



**Hello  
bank!**

by Cetelem

# Annual report 2017

BNP Paribas Personal Finance SA, odštěpný závod  
Financial Statements as at 31 December 2017 under the IFRS

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# 1. FOREWORD

Ladies and Gentlemen,

It is my pleasure to take a short look back at 2017 and not only with respect to the business results for the Czech branch of BNP Paribas Personal Finance for 2017. After more than 20 years operating on the market under the Cetelem brand, we made an important step forward and started to fulfil our vision of modern digital banking thanks to Hello bank! by Cetelem successful GO LIVE achieved in November. This milestone came into our history with both a wider value proposition of banking products and services, as well as business results.

In 2017, the Czech economy grew by 4.5% year-on-year, and other macroeconomic indicators were positive too. Unemployment fell to a record low compared to other EU countries, and this contributed to higher wages and salaries. The flourishing economy positively affected consumers' behaviour and influenced the cost of risk, which was lower compared to the previous year. The confidence of consumers was reflected in a higher level of loans for consumption and housing - the volume of the borrowed funds grew by 7%.

Although last year was very challenging for our company and we faced many changes, we gained a pre-tax profit of CZK 1.15 billion. The volume of new loans stood at CZK 10.4 billion, and despite a continuous downturn on the credit card market, we still managed to increase our market share in terms of outstanding from credit cards. On the consumer credit market we strengthened our position as one of the leading players. The 14% year-on-year growth in new instalment loans production provided by our retail business partners is a clear confirmation of this fact. The business results of 2017 and the goals we met - despite the ongoing transformation, the new IT infrastructure deployed, and our rebranding - prove the stability and strong background of our bank.

We have made a big step forward toward simplifying processes and extending our offer by the daily banking products that we launched at the end of the year. A user-friendly environment, available financial management anywhere and anytime thanks to mobile banking, a fully digital application process for both deposit products and loans, and favourable offers - all of these features, we believe, make clients' daily lives and the management of their finances easier.

A successful story was written last year. But it couldn't have been such a great achievement without the support of the BNP Paribas group and without the hard work of our employees. Please let me thank all of you for your personal engagement and the maximum commitment and effort you have given to our project of building a digital bank in the Czech Republic. I would like to thank also our clients and business partners for many years of cooperation and trust in our Hello bank! by Cetelem.

We achieved many great things over the last 12 months and it was the necessary transformational step for our long-term success story. But we are standing at the very beginning of a new era. We have to pass on a highly competitive environment of the credit market, and from now on we must strengthen our new position in the banking industry by continuously improving our solutions and meeting the expectations of our clients and partners. We are more and more a customer-centric bank, always available at any time and place, wherever and whenever our clients and business partners need us. This philosophy remains our commitment also for the upcoming period.

Let me thank you all for your valuable commitments, and I'm looking forward to our 2018 challenges.



Emmanuel Bourg

Head of Branch

BNP Paribas Personal Finance SA

## **2. OTHER INFORMATION**

No other events that could significantly affect the Bank's results and development were recorded between the date of the reporting period and the date of the annual report. The Bank actively responds to the evolution of the economic environment, presumes the further development of business activities with aim to strengthen its position on the market and achieve adequate financial results.

The Bank has no research and development, but consistently efforts to innovate its services and processes. It does not perform any particular activity in the field of environmental protection. Labour relations are governed by the applicable legislation of the Czech Republic; the Bank has no collective agreement. As a branch of a foreign bank it has no separate organisational component abroad.

### 3. AUDITORS' OPINION



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

## INDEPENDENT AUDITOR'S REPORT on the financial statements as at 31 December 2017 of BNP Paribas Personal Finance SA, odštěpný závod

#### Identification data:

Branch name: BNP Paribas Personal Finance SA, odštěpný závod

Registration number: 038 14 742

Branch address: Karla Engliše 3208/5  
150 00 Praha 5

Balance sheet date: 31 December 2017

Audited period: from 1 January 2017 to 31 December 2017

Financial reporting framework: International Financial Reporting Standards as  
adopted by the European Union

Date of issue auditor's report: 29 March 2018

Auditor: Štěpánka Beranová  
Licence No. 2373

Mazars Audit s.r.o.  
Licence No. 158

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BNP Paribas Personal Finance SA, odštěpný závod  
Financial Statements as at 31 December 2017 under the IFRS

## Independent Auditor's Report for the founder of BNP Paribas Personal Finance SA, odštěpný závod

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of BNP Paribas Personal Finance SA, odštěpný závod (hereinafter also the "Branch") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2017, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Branch, see Note I.1. to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BNP Paribas Personal Finance SA, odštěpný závod as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branch 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 Head of the branch 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 Branch 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.

#### ***Responsibilities of the Head of the branch for the Financial Statements***

The Head of the branch is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Head of the branch 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 Head of the branch is responsible for assessing the Branch'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 Head of the branch either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional 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 Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Head of the branch.
- Conclude on the appropriateness of the Head of the branch's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch'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 Branch 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 Head of the branch 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.

*Mazars Audit s.r.o.*

Prague, 29 March 2018

Mazars Audit s.r.o.  
Licence No. 158  
Pobřežní 620/3  
186 00 Praha 8

Represented by Štěpánka Beranová

*Štěpánka Beranová*

Štěpánka Beranová  
Statutory auditor, Licence No. 2373

#### 4. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Statement of financial position as at 31 December 2017 (CZK '000)			
Description	Ref.	31 December 2017	31 December 2016
<b>TOTAL ASSETS</b>		<b>14,570,780</b>	<b>14 720 396</b>
Cash and cash equivalents	IV.1.	237,137	1,548
Receivables from banks	IV.2.	977,986	945,675
Receivables from clients	IV.3.	12,546,658	13,339,779
Other long-term securities and investments	IV.4.	11,603	10,425
Tax assets – current tax	IV.12.	147,970	65,135
Tax assets – deferred tax	IV.5.	160,027	37,404
Property and equipment	IV.6.	15,099	11,004
Intangible assets	IV.7.	335,456	239,221
Other assets	IV.8.	138,844	70,205
<b>LIABILITIES</b>		<b>12,269,817</b>	<b>13,098,309</b>
Liabilities to banks	IV.9.	10,280,410	11,169,465
Debt securities issued	IV.10.	1,501,776	1,500,163
Provisions	IV.11.	14,211	13,200
Other liabilities	IV.13.	473,420	415,481
<b>BRANCHES' RESERVES</b>		<b>2,300,963</b>	<b>1,622,087</b>
Branches' reserves	IV.14.	<b>2,300,963</b>	<b>1,622,087</b>
Reserves allocated to branch	IV.14.	1,141,846	381,850
Gains, losses from revaluation of securities	IV.14.	11,031	9,853
Gains or losses from revaluation of assets and liabilities	IV.14.	2,906	-2,498
Deferred tax from revaluation	IV.14.	-552	475
Profit/loss for the period	IV.14.	1,145,732	1,232,407
<b>TOTAL LIABILITIES</b>		<b>14,570,780</b>	<b>14,720,396</b>

## 5. STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income for the year ending 31 December 2017 (in CZK '000)			
Description	Ref.	31 December 2017	31 December 2016
Interest income	V.1.	1,877,299	2,132,554
Interest expense	V.1.	-81,000	-123,484
<b>NET INTEREST INCOME</b>		<b>1,796,299</b>	<b>2,009,070</b>
Income from fees and commissions	V.2.	432,719	480,916
Fee and commission expenses	V.2.	-33,752	-42,322
<b>NET INCOME FROM FEES&amp; COMMISSIONS</b>		<b>398,967</b>	<b>438,594</b>
Dividend income	V.3.	3,769	3,323
Other income/expense	V.4.	4,199	-516
<b>OPERATING INCOME</b>		<b>2,203,234</b>	<b>2,450,471</b>
Personnel costs	V.5.	-490,956	-428,099
Operating costs	V.6.	-553,156	-469,322
Depreciation of property and equipment	V.7.	-9,243	-17,431
Amortisation of intangible assets	V.8.	-24,396	-25,948
<b>OPERATING COSTS</b>		<b>-1,077,751</b>	<b>-940,800</b>
<b>OPERATING INCOME BEFORE ASSET IMPAIRMENT AND PROVISIONS</b>		<b>1,125,483</b>	<b>1,509,671</b>
Impairment of receivables	V.9.	25,691	-69,284
Impairment of assets	V.10.	313	2,279
Net charges/release of provisions	V.11.	-1,011	10,879
<b>PROFIT BEFORE TAX</b>		<b>1,150,476</b>	<b>1,453,545</b>
Income tax	IV.12.	-4,744	-221,138
- current tax expense	IV.12.	-128,394	-231,361
- deferred tax income	IV.12.	123,650	10,223
<b>PROFIT FOR THE PERIOD, AFTER TAX</b>		<b>1,145,732</b>	<b>1,232,407</b>
Gains, losses from revaluation of securities		1,178	-398
Gains or losses from revaluation of assets and liabilities – re-classifiable		5,404	-67
Deferred tax from revaluation		-1,207	13
<b>OTHER COMPREHENSIVE INCOME</b>		<b>5,555</b>	<b>-452</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1,151,287</b>	<b>1,231,955</b>
Comprehensive income for the period, attributable to: - founder		1,151,287	1,231,955

## 6. STATEMENT OF CHANGES IN EQUITY

Changes in equity (in CZK '000)	Reserve fund & other capital funds & retained profit (*)	Revaluation differences	Total
<b>1 January 2016</b>	<b>1,724,246</b>	<b>8,282</b>	<b>1,732,528</b>
Capital transfer	-1,342,396		-1,342,396
Income for the accounting period	1,232,407		1,232,407
Revaluation		-452	-452
<b>31 December 2016</b>	<b>1,614,257</b>	<b>7,830</b>	<b>1,622,087</b>
Capital transfer	-472,411		-472,411
Income for the accounting period	1,145,732		1,145,732
Other comprehensive income		5,555	5,555
<b>31 December 2017</b>	<b>2,287,578</b>	<b>13,385</b>	<b>2,300,963</b>

Note: \*) Reserve fund and other capital funds and retained profit include the reserves allocated to branches, net profit for the period, and retained profit.

## 7. STATEMENT OF CASH FLOWS

<b>Statement of cash flows for the year ending 31 December 2017 (in CZK '000)</b>		
<i>Description</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
<b>CASH AT THE BEGINNING OF THE PERIOD</b>	<b>947,224</b>	<b>982,098</b>
<b>PROFIT BEFORE TAX</b>	<b>1,150,476</b>	<b>1,453,545</b>
<i>Adjustment for non-cash transactions</i>	-2,756,923	-2,094,377
Fixed asset depreciation/amortisation	35,502	36,13
Change in allowances and provisions	-1,054,649	-500,159
Gain from the disposal of fixed assets	-313	-2,28
Proceeds from dividends and profit sharing	-3,769	-3,323
Net interest expense and income	-1,990,609	-2,175,253
Adjustments for other non-cash transactions, if any	256,930	550,508
	<b>-1,606,447</b>	<b>-640,832</b>
Change in the non-cash portion of working capital	1,598,600	2,331,120
Change in receivables and deferred expenses	1,579,263	915,036
Change in current liabilities and deferred revenues	19,321	1,416,084
	<b>-7,847</b>	<b>1,690,288</b>
Interest paid	-37,949	-78,052
Interest income	1,931,029	2,144,029
Income tax paid	-128,394	-243,479
Dividends and profit shares received	3,769	3,323
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1,760,608</b>	<b>3,516,109</b>
Fixed asset acquisition costs	-133,190	-201,966
Proceeds from the disposal of fixed assets	330	2,312
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-132,860</b>	<b>-199,654</b>
Other change in financing activities	-887,443	-2,008,933
Change in cash and equivalents related to transactions with founder	-472,407	-1,342,396
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-1,359,850</b>	<b>-3,351,329</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>267,899</b>	<b>-34,874</b>
<b>CASH AT THE END OF THE PERIOD</b>	<b>1,215,123</b>	<b>947,224</b>

## 8. NOTES TO THE FINANCIAL STATEMENTS

### I. BACKGROUND

#### I.1 COMPANY ORIGINATION AND CHARACTERISTIC OF THE BANK

BNP Paribas Personal Finance, SA, odštěpný závod (hereinafter referred to as “the Bank“) was incorporated on 20 February 2015 by entry in the Companies Register. As a branch, Bank is not considered as an independent legal entity. Its founder is a foreign legal entity BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France, registration number: 542 097 902.

Bank started its business activity in the Czech Republic after the effective date of the cross-border merger on the 1 June 2015. With effective date of cross-border merger from 31 May 2015, all assets and liabilities including liabilities from labour relations of acquired company CETELEM ČR, a.s. with former registered office Praha 5, Karla Engliš 5/3208, Post Code 150 00, Company No. [IČ] 25 08 56 89, incorporated in the Companies Register with the Municipal Court in Prague, Section B, File 4331, were transferred to the acquiring company, BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France, registration number: 542 097 902 which operates in the Czech Republic through its branch BNP Paribas Personal Finance SA, odštěpný závod, incorporated in the Companies Register with the Municipal Court in Prague, Section A, File 77003.

From the accounting and tax perspective, the merger became effective on 1 January 2015 (from this date, all the transactions made by CETELEM ČR were considered to be transactions of BNP Paribas PF as acquiring company) and this day is the effective day of the merger according to Act No. 125/2008 Coll., on Transformations of Commercial Companies and Cooperatives.

#### **Registered office:**

BNP Paribas Personal Finance SA, odštěpný závod.  
Company No. [IČ] 03814742, incorporated in the Companies Register with the Municipal Court in Prague, Section A, File 77003  
Praha 5, Karla Engliš 5/3208, Post Code 150 00

#### **Lines of business:**

- a) collecting of deposits from the public;
- b) granting loans;
- c) financial leasing;
- d) providing of payment services and electronic money issuance;
- e) providing of guarantees and acceptance of commitments;
- f) money brokering;
- g) providing of banking information.

BNP Paribas Personal Finance SA, odštěpný závod is a branch of a foreign bank using benefits of a single banking license of the founder according to the law of European Union.

## I.2 GOVERNING AND SUPERVISORY BODIES AS AT 31 DECEMBER 2017

Statutory authority of the founder	Management Board	In office from
LAURENT DAVID	Member of Management Board and CEO	12 May 2014
JEAN-MARIE BELLAFFIORE	Member of Management Board and Deputy CEO	12 June 2015
ALAIN VAN GROENENDAEL	Chairman of the Management Board	12 May 2009
JACQUES TENAILLE D'ESTAIS	Member of Management Board	07 March 2012
DOMINIQUE FIABANE	Member of Management Board	14 September 2010
BERRO SOPHIE HELLER	Member of Management Board	11 September 2017
BRUNO SALMON	Member of Management Board	29 October 2003
JEAN-FRANCOIS PFISTER	Member of Management Board	
SYLVIE DAVID-CHINO	Member of Management Board	24 May 2016
VIRGINIE ZISSWILLER KORNILOFF	Member of Management Board	24 May 2016
FRANCISKA DECUYPERE	Member of Management Board	24 May 2016

Head of the branch
EMMANUEL BOURG

Procuratory
BLAŽENA VALKOŠÁKOVÁ
MILAN BUŠEK
DENIS PECCOUD

## I.3 ORGANISATIONAL STRUCTURE

In order to unify the organizational structure within the BNP Paribas Personal Finance during the 2017 accounting period the organizational structure of the bank was changed. Larger organizational units were created, directly subordinated to the head of the branch. The units are the following:

- Transformation
- Business, Marketing & Operations
- Finance & Administration
- Legal Services Department
- Risk Division
- Compliance Department

This organizational change resulted in the decrease of number of the managers in the company.

Number of employees – average full time equivalents

Year	Total	Of whom, managers
2016	463	16
2017	496	7

#### I.4 PERSONS HOLDING MORE THAN 20% OF THE COMPANY'S SHARE CAPITAL AND THE SIZE OF THEIR INTEREST

BNP Paribas Personal Finance, SA, odštěpný závod is not considered a distinct legal entity. Its founder is a foreign legal entity BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France, registration number: 542 097 902.

The Bank's parent company is BNP Paribas S.A. with its registered office at 16, boulevard des Italiens 750 09 Paris, Republic of France. BNP Paribas Personal Finance, SA, odštěpný závod is a part of the consolidation group of BNP Paribas S.A.

#### I.5 AMENDMENTS MADE TO THE COMPANIES REGISTER

Based on the decision of the founder, the procuration for Petr Skok was deleted on 30 October 2017 and the procuration for Denis Peccoud was added on 30 October 2017.

Changes in the statutory body of the founder - a foreign entity, were registered on 6 January 2017. On 6 January 2017 Robert Rochefort was deleted from the register, whose membership in Board of directors was cancelled on 4 October 2016. On 23 November 2017 the last changes were made for 2017, Berro Sophie Heller was included to the membership of the Board of directors, and Beatrice Cossa Dumurgier was excluded from it, as at 11 September 2017.

## **II. BASIS OF PREPARATION**

### **II.1 STATEMENT OF COMPLIANCE**

These financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (version in force as at 31 December 2017).

In accordance with the processes of the BNP Paribas Group, the Bank did not apply some regulations of IAS 39 about hedge accounting and some adjustments which were not approved.

There were not used new standards, amendments and interpretations adopted by the European Union whose implementation was not compulsory for the year 2017.

Standards mandatory from 1 January 2017 had no impact on the financial statement as at 31 December 2017.

### **II.2 PURPOSE OF FINANCIAL STATEMENTS**

The BNP Paribas consolidation group, which also includes BNP Paribas Personal Finance SA, odštěpný závod, applies the International Financial Reporting Standards, adopted as binding for use in the European Union.

As the successor company, the Bank has fully taken over the accounting principles applied by the acquired company CETELEM ČR, a.s., which has issued the bonds accepted for trading on the free market of the Prague Stock Exchange, a.s.. For this reason only the International Financial Reporting Standards are being applied for the accounting and for the preparation of the financial statements.

## **III. SIGNIFICANT ACCOUNTING POLICIES. SEGMENT INFORMATION**

### **III.1 SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), including the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the Interpretations adopted by the IASB's International Financial Reporting Interpretations Committee (IFRIC), approved for use in the European Union and applied by the BNP Paribas Group.

The 2017 financial statements do not cover any new standards, amendments or interpretations (SIC) adopted by the European Union, which were not binding for 2017 and standards applied by the European Union because their application should have no impact on the 2017 financial statements.

**IFRS 9 Financial Instruments**, issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. The new standard sets out new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and for hedge accounting.

IFRS 9, which was adopted by the European Union on 22 November 2016, is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortized cost, at fair value through shareholders' equity (on a separate line), or at fair value through profit or loss.

IFRS 9 establishes a new credit risk impairment model based on expected losses. This model will apply to loans and debt instruments measured at amortized cost or at fair value through shareholders' equity (on a separate line), to loan commitments and financial guarantees not recognized at fair value, as well as to lease receivables.

The new impairment model will result in an increase in impairment for credit risk since all financial assets will be subject to a 12-month expected credit loss measurement and since the measurement of expected losses will include the impact of prospective scenarios. Moreover, the scope of assets for which there is a significant increase in credit risk will be different from the scope of assets for which portfolio based impairment was recognized under IAS 39.

**IFRS 15 Revenues from Contracts with Customers**, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). IFRS 15, adopted by the European Union September 22, 2016, is mandatory for annual period beginning on or after 1 January 2018.

IFRS 15 defines a single revenue recognition model based on five-step principles. These principles allow to identify the differences between the performance set out in the customer contracts and the assignment of transaction prices to them. Revenues from net banking income that fall within the scope of this Standard relate in particular to commissions received for banking and similar services provided (except those resulting from the effective interest rate), income from the growth of assets and revenues from services rendered in connection with lease agreements.

IFRS 15 is applicable retrospectively to 1 January 2018 and introduces the option not to provide comparative data for the prior period. BNP Paribas will use this option.

**IFRS 16 Leases**, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee.

From the lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain mostly unchanged from the current IAS 17.

For the lessee, IFRS 16 will require recognition in the Balance sheet of all leases, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortized on a straight-line basis and the financial liabilities will be amortized on an actuarial basis over the lease period. The main change induced by this new standard is related to contracts which, under IAS 17, met the definition of operating leases, and as such, did not require recognition in the Balance sheet of the leased assets.

Adopted for use in the European Union as at 31 October 2017, IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019. Following the publication of the standard, the Group has started to analyse the standard and define its potential impacts. In each country, project teams working on this issue are set up to work with the headquarters to implement the accounting standard during 2018.

### III.2 ACCOUNTING PRINCIPLES

The Company's books are kept in compliance with the generally accepted accounting and reporting principles, including, but not limited to, the following:

- True and fair view principle – selection of accounting principles that are relevant for the decision-making needs of the users of financial information and are reliable, i.e., credibly present the Bank's results and financial position and reflect the economic nature of events, and are neutral, prudent and complete in all respects.
- Going-concern principle – the Bank is expected to continue operating in the future periods.
- Accrual principle (independence of accounting periods) – transactions and events are taken account of in the accounting period in which they occur. This principle allows recognising the time lag between sales and purchases on the one hand and payment of cash on the other. Accruals/deferrals are recognised on a monthly basis.
- Consistency principle (permanence of methods) – the methods of reporting and classification of financial accounting items do not change, except for changes required by accounting standards or by reclassification of items is achieved a better presentation of an event.
- Materiality and aggregation principle – items material for users' economic decision-making are presented separately, whereas immaterial items are aggregated with other similar items.
- No-offset principle – payables and receivables, as well as costs and revenues, are reported separately, unless required or permitted by IFRS.
- Comparative information principle – comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

### III.3 CONSOLIDATION

Under the rules of the Group, the consolidation group comprises the accounting entities over which the Bank solely exercises control, jointly exercises control or is under the significant influence of the Bank with the exception of entities which are immaterial for the Group. The Bank is not obliged to prepare consolidated financial statement if its individual financial statement is sufficient for filling a true and fair view of the accounting and financial situation of the consolidation unit. The reason is that controlled entities are immaterial individually and in aggregate.

Immateriality means a situation of an equity interest in a company, where none of the following assumptions is met: i) a contribution of at least EUR 15 million from consolidated income; ii) a contribution of at least EUR 1 million to the income before tax; iii) a contribution of more than EUR 500 million to consolidated assets.

The Bank's equity interests do not meet any of the above conditions and are disclosed in "Other Long-term Securities and Investments".

### III.4 PARTICIPATIONS WITH SIGNIFICANT INFLUENCE

Investments in participations with significant influence are valued by the equity method, i.e. on the basis of the share of equity held. To have a significant influence means to participate in the financial and operating policy decisions of another company in which the Bank holds an equity interest but which it does not control fully. To have significant influence, the Bank must hold directly or indirectly at least 20% of the voting rights. In the financial statements, equity interests are presented in "Other Long-term Securities and Investments" in the Assets part of the Balance Sheet and re-measurement is included in the relevant part of equity. When the loss of a company in which the Bank holds an equity interest reaches or exceeds the equity interest, the value of the equity interest is reduced to nil and the Bank's interest is written off as a future loss. Recognition of further losses is discontinued except to the extent that the Bank is obliged to cover the loss under the law or under contract.

### III.5 FINANCIAL INSTRUMENTS

#### III.5.1 Receivables and Loans

##### a) Classification

Financial assets include, without being limited to, the loans provided by the Bank. Loans and receivables are financial assets with fixed or pre-determinable payments, which are not tradable in an active market.

##### b) Measurement

Upon acquisition, at the moment of entering into an agreement concerning the financial instrument in question, loans are measured at fair value, which includes the initial costs of acquisition of the asset plus the payments of fees and commissions received, accrued by the effective interest rate method. Trade and other current non-interest-bearing receivables are being recognized in the nominal value, which due to maturity approximates the fair value of the receivable.

Subsequently, loans are measured at amortized cost, i.e., the value of the financial asset at acquisition reduced by the instalments on the principal and further reduced or increased by the cumulative amortisation of the difference between the initial value and value at maturity, measured on the basis of the effective interest rate, and further reduced by impairment losses, if any.

Income from loans includes interest and the amortisation of transaction costs and received fees (commissions that are included in the initial acquisition cost of the loans, using the effective interest rate method, and are recognised in revenues and expenses over the maturity of the asset).

The Bank does not report any other financial instruments re-measured to fair value with impact on the Income Statement.

Trade receivables are recognised in their carrying amount.

### **III.5.2 Financial Liabilities**

Financial liabilities include interest-bearing bank loans, bank overdrafts, issued securities, trade payables and other liabilities.

Interest-bearing bank loans and overdrafts are measured at amortized cost using the effective interest rate. At the acquisition interest-bearing liabilities are recognized at fair value modified by the transaction costs, which are directly attributable to the liability. Trade and other current non-interest-bearing liabilities at the acquisition are recognized at nominal value, which due to maturity approximates the fair value of the liability.

### **III.5.3 Issued debt securities**

Financial instruments issued by the Bank are classified as debt instruments in such case that there is a commitment of the Bank to deliver cash or another financial assets to the holder of the financial instrument.

Debt securities are valued by the emission value on the issue including transaction costs and subsequently measured at amortized cost used the effective interest rate method.

### **III.5.4 Derivatives and hedge accounting**

Derivatives (e.g. Interest Rate Swaps) at acquisition are being recognized at fair value as at the contract date, and after they are being measured at fair value as at every closing date, whereby gain or loss from the revaluation has an impact to the Profit and loss, except when the derivative is classified as a hedging instrument. In case of the hedge accounting application, the impact on the result depends on the type of the hedging.

Cash flow hedges are particularly used to hedge interest rate risk on floating-rate assets and liabilities.

The Bank prepares formal documentation for hedging which details the hedging relationship, identifying the instrument, or portion of the instrument, the hedging

strategy and the type of risk hedged, the hedging instruments, and the methods used to assess the effectiveness of the hedging relationship.

On inception and at least quarterly, the Bank assesses, in consistency with the original documentation, the actual (retrospective) and expected (prospective) effectiveness of the hedging relationship. Retrospective effectiveness tests are designed to assess whether actual changes in the fair value or cash flows of the hedging instrument and the hedged item are within a range of 80% to 125%. Prospective effectiveness tests are designed to ensure that expected changes in cash flows of the derivative over the residual life of the hedge adequately offset those of the hedged items. For highly probable forecast transactions, effectiveness is assessed largely on the basis of historical data for similar transactions.

The accounting treatment of derivatives and hedged items depends on the hedging strategy. In a cash flow hedging relationship, the derivative is measured at fair value in the Balance sheet, with changes in fair value taken to shareholders' equity on a separate line, "Gains or losses from revaluation of assets and payables" like the part "Other comprehensive income". The figures cumulated separately within the shareholder's equity are re-classified to the Profit and Loss, when the hedged item has an impact on the result, and on the same line in the Statement of Comprehensive Income under "Net interest income", where the impact of the hedged item is. The hedged items continue to be accounted for using the treatment specific to the category to which they belong.

If the hedging relationship ceases or no longer fulfils the effectiveness criteria, the cumulative amounts recognised in shareholders' equity as a result of the measurement of the hedging instrument remain in equity until the hedged transaction itself impacts profit or loss, or until it becomes clear that the transaction will not occur, at which point they are transferred to the Statement of Comprehensive Income. If the hedged item ceases to exist, the cumulative amounts recognised in shareholders' equity are immediately taken to the Statement of Comprehensive Income. Whatever the hedging strategy used, any ineffective portion of the hedge is recognised in the profit and loss account in the Statement of Comprehensive Income.

### **III.5.5 Impairment of Financial Assets**

#### **a.) Doubtful loans**

For doubtful loans are considered assets where is a higher credit risk that debtors will not be able to meet all are part of its obligations.

#### **b.) Impairment of financial assets, provisioning and hedging**

The Bank reports impairment of financial assets in the case that (i) there exist objective reasons for permanent impairment as a result of a future loss event which occurred after the originate of the loan or assets acquisition, or (ii) due to an event affecting the amount or timing of future cash flows, and (iii) the probability of loss can be reliably measured.

The Bank assesses the probability of impairment of loans from the viewpoint of individual loans as well as from the viewpoint of asset groups.

On an individual basis, an asset is treated as impaired:

- in the case of a receivable overdue for three months,
- it is known, or indications exist, that the debtor is in serious financial difficulties and the risk exists that obligations will not be honoured.

Impairment of financial assets reflects the difference between the pre-failure value and the present value, discounted by the initial effective rate of interest on the asset consisting of its components (the principal, interest etc.) that are considered to be non-recoverable.

The changes resulting from impairment of financial assets are recognised in the Statement of Comprehensive Income and are reversed only if the subsequent increase in the recoverable value is attributable to events that occurred after the initial recognition of permanent impairment. Impairment loss is reversed only to the extent that the book value of the asset does not exceed the amortized value that would be determined if there were no permanent impairment loss.

In the case of failure of an asset, the theoretical interest income to be included in the asset (measured by the initial effective interest rate and discounted using the assumed recoverable cash flow) is recognised in 'interest income' in the Statement of Comprehensive Income. Impairment of loans is carried in the separate accounts of the allowances that reduce the value of the loans recognised in assets at cost.

Financial assets are written off in part or in full and the respective allowances reversed when all available debt collection methods have failed or the time for debt collection expired or when the Bank transfers all risks and rewards related to the financial asset to a different subject. All rights and obligations related to the transfer are recognised separately as assets or liabilities.

For receivables for which impairment is not monitored on an individual basis, the impairment is permanently valued on a portfolio basis with the pooling of loans with similar characteristics. An internal rating scheme, using historical data, made it possible to develop this system. Historical data serve to estimate the probabilities of loss. This helps the Bank to identify the group of debtors whose debts are likely to suffer permanent impairment, and who are not recognised individually as doubtful debtors. This calculation also helps to estimate future losses from the portfolio of receivables, taking into account the trends of the economic cycle in the period of estimation. Changes in the allowance on a portfolio basis are recognised in the Statement of Comprehensive Income.

On the basis of an expert decision, the Bank can create additional allowances on a portfolio basis to cover unexpected economic events. This approach is applied when it is not possible to use in an effective manner the parameters from portfolios of loans with similar characteristics.

### III.6 FUNCTIONAL CURRENCY AND TRANSACTIONS IN FOREIGN CURRENCY

Foreign currency transactions are transactions denominated or requiring settlement in a currency other than the functional currency. A functional currency is CZK, which is the currency of the primary economic environment in which the Bank operates. Transactions denominated in other currencies (foreign currencies) than functional currency are being

translated into the functional currency at the spot exchange rate, which is the exchange rate valid at the transaction date.

At each closing date monetary assets and liabilities held in foreign currencies are being revaluated at the closing exchange rate. Non-monetary items, that are measured at historical cost and have been initially acquired in the foreign currency, are not being revaluated at the closing date. Exchange rate differences arising from settlement of the items in a foreign currency or from their revaluation, are being recognized in the Profit and loss of the current period.

### III.7 FINANCIAL ASSETS AND LIABILITIES OFFSETTING

Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet only when the Bank has a legally enforceable right to offset the recognised amounts and intends to settle the respective asset and the respective liability on a net basis or to realise the asset and settle the respective liability at the same time.

### III.8 INVENTORIES

With regard to its line of business, the Bank does not recognise inventories. Consumption of overhead material is charged to costs on the accrual basis. Material remaining unconsumed at the date of financial statements is recognised as 'Other assets'.

### III.9 COST OF RISK

Cost of risk includes allowances corresponding to the impairment of fixed-income assets, in particular receivables on loans and receivables from financial institutions. The cost of risk item also includes the reported losses caused by bad debt write-off and proceeds from written-off receivables, and damage caused by fraud.

### III.10 TANGIBLE AND INTANGIBLE ASSETS

Property and equipment are stated in the Balance Sheet as operating assets. The Bank currently records operating assets that are used for the provision of services. Internal software which fulfils the capitalization rules is capitalized at the amount of direct development expenses including external costs and labour costs of employees directly participating in the project.

The assets for which substantially all the risks and rewards of ownership remain with the lessor are classified as operating lease and these assets are not recognised in the Bank's Balance Sheet. Rent payments are recognised in the Statement of Comprehensive Income over the duration of the lease.

### **a) Methods of valuation of non-current assets**

Tangible and intangible non-current assets acquired are valued at acquisition cost at the date of the accounting transaction. The acquisition cost also includes the costs directly related to the acquisition of the asset.

Thereafter the value of non-current assets is reduced by accumulated depreciation and amortisation and further losses caused by impairment.

### **b) Allowances for non-current assets**

As at each date of financial statements, the Bank assesses the book value of its tangible and intangible assets, taking into account its possible impairment. If there are signals that the book value of an asset is higher than its estimated realisable value, the Bank re-measures the asset to its realisable value by a one-time write-off. The asset impairment losses are recognised in the item of Impairment assets. A stock-take of the assets was performed and no reasons were found for reducing their value by allowances for tangible and intangible non-current assets.

### **c) Methods of depreciation/amortisation**

In its accounting, the Bank depreciates its non-current assets on a straight-line basis according to the approved depreciation plan, which reflects an expert assessment of the economic and technical useful life of the assets. Improvements of leased assets are depreciated over the period of use of the assets. The depreciation is recognised through the asset depreciation part of the Statement of Comprehensive Income.

When parts of an asset have different useful lives, requiring replacement at different times, such components are depreciated as separate items (e.g. technical equipment of leased premises).

Impairment of non-current assets is assessed at least once a year. When impairment of an asset is identified, the Bank posts an allowance that reduces the value of the asset and is recognised in profit or loss (impairment of assets). The allowances are reversed when the estimate of asset impairment is changed or when reasons for reducing the value of the asset no longer exist.

The loss or gain from the disposal of the tangible assets that were used for operating activities is recognised as 'impairment' (Statement of Comprehensive Income).

### **d) Accounting of Operating leasing - lessee**

All leasing contracts and their conditions are being assessed whether the leasing relationship can be determined as a financial or an operating lease. In case the leasing contract transfers all the significant risks and rewards related to lease from a lessor to a lessee, the leasing contract is then determined as the financial lease. In the opposite case it is the operating lease.

The Bank uses for operational the operating lease - cars rent. The assets are not recognized in the Statement of the financial position of the Bank. Lease payments made under operating leases are taken to the Statement of Comprehensive income of the lessee on a straight-line basis over the lease term.

## Depreciation/amortisation plan:

Name	Accounting depreciation
	Period of depreciation
Software and other intangible non-current assets	3 or 5 years
Office buildings / improvement	Term of lease (in fixed-term agreements)
- building	80 – 60 years
- façade	30 years
- technical equipment	20 years
- fixtures and fittings	10 years
Machines, instruments and equipment	5
Passenger cars	3
Equipment and furniture	5 or 8
Computers	3

### III.11 EMPLOYEE COSTS AND BENEFITS

Employee benefits are classified in one of four categories:

- short-term benefits, such as salary, annual leave, incentive plans, profit-sharing, contribution from the social fund and additional payments;
- long-term benefits, including compensated absences, and other types of cash based deferred compensation;
- termination benefits;
- post-employment benefits, including pension plans,

The Bank registers only short-term emoluments with maturity up to 12 months to its employees, specifically the wages, compensation for wages, other contributions, and benefits, expensed when paid.

#### **Long-term benefits**

Long-term benefits are benefits other than short-term benefits, post-employment benefits and termination benefits. This relates, in particular, to compensation deferred for more than 12 months, which is accrued in the financial statements for the period in which it is earned.

Provisions are created for potential liabilities arising from employees' termination for redundancy and for remuneration of management where the payment depends on the fulfilment of conditions in the future periods.

The Company has no others long-term liabilities and no pension liabilities to its employees. Under Czech legislation, the State is responsible for the payment of pensions to employees. The Bank pays regular contributions as required by the law, which are expensed when incurred.

### III.12 PROVISIONS

A provision is recognised in liabilities when i) the Bank has a present or constructive obligation as a result of a past event, ii) it is probable that a transfer of economic benefits will be required to settle the obligation and iii) a reliable estimate can be made of the amount of the obligation. If the effect of discounting is material, provisions are determined by discounting the expected future cash flows, reflecting the current market-based time value of money.

### III.13 CASH AND CASH EQUIVALENTS

Cash comprises cash on hand, accounts balances and cash in transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of encashment in the near future rather than as investment.

### III.14 REVENUE ACCOUNTING

Interest income and expense related to all interest-bearing instruments are recognised in the Statement of Comprehensive Income in the relevant period, using the effective interest rate. Default interest is included in interest income once paid by the debtor. Fees related to loan provision are a part of the effective interest rate. Other fees and commissions are allocated to their relevant periods. Dividends from investments are recognised when shareholders' entitlement to dividend payment arises.

### III.15 INCOME TAX AND DEFERRED TAX

The resultant tax amount stated in the Statement of Comprehensive Income includes the tax payable for the period and the deferred tax.

#### **Deferred tax**

The Bank measures the deferred tax liability on the basis of the temporary differences caused by the different accounting and tax treatment of certain items. The bank accounts for a deferred tax asset only in case the Bank expects to generate a future taxable income against which the temporary differences can be offset. The bank always accounts for the deferred tax liability. The corporate income tax rate enacted for the next taxation period, or the expected rate, is used for the measurement of deferred tax.

#### **Current tax**

Current tax is based in the taxable income of the current period, while the taxable income (profit/loss) differs from the income presented in the Statement of Comprehensive Income due to the existence of the tax-deductible and non-tax-deductible expenses and revenues, by which the accounting profit is being decreased or increased.

The Bank prepares its financial statements before filing the annual tax return and therefore it is not possible to fully eliminate a difference between the reported income tax payable and the actual tax liability. Such a difference, if any, is recognised in the period when the tax return is filed and the tax paid. The amount of the current tax is based on the result for the current period, adjusted by items that are not taxable or tax

deductible, and is measured using the tax rates enacted at the date of the financial statements.

The income tax for the current period and the deferred tax are recognised in the 'Income tax' section of the Statement of Comprehensive Income. Part of the deferred tax related to the fair value revaluation of hedging instruments is recognized in the Balance sheet in part Owners' equity ("Gains or losses from revaluation of assets and liabilities") and in the Statement of Comprehensive Income.

### III.16 SEGMENT REPORTING

The Bank operates in the sector of loan provision to the retail segment. Its services are, for the most part, provided in the Czech Republic. Only a minor portion of its services are provided to other segments and therefore separate reporting by segment is not used.

### III.17 BASIC PRINCIPLES OF THE ACCOUNTING RULES APPLICATION AND KEY SOURCES OF UNCERTAINTY WHILE CREATING ESTIMATES

#### Basic principles of the accounting rules application

When applying the accounting rules of the Bank stated above, the management is required to assess the content of the economical transactions and events and to make a decision about the usage of the accounting rules in a way, that the financial statement would provide its users useful information for their decision making.

#### Key sources of uncertainty while creating estimates

The preparation of financial statements in accordance with the IFRS requires the Bank's management to make estimates and determine assumptions that can affect reported expenses and revenues in the Statement of Comprehensive Income, the amounts of the assets and liabilities reported at the end of the reporting period in the Balance Sheet and the information published in the Financial Statement for the period. These estimates, which apply in particular to the valuation of assets, and determination of impairment of assets and provisions, are based on information available at the end of the reporting period. The actual results may significantly differ from these estimates mainly due to the changes in market conditions. That can have a significant impact on the financial statements and presented financial situation and performance in the future.

The main areas in which material differences may occur between the actual result and the estimate include, in particular, allowances for loans, revaluation of derivative instruments for cash flow hedge including measurement of its effectiveness and provisions for potential liabilities. Information about the key forward-looking assumptions and about other key sources of uncertainty in the estimates at the end of the reporting period, which involves a significant risk of causing material adjustments to the carried amounts of assets and liabilities in the next period, is provided within the relevant chapters.

## IV. ADDITIONAL INFORMATION TO THE STATEMENT OF FINANCIAL POSITION

### IV.1 CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK

Cash and cash equivalents (in CZK '000)	31 December 2017	31 December 2016
Cash, balances with Central bank and valuables,	237,137	1,548
<b>TOTAL</b>	<b>237,137</b>	<b>1,548</b>

### IV.2 RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Receivables from financial institutions (in CZK '000)	31 December 2017	31 December 2016
Bank accounts	47,986	15,675
Term-accounts	930,000	930,000
<b>TOTAL</b>	<b>977,986</b>	<b>945,675</b>
<b>RECEIVABLES FROM FINANCIAL INSTITUTIONS (NET VALUE)</b>	<b>977,986</b>	<b>945,675</b>

### IV.3 RECEIVABLES FROM CLIENTS

Receivables from clients (in CZK '000)	31 December 2017	31 December 2016
Loans provided	14,523,648	16,382,587
<b>TOTAL RECEIVABLES FROM CLIENTS</b>	<b>14,523,648</b>	<b>16,382,587</b>
Of which doubtful loans	<b>2,560,101</b>	<b>2,524,064</b>
Allowances for receivables	-1,976,990	-3,042,808
<b>NET VALUE OF RECEIVABLES FROM CLIENTS</b>	<b>12,546,658</b>	<b>13,339,779</b>

Change in allowance for impaired assets (in CZK '000)	31 December 2017	31 December 2016
Allowance at the beginning of the period	-3,042,808	-3,531,058
Net increase/decrease of the allowance	1,065,818	488,250
<b>ALLOWANCE AT THE END OF THE PERIOD</b>	<b>-1,976,990</b>	<b>-3,042,808</b>

Change in allowance by asset type (in CZK '000)	31 December 2017	31 December 2016
Loans to and receivables from clients	-1,976,990	-3,042,808
<b>ALLOWANCE AT THE END OF THE PERIOD</b>	<b>-1,976,990</b>	<b>-3,042,808</b>

### IV.4 FINANCIAL INVESTMENTS REVALUATED BY THE EQUIVALENCE METHOD

Name, registered office (in CZK '000)	% of share capital	Amount of equity for the 2017 accounting period *preliminary data	Accounting income for the 2017 accounting period *preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	31,639	14,507

Společnost pro informační databáze, a.s. (SID, a.s.) was not included in the consolidation group because BNP Paribas Personal Finance SA, odštěpný závod does not have the position of a controlling or managing entity and because the investment in SID, a.s. is without any significance for the Bank in terms of the Balance sheet total, net turnover and equity.

In 2017, the value of this ownership interest was re-measured by the equity method as at the book closing date.

Name, registered office (in CZK '000)	% of share capital	Acquisition cost of financial asset	Valuation difference (equity method) * preliminary data	Value on re- measurement at 31 December 2017 (equity method) * preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	572	11,031	11,603

The Bank is not a member with unlimited liability.

#### IV.5 TAX ASSETS: DEFERRED TAX

Deferred tax (in CZK '000)	31 December 2017			31 December 2016		
	Temporary difference	Tax rate	Deferred tax	Temporary difference	Tax rate	Deferred tax
Tangible and intangible non-current assets	29,557	19%	5,616	37,415	19%	7,109
Amortisation of fees	-95,277	19%	-18,103	-60,225	19%	-11,443
Allowance for receivables	848,538	19%	161,222			
<b>TOTAL ASSETS</b>	<b>782,818</b>		<b>148,736</b>	<b>-22,810</b>		<b>-4,334</b>
Amortisation of fees	1,071	19%	203	2,605	19%	495
Liabilities arising from industrial relations	61,263	19%	11,640	71,839	19%	13,649
Allowance for receivables				142,728	19%	27,119
<b>TOTAL LIABILITIES</b>	<b>62,334</b>		<b>11,843</b>	<b>217,172</b>		<b>41,263</b>
Revaluation (hedging derivatives)	-2,905		-552	2,498		475
<b>TOTAL DEFERRED TAX ASSET</b>	<b>842,309</b>		<b>160,027</b>	<b>196,860</b>		<b>37,404</b>

## IV.6 PROPERTY AND EQUIPMENT

Tangible non-current assets (in CZK '000)	Buildings and constructions	Machines, instruments and equipment and furnishings	Computers	Passenger cars	Tangible non-current assets total
<b>ASSETS AS AT 1 JANUARY 2016 AT COST</b>	<b>53,314</b>	<b>22,033</b>	<b>100,344</b>	<b>7,201</b>	<b>182,892</b>
Additions to non-current assets		2,997	2,238		5,235
Disposals of non-current assets				-5,843	-5,843
Transfer of completed capital projects			-1,948		-1,948
<b>ASSETS AS AT 31 December 2016 AT COST</b>	<b>53,314</b>	<b>25,030</b>	<b>100,634</b>	<b>1,358</b>	<b>180,336</b>
Accumulated depreciation as at 1 Jan 2016	-47,139	-20,527	-85,054	-6,941	-159,661
Current year depreciation	-2,357	-377	-7,765	-227	-10,726
Provisions	-3,818		-2,885		-6,073
Net book value of non-current assets disposed of during the period				-33	-33
Accumulated depreciation of non-current assets disposed of during the period			1,948	5,843	7,791
Accumulated depreciation as at 31 Dec 2016	-53,314	-20,904	-93,756	-1,358	-169,332
<b>Net book value of tangible non-current assets as at 31 December 2016</b>		<b>4,126</b>	<b>6,878</b>		<b>11,004</b>
<b>ASSETS AS AT 1 JANUARY 2017 AT COST</b>	<b>53,314</b>	<b>25,030</b>	<b>100,634</b>	<b>1,358</b>	<b>180,337</b>
Additions to non-current assets	12,630	7,728	3,139		23,497
Disposals of non-current assets		-18,272	-33,035	-763	-52,070
Transfer of completed capital projects	-154	-9,969	-21		-10,144
<b>ASSETS AS AT 31 December 2017 AT COST</b>	<b>65,790</b>	<b>4,517</b>	<b>70,717</b>	<b>595</b>	<b>141,620</b>
Accumulated depreciation as at 1 Jan 2017	-53,314	-20,903	-93,757	-1,358	-169,332
Current year depreciation	-4,877	-381	-5,848		-11,106
Current year provisions	1,863				1,863
Net book value of non-current assets disposed of during the period		18,254	33,037		51,291
Accumulated depreciation of non-current assets disposed of during the period				763	763
Accumulated depreciation and provisions as at 31 Dec 2017	-56,328	-3,030	-66,568	-595	-126,521
<b>Net book value of tangible non-current assets as at 31 December 2017</b>	<b>9,462</b>	<b>1,487</b>	<b>4,149</b>		<b>15,099</b>

#### IV.7 INTANGIBLE ASSETS

Intangible non-current assets (in CZK '000)	Software	Additions to intangible non-current assets	Intangible non-current assets
<b>ASSETS AS AT 1 JANUARY 2016 AT COST</b>	<b>358,036</b>	<b>27,975</b>	<b>386,011</b>
Additions to intangible non-current assets		206,636	206,636
Disposals of intangible non-current assets			
Transfer of completed capital projects	15,891	-15,891	
<b>ASSETS AS AT 31 December 2016 AT COST</b>	<b>373,927</b>	<b>218,720</b>	<b>592,647</b>
Accumulated amortisation as at 1 January 2016	-327,477		-327,477
Current year amortisation	-25,406		-25,406
Current year provisions	-543		-543
Accumulated amortisation as at 31 December 2016	-353,426		-353,426
<b>Net book value of intangible non-current assets as at 31 December 2016</b>	<b>20,501</b>	<b>218,720</b>	<b>239,221</b>
<b>ASSETS AS AT 1 JANUARY 2017 AT COST</b>	<b>373,927</b>	<b>218,720</b>	<b>592,647</b>
Additions to intangible non-current assets		120,631	120,631
Disposals of intangible non-current assets	-16,873		-16,873
Transfer of completed capital projects	317,680	-317,680	
<b>ASSETS AS AT 31 December 2017 AT COST</b>	<b>674,734</b>	<b>21,671</b>	<b>696,405</b>
Accumulated amortisation as at 1 January 2017	-353,426		-353,426
Current year amortisation	-24,396		-24,396
Net book value of intangible non-current assets disposed of during the period	16,873		16,873
Accumulated amortisation as at 31 December 2017	-360,949		-360,949
<b>Net book value of intangible non-current assets as at 31 December 2017</b>	<b>313,785</b>	<b>21,671</b>	<b>335,456</b>

#### IV.8 OTHER ASSETS

Accruals and other assets (in CZK '000)	31 December 2017	31 December 2016
Trade receivables	107,600	61,729
Prepaid expenses	28,088	8,476
Hedging Derivatives – (Interest Rate SWAP)	3,156	
<b>TOTAL ACCRUALS AND OTHER ASSETS</b>	<b>138,844</b>	<b>70,205</b>

Temporary asset accounts contain prepaid expenses (prepaid overhead consumables, technical support for information systems, etc.), and other assets, including trade receivables related to other income and receivables from an Interest Rate SWAP.

#### IV.9 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Liabilities to financial institutions (in CZK '000)	31 December 2017	31 December 2016
Bank accounts (overdraft)	2,574	280,843
Bank loans	10,277,836	10,888,622
<b>TOTAL LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS</b>	<b>10,280,410</b>	<b>11,169,465</b>

Liabilities to banks (in CZK '000) Type of liability	Inter est rate	Security	31 December 2017	31 December 2016	Validity
Uncommitted line of credit (including overdraft) of CZK 1,000 million	Fixed	Guarantee by BNP Paribas S.A.	50,240	672,151	indefinite period
Uncommitted line of credit of CZK 2,500 million	Fixed	Guarantee by BNP Paribas S.A.	1,307,788	627,182	indefinite period
Uncommitted line of credit of CZK 3,050 million	Fixed	Guarantee by BNP Paribas S.A.	100,325	501,155	indefinite period
Uncommitted line of credit (including overdraft) of CZK 3,000 million (merged overdraft)	Fixed	Guarantee by BNP Paribas S.A.	451,755	1,257,896	indefinite period
Uncommitted line of credit (including overdraft) of CZK 5,250 million	Fixed	Guarantee by BNP Paribas S.A.	2,038,185	3,092,932	indefinite period
Other liabilities			2,569		
<b>TOTAL BANK LOANS</b>			<b>3,950,862</b>	<b>6,151,316</b>	
Bank loans from related parties	Fixed	Unsecured	6,329,548	5,018,149	indefinite period
<b>TOTAL BANK LOANS</b>			<b>10,280,410</b>	<b>11,169,465</b>	

Changes of Liabilities' from financing transactions (in CZK '000)	BANKS LOANS	DEBT SECURITIES	TOTAL
<b>OPEN BALANCE AS AT 1 JANUARY 2017</b>	<b>11,169,465</b>	<b>1,500,163</b>	<b>12,669,628</b>
Cash - liabilities repayment	-13,976,519	-12,395	-13,988,914
New drawdowns	13,022,395		13,022,395
Others changes in current accounts	65,069	14,008	79,077
<b>CLOSING BALANCE AS AT 31 DECEMBER 2017</b>	<b>10,280,410</b>	<b>1,501,776</b>	<b>11,782,186</b>

#### IV.10 DEBT SECURITIES

Debt Securities (in CZK '000)	Issue date	Maturity date	Total nominal value	Interest rate	31 December 2017	31 December 2016
<b>Title</b>						
CETELEM ČR VAR/19	8. 10. 2014	8. 10. 2019	1 500 000	6M Pribor+0,46%	1,501,776	1,500,163
<b>DEBT SECURITIES</b>					<b>1,501,776</b>	<b>1,500,163</b>

#### IV.11 PROVISIONS

Provisions (in CZK '000)	31 December 2017	31 December 2016
Provisions at the beginning of the period	13,200	25,109
Charges to provisions	3,199	1,721
Release of provisions	-2,189	-13,630
<b>TOTAL PROVISIONS</b>	<b>14,211</b>	<b>13,200</b>

In 2017 the Bank created provisions for the Bank's contingent liabilities arising from remuneration of management where the payment depends on the fulfilment of conditions in the future periods. During the year 2017 this provision was partially dissolved.

#### IV.12 TAX RECEIVABLES: CURRENT TAX

Income tax payable (in CZK '000)	31 December 2017	31 December 2016
Current period income tax	-119,682	-231,361
Income tax advance	267,652	296,514
<b>INCOME TAX ASSETS</b>	<b>147,970</b>	<b>65,135</b>

#### IV.13 OTHER LIABILITIES

Accruals and other liabilities (in CZK '000)	31 December 2017	31 December 2016
Accrued income	43	65
Prepaid expenses	157,217	129,240
Trade payables and other liabilities	316,160	283,624
Hedging Derivatives – (Interest Rate SWAP)		2,552
<b>ACCRUALS AND OTHER LIABILITIES</b>	<b>473,420</b>	<b>415,481</b>

Accrued revenue consists of payments received from clients in respect of a future period and amortised by the effective interest rate.

Prepaid expenses consist of trade payables affected by the time lag occurring during the operations related to loan provision as at the book closing date (time lag between the date on which loans are granted and the date on which the relevant funds are debited to the Bank's bank accounts to be credited to authorised dealers' and clients' accounts).

Trade payables and other payables comprise payables arising from labour-law relations, specifically unpaid wages, unpaid insurance and the down payment for employees' income tax for December 2017, payable in January 2018, the tax liability in respect of indirect taxes payable in January 2018, and liabilities to suppliers, including estimated items. Estimated items comprise the costs related to the current period, the amount of which was not precisely known as at the date of the financial statements. They include, in particular, unbilled supplies of services and goods (services purchased in connection with loan provision, supplies of utilities, postal charges, telecommunications services, database administration etc.).

As at 31 December 2017, the Bank had no payables overdue for more than 180 days, nor did it have any other liabilities not stated in the Balance Sheet.

##### IV.13.1 HEDGING DERIVATIVES

Hedging derivatives (in CZK '000)	31 December 2017		31 December 2016	
	Positive Fair Value	Negative Fair Value	Positive Fair Value	Negative Fair Value
Hedging of cash flow				
Interest rate SWAP	3,156			2,552
<b>TOTAL HEDGING DERIVATIVES</b>	<b>3,156</b>			<b>2,552</b>

Total nominal value of derivatives used for the purpose of interest risk hedge was 1,000 million CZK as at 31 December 2017. The derivatives value decreased due the decision of the central ALM Treasury BNP Paribas Personal Finance from France against year 2016, when their value as at 31 December 2016 was 1,500 million CZK.

Derivatives for hedging purposes are primarily concluded on the basis of contract with BNP Paribas and are measured at fair value based on the methods used by BNP Paribas. Positive fair value is stated in the Statement of the Financial Position in the line "Other assets", negative fair value was in 2016 presented in line "Other liabilities".

Cash flows are expected in accordance with the maturity of the hedged instruments (bonds are due in 2019). In the accounting period, the statement of Comprehensive income showed a cost of realized interest rate derivatives of 712 thousand CZK and revenues of 389 thousand CZK. In 2016, it was a cost of 1.9 million CZK. No other transactions or accounting operations during the accounting period were realized.

#### IV.14 EQUITY

As at 31 December 2017, the Bank's equity was 2,300,963 thousand CZK; as at 31 December 2016 amounted to 1,622,087 thousand CZK. The equity comprises Reserves allocated to branch, Profit for the current period, and other comprehensive gains and losses from revaluation of hedging derivatives.

Incomes, losses from revaluation and revaluation of assets and liabilities represent revaluation of shares in SID, a.s. and revaluation of hedging derivatives at fair value and deferred tax from revaluation.

On 3 April 2017 the founder decided to transfer part of retained earnings in the amount of 1,232,407 thousand CZK.

Until the Balance sheet preparation date the founder has not decided on a capital transfer the year 2017.

## V. STATEMENT OF COMPREHENSIVE INCOME: EXPLANATORY NOTES

### V.1 NET INTEREST INCOME

Net interest income (in CZK '000)	31 December 2017			31 December 2016		
	Income	Expense	Net income	Income	Expense	Net income
<b>Client transactions</b>						
Credit and loans	1,866,141		1 866,141	2,132,554		2,132,554
Deposits		-14	-14			
<b>Transactions with banks and other financial institutions</b>						
Deposits, interest and loans	11,158	-80,986	-69,828		-123,484	-123,484
<b>NET INTEREST INCOME /(EXPENSE)</b>	<b>1,877,299</b>	<b>-81,000</b>	<b>1,796,299</b>	<b>2,132,554</b>	<b>-123,484</b>	<b>2,009,070</b>

Net interest income comprises all income and expenses related to financial instruments and reported using the method of amortisation of costs (interest, fees, commissions, and transaction costs), the amount of which is measured using the effective interest rate method. The Deposits expenses are the new item since 2017, as the Bank started to provide interest-bearing current and savings accounts.

### V.2 FEES AND COMMISSIONS

Fees and commissions (in CZK '000)	31 December 2017			31 December 2016		
	Income	Expense	Net	Income	Expense	Net
Client transaction charges	218,707	-3,149	215,558	206,591	-6,652	199,939
Payment transaction charges	4,725		4,725	5,639		5,639
Fees for foreign currency operations	12		12			
Commissions from insurance	186,792		186,792	194,415		194,415
Other income/expenses	22,483	-30,603	-8,120	74,271	-35,670	38,601
<b>NET INCOME ON FEES</b>	<b>432,719</b>	<b>-33,752</b>	<b>398,967</b>	<b>480,916</b>	<b>-42,322</b>	<b>438,594</b>

Charge and commission income and expense comprise, in particular, the fees, commissions and contract penalties related to the Banks' core business – the provision of loans; they do not constitute the initial direct income and expense reflected in the measurement of interest income using the effective interest rate.

### V.3 DIVIDEND INCOME

In 2017, the Bank received dividends at the amount of 3,769 thousand CZK. In 2016 the Bank received dividends at the amount of 3,323 thousand CZK.

#### V.4 OTHER INCOME AND EXPENSE

Net income from other activities includes the Bank's income and expenses related to the provision of non-core services. In 2017, other net income amounted to 4 199 thousand CZK, in 2016 other net income expenses to 516 thousand CZK.

#### V.5 PERSONNEL COSTS

Employee costs (in CZK '000)	31 December 2017	31 December 2016
Wage costs	-343,121	-297,902
Personnel costs	-32,952	-31,308
Social and health insurance	-107,383	-92,419
Social fund (Short-term benefits)	-7,500	-7,500
<b>TOTAL PAYROLL COSTS</b>	<b>-490,956</b>	<b>-429,129</b>

#### V.6 OPERATING COSTS

Operating costs (in CZK '000)	31 December 2017	31 December 2016
Costs of payment instruments	-10,670	-13,822
Rent	-43,909	-52,630
Travel costs	-10,957	-9,563
Information technology	-337,810	-149,029
Low-value tangible and intangible assets	-9,563	-6,429
Other services	-198,150	-263,068
Other taxes and charges	-10,742	-14,113
Others	68,645	39,332
<b>NET OPERATING COSTS</b>	<b>-553,156</b>	<b>-469,322</b>

#### V.7 DEPRECIATION AND ALLOWANCES FOR PROPERTY, PLANT AND EQUIPMENT

Depreciation and allowances for property and equipment (in CZK '000)	31 December 2017	31 December 2016
Buildings and equipment	-3,014	-6,176
Computers	-5,848	-10,651
Vehicles		-227
Other tangible assets	-381	-377
<b>TOTAL DEPRECIATION AND ALLOWANCES FOR PROPERTY AND EQUIPEMENT</b>	<b>-9,243</b>	<b>-17,431</b>

## V.8 AMORTISATION AND ALLOWANCES FOR INTANGIBLE ASSETS

Amortisation and allowances for intangible assets (in CZK '000)	31 December 2017	31 December 2016
Software	-24,396	-25,948
<b>TOTAL AMORTISATION AND ALLOWANCES FOR INTANGIBLE ASSETS</b>	<b>-24,396</b>	<b>-25,948</b>

## V.9 IMPAIRMENT OF RECEIVABLES

Cost of risk for the current period (in CZK '000)	31 December 2017	31 December 2016
Net additions to allowances	337,924	703,262
Reversal of allowances	-307,840	-766,552
Receivables' write-off not covered by allowances	-4,393	-5,994
<b>TOTAL COST OF RISK</b>	<b>25,691</b>	<b>-69,284</b>

Cost of risk for the current period by type of asset (in CZK '000)	31 December 2017	31 December 2016
Loans to and receivables from clients	25,691	-69,284
<b>TOTAL ALLOWANCE</b>	<b>25,691</b>	<b>-69,284</b>

The Bank wrote off the loss-making receivables whose value decreased due to permanent impairment caused by fraud or death of the debtor, and the write-off of which is, under the income tax act, tax allowable, and also receivables which the Company, given its long-term experience, does not expect to recover or the Company is not able to collect actively because the period expired. The amount written-off was 311,537 thousand CZK in 2017 and CZK 124,978 thousand in 2016. In 2017, the income from written-off outstanding amounted to 56,663 thousand CZK, in 2016 to 215,012 thousand CZK.

## V.10 IMPAIRMENT OF ASSETS

Asset impairment means a realised loss or gain from the disposal of the non-current assets used for operating activities and intended for replacement. In 2017, this gain amounted to CZK 313 thousand. In 2016, this amounted to CZK 2,279 thousand.

## V.11 PROVISIONS

The Bank created in 2017 provisions in the amount of 3,199 thousand CZK concerning contingent liabilities arising from remuneration of management where the payment depends on the fulfilment of conditions in the future periods. In 2017 the provision for remuneration of management was partially dissolved in the amount of 2,189 thousand CZK.

The Bank created in 2016 accounting provisions at the amount of 1,721 thousand CZK concerning contingent liabilities arising from remuneration of management where the payment depends on the fulfilment of conditions in the future periods. In 2016 provision resulting from liabilities arising from compensation for costs associated with the failed

recovery of debts via seizure was partially dissolved at the amount of 12,600 thousand CZK and the provision for the Bank's contingent liabilities arising from remuneration of management was also partially dissolved at the amount of 1,030 thousand CZK.

## V.12 INCOME TAX

Income tax (in CZK '000)	31 December 2017	31 December 2016
Profit before tax under IFRS	1,150,476	1,453,545
IFRS adjustments	-38,725	30,095
Profit before tax under CAS	1,111,751	1,483,640
- Non-tax deductible income	-571,642	-394,211
- Non-tax deductible costs	90,256	128,902
Income tax rate	19%	19%
- Tax deductions	88	102
Current income tax (provision for income tax)	-119,682	-231,381
The rest of income tax for 2016	-8,712	20
<b>Total income tax</b>	<b>-128,394</b>	<b>-231,361</b>
Other items – temporary differences	845,152	194,362
The change of deferred tax against previous year	650,790	53,804
Tax rate for deferred tax calculation	19%	19%
<b>Deferred tax</b>	<b>123,650</b>	<b>10,223</b>
<b>INCOME TAX</b>	<b>-4,744</b>	<b>-221,138</b>

As at 31 December 2017, the effective tax rate was 11.16 %. The difference between the effective tax rate and tax rate is due to reduction of allowances for doubtful loans: due to the limit on tax deductible allowances, they were not recognized as tax-deductible costs.

## VI. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### VI.1 OVERALL PRESENTATION OF RISKS

The management strategy of BNP Paribas Personal Finance SA, odštěpný závod is to apply a prudent and balance approach in all areas of taken risks – credit risk, market risk, particularly in the area of liquidity risk, interest rate risk, operational risk and regulatory risk. The Bank's core business in the Czech Republic is the provision of consumer loans to private individuals and the provision of services related thereto. The Bank is mainly exposed to risks concerning to this segment. The objective of risk management is to maintain stable long-term profitability of the Company through various risk management tools, especially statistical models and processes, skilled employees and the application of the rules of BNP Paribas Group.

The Bank has been and still can be exposed particularly to the external environment influence due to a significant deterioration in market, economic and regulatory conditions, in particular the deterioration in the credit or liquidity market, increasing protection of consumer or from macroeconomic situation (recession, decline in household consumption, unemployment, etc.).

Market failure and a sharp economic decrease, which may occur rapidly and therefore they cannot be fully predicted, could impact the business environment for the financial institutions for a short or long period of time. They could have had a significant adverse impact on the financial situation of the Bank, its business, economical result or the cost of risk.

The following major risks have been identified in the context of these activities:

- **Credit risk** – in terms of receivables from clients or business partners represents an existing or threatening risk of loss in economic value due to the failure of clients to meet their obligations, it is associated with changing creditworthiness of a debtor;
- **Interest rate risk (market risk)** – the Bank provides loans to private individuals and/or business owners under terms and conditions that are fixed contractually when the loan is being granted. Interest rate risk is a change in market interest rates during the contractual relationship. To ensure the stability of net interest income, the tariff rate must be ensured against any fluctuations in the economic environment, especially against changes in the market rates (interest rate risk);
- **Liquidity risk** – represents potential loss due to lack of sufficient financial means to cover liabilities from the business. The Bank must ensure that mainly sufficient funds to cover the loans provided to its clients are available to it throughout its life (liquidity risk);
- **Operational risk** – risk of loss due to shortcomings or failures of internal processes, the human factor or the system, or risk of loss due to external factors, which lead or could lead to the loss of opportunity or to the loss of profit. Operational risk includes legal risks, but excludes strategic and reputational risks.
- **Regulatory risk** – risk of loss due to legal regulation changes which influence significantly entrepreneurship of the Bank.

## VI.2 CREDIT RISK

Credit risk represents an existing or potential risk of loss of economic value of receivables on loans due to clients' default. It is associated with deterioration in the borrowers' credit quality, which may lead to losses for the Bank. The estimated probability of a credit event (litigation, failure), as well as expected effectiveness of recovery actions in case of credit event (litigation, failure) are key parameters of credit quality measurement. The loan portfolio does not contain any significant individual items: it consists of a large number of loans with relatively small amounts to be repaid, and with a small correlation between loans.

The risk of other counterparties, where exists or may arise financial obligatory to the Bank, is also monitored within credit risk management.

### *Risk of clients' insolvency*

The risk of insolvency proceedings comprises the risk of bankruptcy being declared in respect of the client's assets (or the bankruptcy is not being declared due to the insufficient assets to cover management costs), resulting in an initiation of mechanisms foreseen by law for the discharge of debts. Therefore, the Bank is exposed to a risk of financial losses due to a lower recoverability, limited amount of recoverable debt and due to a longer period of receivables recovery. The risk of clients' insolvency is regularly monitored within the uniform system for evaluating credit risk.

### *Risk of early repayment*

The risk of early repayment is the risk that clients could pay their liabilities earlier and higher amount than expected, resulting in a financial loss for the Bank. The risk of early repayment of granted loans is regularly observed and monitored. In the current period was not achieved significant deviation from the anticipated development.

### *Impact of the macroeconomic development on the credit risk management*

The credit risk development can be adversely affected by the macroeconomic development. The credit risk in the area of providing consumer loans is particularly sensitive to rising unemployment, prizes and the gradually increasing indebtedness of households even leading to excessive indebtedness and growing number of personal bankruptcies. The Bank's used criteria for an approval of loans are focused to minimize the losses caused by the aforementioned negative effects. A part of risk management standard procedures is an assistance service for clients having problems with the repayment of their loans.

## VI.2.1 Credit risk management

In order to manage the credit risk, the Bank uses the uniform methodology defined by the central risk management and is adjusted in procedures of the Group applied by the BNP Paribas Personal Finance. The methods and tools for risk management depend on the type of loans. Selection and ongoing monitoring of distribution channel is critical for consumer loans. Loans are provided to clients in accordance with the segmentation by using scoring models and expert systems. Credit risk of business partners is restricted by monitoring of maximum limits of risk set for each vendor.

External databases are used for appraisal of creditworthiness of clients and business partners. Used databases are Solus and CBCB – Czech Banking Credit Bureau and both are operated by interest associations of legal entities.

The highest internal body for credit risk management in particular areas, for assessing and approving limits on credit risk for all credit transactions and products is a **Risk Committee**. The Risk Committee assesses and approves the principles of business policy with respect to credit risk management; assesses and approves non-standard loan transactions exceeding the limits defined for system assessment and approval of credit transactions; defines and approves the system of measurement and management of credit risk, including the level structure of credit portfolio of the Bank to achieve specified levels of financial goals; compares and assesses actual development of credit risk with defined goals; monitors and manages changes in setting rules for loan approval and approves corrective measures in case of exceeding set limits. During risk management of other counterparties, where exists or may arise financial obligatory to the Bank, monitors mainly compliance with the exposure to individual counterparties. The Risk Committee has one subcommittee which main purpose is consulting, evaluating and taking action in the area connected with providing funding to cooperating business partners.

The Risk Direction is a separate organisational unit, independent of the Banks's business and financial activities and is responsible for overseeing the Banks's credit risk, including:

- Determination of the conditions for lending and conditions of co-operation with trading partners;
- Provision of system support for loan transactions;
- Credit risk monitoring, measuring and reporting;
- Realizing remedial measures when limits are exceeded or adverse trends emerge;
- Management of data infrastructure and the analytical systems that support risk management;
- Definition of procedures for the prevention of fraudulent operations;
- Contributing to the formulation of the Company's internal rules and work procedures;
- Overseeing the credit risk scoring models.

## VI.2.2 Overdue Receivables

The table below shows the net values of outstanding receivables by the length of time past the due date, not reduced by created portfolio allowances (allowances on a portfolio basis); it also shows the values of doubtful debts reduced by individual allowances (with allowances applied on an individual basis), and the security, if any, for these assets.

Overdue receivables and liabilities reduced by individual allowances, as at 31 December 2017 (in CZK '000)	Overdue receivables not covered by individual allowances					Doubtful receivables not covered by individual allowances	Total loans and other overdue liabilities	Security for overdue receivables not covered by individual allowances	Security for doubtful receivables covered by individual allowances
	Total	Up to 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year				
Financial assets measured to fair value									
Tradable financial assets (except for variable-income securities)									
Loans to and receivables from financial institutions									
Loans to and receivables from clients	1,038,862	1,038,862				772,996	1,811,858		
Overdue receivables reduced by individual allowances	1,038,862	1,038,862				772,996	1,811,858		
Off-balance sheet liabilities – loan commitments									
Guarantees granted									
Off-balance sheet liabilities reduced by allowances									
<b>TOTAL</b>	<b>1,038,862</b>	<b>1,038,862</b>				<b>772,996</b>	<b>1,811,858</b>		

Overdue receivables and liabilities reduced by individual allowances, as at 31 January 2016 (in CZK '000)	Overdue receivables not covered by individual allowances					Doubtful receivables not covered by individual allowances	Total loans and other overdue liabilities	Security for overdue receivables not covered by individual allowances	Security for doubtful receivables covered by individual allowances
	Total	Up to 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year				
Financial assets measured to fair value									
Tradable financial assets (except for variable-income securities)									
Loans to and receivables from financial institutions									
Loans to and receivables from clients	965,651	965,651				764,200	1,729,851		
Overdue receivables reduced by individual allowances	965,651	965,651				764,200	1,729,851		
Off-balance sheet liabilities – loan commitments									
Guarantees granted									
Off-balance sheet liabilities reduced by allowances									
<b>TOTAL</b>	<b>965,651</b>	<b>965,651</b>				<b>764,200</b>	<b>1,729,851</b>		

## VI.3 MARKET RISK (RISK OF LOSS FROM ASSETS AND LIABILITIES MANAGEMENT)

All financial instruments and positions of the Bank are exposed to market risk, i.e. the risk that a future change in the market conditions may impair the value of or may disadvantage a certain instrument.

The Bank uses methods and procedures for credit risk and currency risk management applied by the BNP Paribas Group. The purpose is to manage the risk of the fluctuations in net interest income which are caused by changes in interest rates, foreign exchange rates, and the maturities of financial instruments, through the asset/liability gap analysis and the approved limits in each of the groups.

### VI.3.1 Market Risk Management

**The Committee for assets and liabilities management** is the supreme authority for the management of assets and liabilities; discusses the analysis of the structure of assets and resources to cover them. The Committee mainly monitors and manages interest rate risk and liquidity risk; assesses actual amount of available resources and proposes requirements of refinancing for the specified following period; interprets risk and in case of need takes decision; decides about the securing from; supervises compliance of limits set for a different types of refinancing and their correspondence with the Group's policy; reviews the availability of resources, their amount in relation to business plans and plans for future development of the Bank; seeks and evaluates alternative refinancing options and monitors compliance with the capital adequacy required by law and discusses its amount with competent units of the Group.

### VI.3.2 Interest Rate Risk

Interest rate risk is the risk of a change in the value of a financial instrument as a result of a change in the market interest rates. The period of time for which the financial instrument's interest rate is fixed indicates the extent to which the instrument is exposed to the interest rate risk resulting from different maturities. Interest rate risk is also caused by the different maturities of underlying floating-rate financial instruments. The Bank provides, for the most part, fixed-rate loans with fixed maturity, which bear no interest rate risk attributable a variable nature of their pricing conditions. Interest rate risk is also minimised by the selection of a refinancing form corresponding to the financial asset's profile at the time of its inception, refinancing sources with the floating interest rate are provided in the form of hedging derivatives.

### VI.3.3 Currency Risk

Currency risk emerges when the economic value of a foreign-currency financial instrument is affected by changes in foreign exchange rates. To eliminate this risk, such financial asset must be matched by a liability denominated in the same currency in which the asset was provided. The currency risk management is governed by the principle that customer products are funded by refinancing sources in the same currency. The Bank does not record foreign-currency assets and liabilities in amounts at which a change caused by exchange rate fluctuations could cause material impact on Profit and Loss. The functional currency of the Bank is the Czech crown and its activities are carried out mainly in Czech crowns.

### VI.3.4 Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to obtain sufficient readily available funds to meet its liabilities resulting from financial contracts. Assignable financial instruments (assets/liabilities) with a variable interest rate, identical underlying rate, but different maturity, cause the liquidity risk. The liquidity risk results from various maturities of assets and liabilities, and it comprises the risk that the Bank would not be able to finance its assets as of the relevant maturity date and in the corresponding rate, and the risk that the Issuer would not be able to fulfil its liabilities as they become due.

The Bank's approach to liquidity management is based on providing for sufficient liquidity to pay all of its liabilities as they fall due under both ordinary and extraordinary circumstances without incurring any material losses. The Bank monitors on a regular basis the maturities of the various financial assets and liabilities and the information supporting the planned cash flows. The daily liquidity position is recorded and is regularly tested against various scenarios reflecting both normal and adverse market conditions.

The Bank creates a liquidity reserve in the form of short-term deposit in case of the liquidity crisis.

The Bank uses different refinancing methods. For the most part, financing is provided for through bank loans from third parties, bank loans within the Group, debt securities, and the Bank's own funding. Support by the BNP Paribas Group, also in the form of hedging liabilities of the Bank, is one of the pillars of the Bank's liquidity management; it improves financing flexibility and reduces the risks inherent in the dependence on other sources and the risk of potential adverse impacts.

Financial assets and liabilities by maturity as at 31 December 2017 (in CZK '000)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	TOTAL
Loans to and other receivables from clients	908,192	1,435,598	5,365,555	4,025,736	91,298	11,826,377
<b>FINANCIAL ASSETS BY MATURITY</b>	<b>908,192</b>	<b>1,435,598</b>	<b>5,365,555</b>	<b>4,025,736</b>	<b>91,298</b>	<b>11,826,377</b>
Liabilities to financial institutions	705,000	1,590,000	4,205,000	3,670,000	80,000	10,250,000
Bonds				1,498,294		1,498,294
<b>FINANCIAL LIABILITIES BY MATURITY</b>	<b>705,000</b>	<b>1,590,000</b>	<b>4,205,000</b>	<b>5,168,294</b>	<b>80,000</b>	<b>11,748,294</b>
<b>NET POSITION</b>	<b>203,192</b>	<b>-154,402</b>	<b>1,160,555</b>	<b>-1,142,558</b>	<b>11,298</b>	<b>78,083</b>

Financial assets and liabilities by maturity as at 31 January 2016 (in CZK '000)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	TOTAL
Loans to and other receivables from clients	960,046	1,579,615	5,757,108	4,285,375	130,120	12,712,264
<b>FINANCIAL ASSETS BY MATURITY</b>	<b>960,046</b>	<b>1,579,615</b>	<b>5,757,108</b>	<b>4,285,375</b>	<b>130,120</b>	<b>12,712,264</b>
Liabilities to financial institutions	1,100,000	1,760,000	4,410,000	3,520,000	60,000	10,850,000
Bonds				1,497,319		1,497,319
<b>FINANCIAL LIABILITIES BY MATURITY</b>	<b>1,100,000</b>	<b>1,760,000</b>	<b>4,410,000</b>	<b>5,017,319</b>	<b>60,000</b>	<b>12,347,319</b>
<b>NET POSITION</b>	<b>-139,954</b>	<b>-180,385</b>	<b>1,347,108</b>	<b>-731,944</b>	<b>70,120</b>	<b>364,945</b>

## VI.4 OPERATIONAL RISK

Operational risk is the risk resulting from inadequacy or failures of internal processes, people and systems or from external events, which had, could have or could have had the consequence of the lost or opportunity cost.

Operational risk comprises the human resource risks, the compliance risk, legal risks, tax risks, information system risks, outage risks, risks related to financial information disclosure, and the reputation risk (public reputation of the Bank).

### VI.4.1 Operational risk management

The main aim of operational risk management is the preparedness for critical situations and minimisation of potential losses of the Bank by increasing the efficiency of management and control system, identification of strengths and weaknesses of the control mechanisms and creating the early warning system.

The operational risk management in the Bank has to take into account:

- Own risk profile – own general exposure to the potential operational risk events;
- Risk tolerance – the degree of exposure to the operational risk, which the Bank is able to accept.

The Bank set up these objectives and principles of operational risk management:

- Mobility of all employees to implement measures to control risk.
- Reduce the likelihood of operational risk incidents that could threaten:
  - The good name of the Bank;
  - The confidence which have clients, shareholders, investors, employees and supervising authorities towards the Bank;
  - The quality of services and products;
  - The profitability of its business;
  - The efficiency of processes.

- Maintaining effective management and control system with appropriate level of formalization, which enables the proper risk control.
- Achieving an appropriate balance between risks taken and the cost of operational risk management system.

The Bank has put in place operational risk management standards and processes for compliance with these principles and objectives including:

- Monitoring of compliance with statutory regulations and other legal requirements.
- Definition and separation of each individual's competences.
- Observance of principles of independent multiple authorisations of transactions and their ex post checking and monitoring.
- Documentation of controls and procedures, including regular evaluation and identification of operational risks.
- Regular reporting of operating incidents, disclosure of losses and proposals for remedial measures.
- Measures to mitigate the impacts of risks, including insurance if considered to be effective.
- Preparation of contingency plans to manage emergency situations.
- System of training and professional development.
- Standards of ethics, and business codes of practice.

**The Committee for operational risk and security** is the supreme authority for operational risk management. The Committee discusses and evaluates areas of activities related to operational risk and security of the Bank (physical and informational) including the state of emergency planning in the Bank. The Committee for operational risk and security discuss in particular the status of historical and potential incidents, their coverage of internal controls; discusses the losses and potential losses from incidents; controls the accuracy of approach to calculate these losses and examines the adequacy of capital to cover these risks and examines the map of Bank's risks from the point of timeliness and completeness in relation to operational risks.

## VI.4.2 Regulatory risk

The business environment is being increasingly affected by changes in legislation and the interpretations thereof by the governmental authorities competent to do so. Fully in line with the principles applied within the EU, the growing interest in boosting consumer protection, in particular, has a bearing on the Bank. Higher quality information provided to consumers, and hence their improved competence, also plays a major role. Organisations for consumer right protection are also important agents of change.

As an international banking entity (branch of the bank based in EU member state) , the Bank is subject from mid-2015 to the supervision over the founder in France and especially in the area of consumer protection, banking secret protection, payment transactions and AML, the Czech National Bank.

The Bank is obliged to satisfy a number of regulatory requirements of the Czech Republic and France, as a piece of general legislation, and also those set out in special legislation on consumer credit, insurance mediation and personal data protection,

regulations on labour law, and in laws and regulations on payment services, capital markets, taxes, bookkeeping and reporting. Furthermore, the Bank must be in compliance with the EU legal environment, the most important is the comprehensive legal rule on minimum capital adequacy (EU Directive No 575/2013). Changes in the above legislation can have a major impact on the market environment in which the Bank operates. However, these changes are not fully predictable.

Any change in legislation or governmental authorities' decision-making practice, which results in a material change of the conditions for lending, any intervention with the position of lenders or with their capital, or the imposition of new obligations and restrictions – all of this can have unfavourable impacts on the Bank's business, results, financial standing, liquidity and business prospects.

In order to eliminate the regulatory risk, the Bank has in place a mechanism for monitoring legislative amendments and evaluating their impacts. Either on its own or as a member of professional organisations, the Bank monitors and evaluates legislative plans and also specific proposals put forth by the stakeholders in the law-making process in the Czech Republic, France and the EU. Since the legal framework within which the Bank in the Czech Republic carries on its business is continuously evolving, its future shape cannot be fully predicted, and the impacts on the Bank's activity in the Czech Republic therefore cannot be evaluated to the full extent.

With regard to its core business, the Bank is primarily obliged to satisfy the requirements for consumer protection in the provision of financial services. The key laws in this respect include Act No 257/2016 on consumer credit, Act No 370/2017 on payment system, Act No 89/2012, the Civil Code and Act No 21/1992 on banks.

Where the Bank's business practices fail to meet the requirements of the law on consumer credit, which are mainly placed on the particulars to be contained in loan agreements; advertising, and on performing the information obligations prior to and during the course of the credit relationship, or generally in the area of fulfilment of dealing with the customer during the credit relationship, an administrative fine can be levied on the Bank, next to any claims made by clients.

As a result of contravening the law, the Bank can also face financial losses from credit transactions, as a result of the breach of the obligation to assess the creditworthiness of consumers or it may be held liable for the Bank's trade partners (credit intermediaries) failing to perform their own information obligations to clients.

The Bank is also intensively involved in preparing for legislative changes in other areas such as the protection of personal data, payments, digitalization, etc.

In 2017 an amendment to the Payment Systems Law which implements the European Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features into the Czech legislation entered into force. In this respect, the bank (in addition to the current and savings account) presented a new product to the public - a basic payment account offering basic payment services at ordinary prices on the Czech banking market. Within the year 2018 other obligations arising from this amendment will be met: the contractual documentation of the bank, as well as other written materials will be adjusted to meet the requirements of the unified purpose of payment account services, before the conclusion of contract a new document will be provided to the clients, the so-called pre-contract information on the payment, and, once a year, the client will

also receive an annual report on payments for the services provided.

In 2018 other changes in the payment system are expected - in January the new Payment Systems Law will enter into effect, which will replace the existing legal regulation. Furthermore, the Law will introduce a new type of payment services - the account information service and the indirect payment order service. The account information service allows the client to see balances and movements on all of his/her accounts within the same application. The indirect payment order service allows executing the payment from the client's account through an external application. Both new services and new suppliers on the banking market call for the enhancing of electronic payments security - so-called strong client authentication will be used to verify the identity of the client, changes will also occur in the field of transaction monitoring.

The General Data Protection Regulation (GDPR), which will enter into force in May 2018, introduces, amends and clarifies a number of obligations in the field of personal data protection, significantly increases penalties for violations (up to 4% of world turnover). The main changes include the mandatory appointment of an authorized person for the protection of personal data, the proper notification of the customers regarding the processing of personal data, the opt-in mode for the granting of consent to the processing of personal data or strengthening the rights of the data subjects towards their administrators.

In December 2016, a new Consumer Credit Law was adopted, which has a significant impact on the provision of consumer credit. In addition to the changes made since the effective date, the certification of intermediaries in consumer crediting was been taking place in 2017. This process will continue in 2018.

It could be assumed that in 2018 a new Insurance Distribution Law will be approved. Persons participating in the distribution of insurance will be obliged to obtain permission for insurance intermediary in the appropriate category and fulfill the obligations pursuant to the law. The information obligations towards consumers will be significantly expanded.

Bank as a regulated banking subject has an obligation to continuously fulfill quality criteria for setting up and functioning of the internal control system, demands on management processes, risk management, the existence of appropriate technical, personnel and organizational requirements for prudent provision of payment services, payment security, or the protection of banking secrecy, all at the level of branch in the Czech Republic.

In credit risk management, the Bank will also have to cope, on an ongoing basis, with the impacts of the already enacted legislative changes related chiefly to the implementation of e-government, as a result of which creditors can be expected to have fewer opportunities to obtain and check client identification data and other data important for credit risk management from the identification documents produced by clients.

The Bank thoroughly follows the legislative intent on receivables collection. In this regard, the most crucial is a change in the Insolvency Law, which provides the debtors with the opportunity to be released from their outstanding debts after seven years, regardless of the part of their liabilities they were actually paid off during this period.

Along with the requirements of the new legal legislation, the Bank is constantly taking further steps to improve the security and integrity of its systems on its own. There are broad measures in place with respect to the amendment to the Cybersecurity Law. Its full effect on the Bank is expected in 2018 when the relevant documents will be issued, and the authority will define the subjects affected by the new law.

This Law specifies obligations for relevant persons, in particular, to establish mechanisms for the detection of cyberattacks, including the management of associated risks and measures.

The Bank constantly works at the highest level both to ensure the security of its infrastructure, and to protect operating systems and processed data. Within its activity, the Bank has implemented many technologies for cyber security. These measures are constantly being improved and being applied by the bank in accordance with the latest market practices.

The Bank operates in providing of financial service to consumers. It is therefore affected by the legislative plans, which aims to impose caps on interest rates or a cap on APR, which will have to be reflected in the product pricing structure.

As at the date of the financial statements, the Bank is not involved in any exceptional case or dispute such as would have a material impact on its financial situation, activity, results, or assets and liabilities. The Banks's dispute agenda focuses on collecting of overdue receivables from clients or business partners.

The Bank is not aware of any other significant risks arising from potential administrative proceedings conducted by inspection, supervision and surveillance authorities.

At the date of the financial statements, the Bank is not aware of any significant breaches of legal obligations which could lead to imposing sanctions by the supervisory bodies. However this can't be ruled out.

## VII. OTHER INFORMATION

### VII.1 OFF-BALANCE SHEET RECEIVABLES AND PAYABLES

As at 31 December 2017, the potential liabilities arising from approved lines of credit and loan commitments to clients amounted to CZK 13,646,732 thousand and as at 31 January 2016 they amounted to CZK 13,204,858 thousand. Liabilities arising from approved lines of credit do not necessarily imply future disbursements, because a part of the future liabilities will be discharged without the funds being drawn in full.

### VII.2 CONTINGENT ASSETS AND LIABILITIES

The Bank is not aware of any material contingent liabilities and does not record any contingent assets. As of the date of financial statements, the Bank does not register any exceptional case of dispute. The Bank is not aware of any risks resulting from potential administrative proceedings conducted by the inspectional or supervisory bodies.

### VII.3 RELATED PARTIES

#### VII.3.1 Income and Costs

Relationships with the related parties Income Statement items (in CZK '000)	31 December 2017		31 December 2016	
	Parent company	Other related parties	Parent company	Other related parties
Interest expenses	-32,387	-669	-40,188	-439
Interest revenues	11,158	141		145
Commissions and fees		186,791		197,482
Services provided		66,881		39,158
Services received	-3,510	-143,439	-6,652	-19,703
<b>TOTAL</b>	<b>-24,739</b>	<b>109,705</b>	<b>-46,840</b>	<b>216,643</b>

#### VII.3.2 Amounts Receivable from and Payable to Related Parties

Relationships to related parties Balance Sheet items (in CZK '000)	31 December 2017	31 December 2016
<b>Assets</b>		
Term-accounts	930,000	930,000
Other assets	72,165	37,543
Receivables IRS	3,156	
<b>TOTAL ASSETS</b>	<b>1,005,321</b>	<b>967,543</b>
<b>Liabilities</b>		
Amounts payable on loans	6,329,548	5,018,149
Other liabilities	37,126	16,843
Liabilities IRS		2,552
<b>TOTAL LIABILITIES</b>	<b>6,366,674</b>	<b>5,037,544</b>

The transactions with related parties include relations with the founder BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France.

### VII.3.3 Transactions with Members of the Bank's Management

Bank's Management	Receivables in respect of the loans and credit lines provided	Personnel expenses (wages, statutory payments)	Other benefits
31. 12. 2017	144	38,588	5,380
31. 12. 2016	459	69,990	6,042

Other benefits include income quantified under Act No 586/1992 for the purpose of determining income tax. They include, in particular, the free-of-charge availability of a car for both business and private use and contributions to private pension schemes and with-profits life assurance policies. Personnel costs fall into the category of short-term employee benefits.

The Bank's management were not granted any loans, credit or security by the Bank under conditions other than at arm's length in the relevant accounting period or in any previous periods. The interest rates and the terms and conditions of the loans provided to such persons corresponded to the terms and conditions offered by financial institutions at similar times and locations.

### VII.4 COST OF AUDIT FEES

Information about the total cost of fees paid to auditor's company of the financial year ended 31 December 2017 is listed in the notes of consolidated financial statements of the parent company.

## VII.5 SUBSEQUENT EVENTS

No other events that could significantly affect the Bank's results and development were recorded between the end of the reporting period, 31 December 2017, and the date of the financial statements.

Prague, 29 March 2018

Statutory authority



Emmanuel BOURG  
Head of Branch

Person responsible for  
the Financial Statements



Blažena VALKOŠÁKOVÁ  
Financial Director