial leasing and subsequent purchase of the leased goods		
Contract for Provision of Services No. 150062314 – provision of services as per agreement	ALD Automotive s.r.o.	29/07/2014
Contract for Provision of Services No. 150062315 – provision of services as per agreement	ALD Automotive s.r.o.	29/07/2014
Contract for Provision of Services No. 150062316 – provision of services as per agreement	ALD Automotive s.r.o.	29/07/2014
Contract on financial rental with subsequent purchase of rented subject No. 310067398	ALD Automotive s.r.o.	17/07/2015
Contract on financial rental with subsequent purchase of rented subject		
Contract on financial rental with subsequent purchase of rented subject No. 310067399	ALD Automotive s.r.o.	17/07/2015
Contract on financial rental with subsequent purchase of rented subject		
Contract on financial rental with subsequent purchase of rented subject No. 310067400	ALD Automotive s.r.o.	17/07/2015
Contract on financial rental with subsequent purchase of rented subject		
Contract on financial rental with subsequent purchase of rented subject No. 310067401	ALD Automotive s.r.o.	17/07/2015
Contract on financial rental with subsequent purchase of rented subject		
Contract on financial rental with subsequent purchase of rented subject No. 310067402	ALD Automotive s.r.o.	17/07/2015
Contract on financial rental with subsequent purchase of rented subject		
Contract for the lease of movable asset – means of transport, including Amendment	ALD Automotive s.r.o.	10/08/2015, Amendment No. 6 of 18/01/2016, Amendment No. 7 of 15/02/2016, No. 8 of 14/03/2016 and No. 9 of 13/04/2016
Contract on financial rental with subsequent purchase of rented subject No. 310070289	ALD Automotive s.r.o.	21/12/2015
Contract on financial rental with subsequent purchase of rented subject		

Contract type (or the subject of the contract – unless indicated by the name)	Contracting party	Contract conclusion date
Contract on financial rental with subsequent purchase of rented subject No. 310070290 Contract on financial rental with subsequent purchase of rented subject	ALD Automotive s.r.o.	21/12/2015
Contract on financial rental with subsequent purchase of rented subject No. 310070291 Contract on financial rental with subsequent purchase of rented subject	ALD Automotive s.r.o.	21/12/2015
Contract on financial rental with subsequent purchase of rented subject No. 310071176 Contract on financial rental with subsequent purchase of rented subject	ALD Automotive s.r.o.	18/02/2016
Contract on financial rental with subsequent purchase of rented subject No. 310076905 Contract on financial rental with subsequent purchase of rented subject	ALD Automotive s.r.o.	29/11/2016
Contract on financial rental with subsequent purchase of rented subject No. 310076906 Contract on financial rental with subsequent purchase of rented subject	ALD Automotive s.r.o.	29/11/2016
Rental contract of movable property No. 140073556 incl. Amendments No. 1, 2, 3, 4 and 5	ALD Automotive s.r.o.	09/06/2016, Amendment No. 1 of 17/06/2016, No. 2 of 13/07/2016, No. 3 of 10/08/2016, No. 4 of 14/09/2016 and No. 5 of 11/10/2016
Verbal Agreement on framework contract on providing IT services	ALD Automotive s.r.o.	01/01/2016
Verbal Agreement on Partial contact No. 1 on providing IT services	ALD Automotive s.r.o.	01/01/2016

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 a network of KB branches in the entire territory of the Czech Republic that also offer products of the Company, which means a significant competitive 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 2016 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.

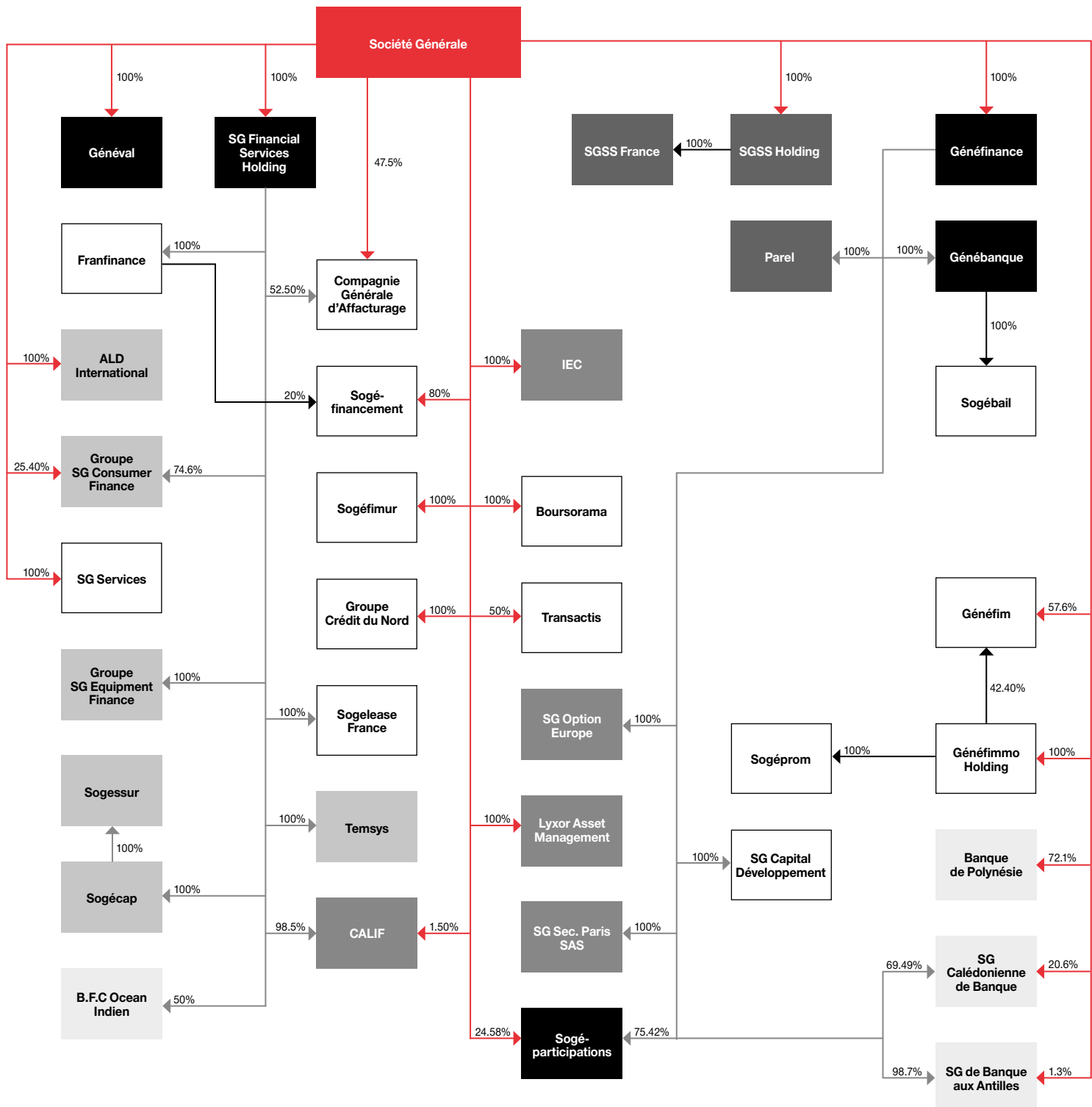
Prague, on 14 February 2017

Ing. David Formánek, in his own hand
Chairman of the Board of Directors

Mgr. Ladislav Šilha, in his own hand
Member of the Board of Directors

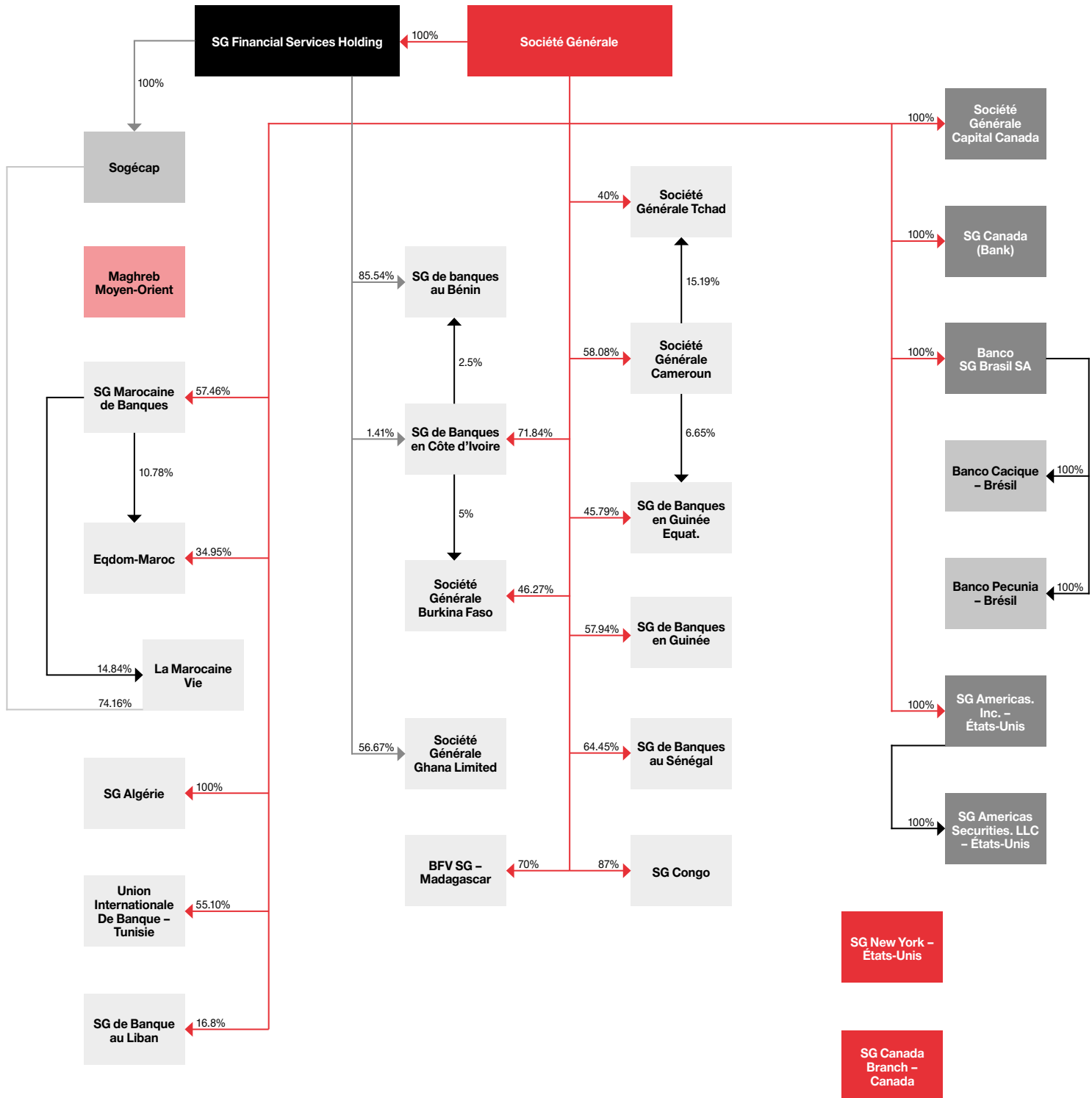
The structure of relationships SG Group – % of the share capital

FRANCE



Note: Percentage of share capital and participation in voting rights may differ

AFRICA AND AMERICAS



Note: Percentage of share capital and participation in voting rights may differ.

INTERVIEW WITH THE CHAIRMAN OF THE BOARD OF DIRECTORS

MODRÁ PYRAMIDA

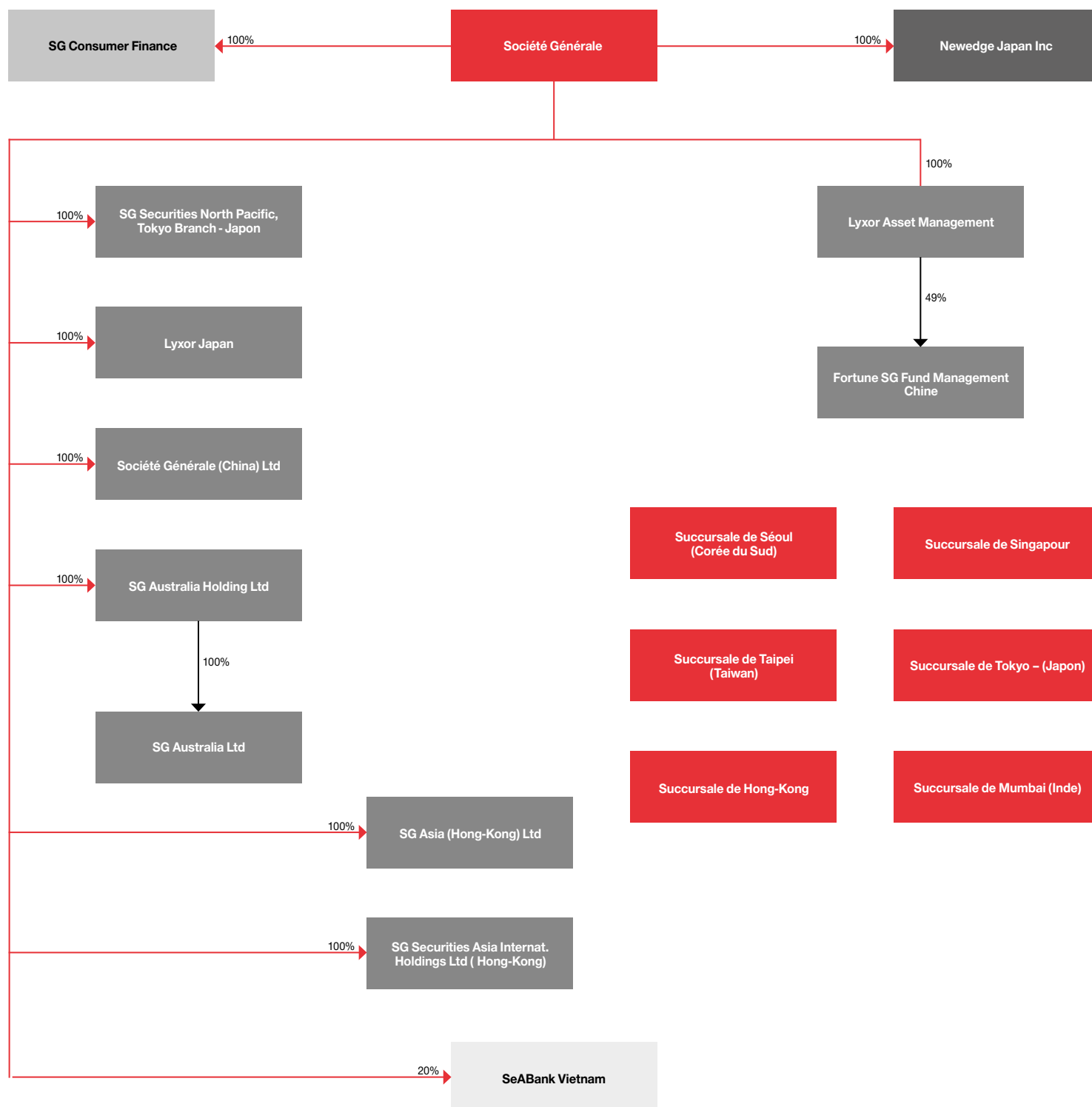
COMPANY BODIES

REPORT OF THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION

FINANCIAL SECTION

ASIA AND AUSTRALIA



Note: Percentage of share capital and participation in voting rights may differ.

Data on capital

Data on capital and capital requirements		Public notice No. 163/2014 Coll., appendix 14	
Information valid as of	(31/12/2016)		
Data on capital and capital requirements are published according to the article 438 letters c) to f) regulation 575/2013 EU			
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	10,414,273	
	Exposures secured by real estates	6,998,651	Article 438 letter c)
	Exposures in failure	798,670	regulation 575/2013 EU
	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)
	Of currency risk		regulation 575/2013 EU
	Of settlement 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 accessed separately	Of commodity risk		
	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)
Capital requirement according to the title III of the chapter 4 Regulation 2013/575/EU	1,934,675	regulation 575/2013 EU	

Public notice No. 163/2014 Coll., appendix 14		
Data on capital and capital requirements		
Information valid as of		(31/12/2016)
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	571,194
	Exposures towards institution	9,487,595
	Exposures towards corporations	
	Retail exposures	
	Share exposures	
	Items presenting securitized positions	
	Other assets do not have a nature of loan commitment	1,152,566
	Share exposures traded on regulated markets	
	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 assignment on conservation of legal effects	
	Each from approaches stated in the article 155 regulation 2013/575/EU	

Article 438 letter d)
regulation 575/2013 EU

Public notice No. 163/2014 Coll., appendix 14		
Capital ratio		
Information valid as of		(31/12/2016)
in %		To the end of the reported period
Capital ratio of liable entity	Capital ratio for equity capital tier 1	15.13
	Capital ratio for capital tier 1	15.13
	Capital ratio for total capital	15.13
Capital ratio of bank branch from other than a member state	Capital ratio for capital tier 1	
	Capital ratio for total capital	

Item 2 letter a)

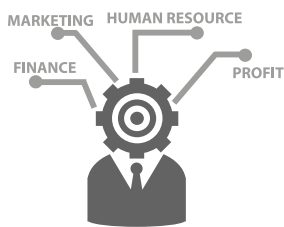
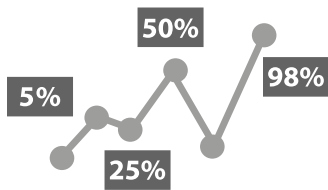
Item 2 letter b)

Ratio indicators		Public notice No. 163/2014 Coll., appendix 14	
Information valid as of		(31/12/2016)	
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)	1.15	
	Return on average equity tier 1 (ROAE)	17.41	
	Assets per 1 employee	259,222	Item 3 letter a)
	Administrative costs per 1 employee	1,767	
	Profit or loss after taxation per 1 employee	2,692	
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		

© 2017

Modrá pyramida stavební spořitelna, a.s.

Consulting of content, design and production: ENTRE s.r.o.



Modrá pyramida

Váš rádce na finance