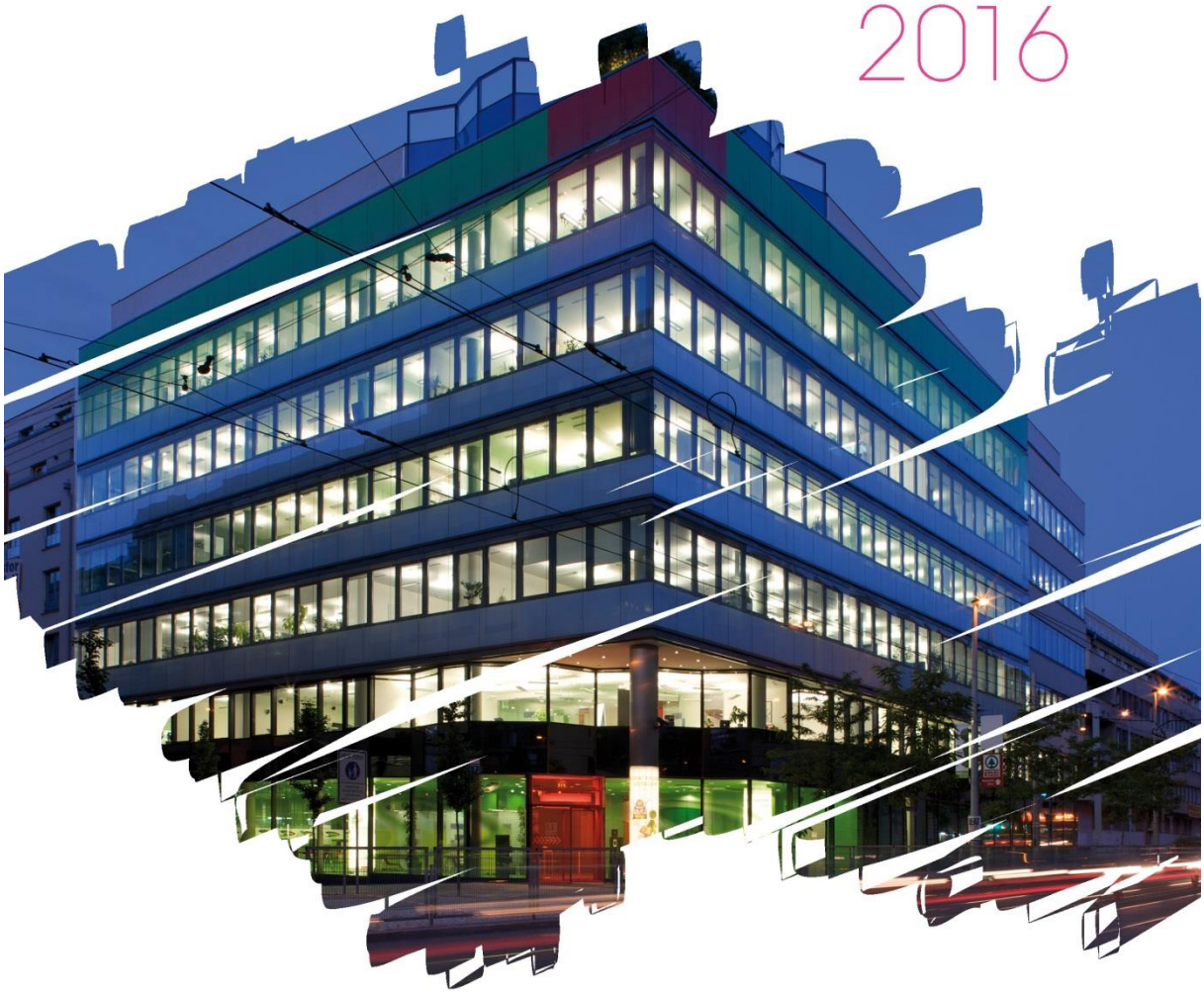
ANNUAL REPORT 2016



20 YEARS ANNIVERSARY

Cetelem
BNP PARIBAS GROUP

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1. FOREWORD

Ladies and Gentlemen,

It is my pleasure to share with you the results for the Czech branch of BNP Paribas Personal Finance for 2016. In many respects it was an exceptional year. We celebrated 20 years on the Czech market, and the results we achieved in this anniversary year will also go down in our history.

In 2016 the Czech economy grew by 2.3 % year on year, and other macroeconomic indicators were positive as well. Unemployment fell to a record minimum, compared also with other EU countries. This contributed to a higher volume of wages and salaries. The flourishing economy positively affected consumers' behaviour, and their confidence in the economy was reflected in a higher level of loans to households for consumption and housing.

For us too, 2016 was a successful year. We gained the pre-tax profit CZK 1.45 billion and new loans came to more than CZK 11 billion, despite a downturn on the credit card market as a whole. Even with this negative development, we still managed to increase our market share in outstanding from credit cards. The 3rd place in the general public award category for Cetelem Credit Card in the Golden Crown 2016 awards underlined the confidence in this product. In consumer credits, we exceeded the annual plan and successfully implemented all procedures for to the New Consumer Credit Act.

We reached a major milestone for our Personal Loan. Since August we significantly simplified the system of interest rates for various loan configurations. We also provided our clients with much more preferential conditions and the result was practically instantaneous. Autumn belonged to one of the best periods for new Personal Loans since 2008. The figures clearly reveal popularity of online applications for loans - year on year increase of 33 % in production, and in 2016 the highest total outstanding in online loans ever.

Work continued intensively on our flagship project for extension of our business - developing day to day banking products and deposit banking products prior to their launch on the Czech market. This moment is now within reach. I'd like here to praise our employees for their hard work and thank them for the commitment and diligence they have devoted to this transformation, which is very important for our branch and the BNP Paribas group as a whole. I realise that a demanding year lies ahead of us. As well as meeting out targets in a strongly competitive environment, successfully completing our technological innovations and launching new products on the market, first of all we cannot lose the trust of our clients. From the very beginning we have implemented our present transformation with the clear objective of improving services for our clients, who have chosen us for more than 20 years. Our greatest commitment and challenge in the upcoming year is to ensure that we are a client-oriented bank that is available whenever and wherever our clients need us.

As well as our clients, I am also grateful to our business partners for their trust and support. It will be my great honour to continue working with you in 2017, and to welcome you to our new bank.

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 to continue to maintain a stable market position and 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. Labor 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

MAZARS

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 2016 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, Smíchov 150 00 Praha 5
Balance sheet date:	31 December 2016
Audited period:	from 1 January 2016 to 31 December 2016
Financial reporting framework:	International Financial Reporting Standards as adopted by the European Union
Date of issue auditor's report:	31 March 2017
Auditor:	Štěpánka Beranová Licence No. 2373 Mazars Audit s.r.o. Licence No. 158

MAZARS AUDIT S.R.O., POBŘEŽNÍ 620/3, PRAHA 8 - 186 00
TEL: +420 224 835 730 - FAX: +420 224 835 799 - WWW.MAZARS.CZ

IČ: 63986884, DIČ CZ63986884, ZAPSÁNA V OBCHODNÍM REJSTŘÍKU VEDENÉM MĚSTSKÝM SOUDEM V PRAZE - ODDÍL C, VLOŽKA 38404

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Independent Auditor's Report for the founder of

BNP Paribas Personal Finance SA, odštěpný závod

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 2016, and the income statement and statement of other 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 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, 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.

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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.

Prague, 31 March 2017

Mazars Audit s.r.o.

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)

Balance Sheet as at 31 December 2016 (CZK '000)			
Description	*Ref.*	*31 December 2016*	*31 December 2015*
TOTAL ASSETS		**14,720,396**	**15,402,988**
Cash and cash equivalents	IV.1.	1,548	270
Receivables from banks	IV.2.	945,675	981,828
Receivables from clients	IV.3.	13,339, 779	14,220,011
Other long-term securities and investments	IV.4.	10,425	10,823
Tax assets – current and deferred	IV.5.	102,539	27,168
Property, plant and equipment	IV.6.	11,004	23,231
Intangible assets	IV.7.	239,221	58,534
Other assets	IV.8.	70,205	81,123
LIABILITIES		**13,098,309**	**13,670,460**
Liabilities to banks	IV.9.	11,169,465	10,261,540
Debt securities issued	IV.10.	1,500,163	2,998,894
Provisions	IV.11.	13,200	25,109
Tax liabilities – current and deferred	IV.12.		12,119
Other liabilities	IV.13.	415,481	372,798
BRANCHES´ RESERVES		**1,622,087**	**1,732,528**
Branches´ reserves	IV.14.	**1,622,087**	**1,732,528**
Reserves allocated to branch	IV.14.	381,850	381,850
Reserve funds and other reserves	IV.14.		
Retained profit	IV.14.		
Other comprehensive gains, losses	IV.14.	9,853	10,251
Gains or losses from revaluation of assets and liabilities	IV.14.	-2,023	-1,969
Profit/loss for the period	IV.14.	1,232,407	1,342,396
TOTAL LIABILITIES		**14,720,396**	**15,402,988**

5. STATEMENT OF COMPREHENSIVE INCOME

	Statement of Comprehensive Income for the year ending 31 December 2016 (in CZK '000)		
Description	*Ref.*	*31 December 2016*	*31 December 2015*
Interest income	V.1.	2,132,554	2,301,887
Interest expense	V.1.	-123,484	-172,951
NET INTEREST INCOME		**2,009,070**	**2,128,936**
Income from fees and commissions	V.2.	480,916	551,884
Fee and commission expenses	V.2.	-42,322	-38,962
NET INCOME FROM FEES& COMMISSIONS		**438,594**	**512,922**
Dividend income	V.3.	3,323	4,530
Income from investments and participations			
Net income from trading and hedging activities			
Other income/expense	V.4.	-516	2,818
OPERATING INCOME		**2,450,471**	**2,649,206**
Payroll and personnel costs	V.5.	-428,099	-391,266
General operating costs	V.6.	-469,322	-407,105
Depreciation of property, plant and equipment	V.7.	-17,431	-15,459
Amortisation of intangible assets	V.8.	-25,948	-34,396
OPERATING COSTS		**-940,800**	**-848,226**
OPERATING INCOME BEFORE ASSET IMPAIRMENT AND PROVISIONS		**1,509,671**	**1,800,980**
Impairment of receivables	V.9.	-69,284	-199,574
Impairment of assets	V.10.	2,279	3,368
Net additions/charges to provisions	V.11.	10,879	2,957
PROFIT BEFORE TAX		**1,453,545**	**1,607,731**
Income tax	IV.12.	-221,138	-265,335
- current	IV.12.	-231,361	-295,230
- deferred	IV.12.	10,223	29,895
PROFIT / LOSS FOR THE PERIOD, AFTER TAX		**1,232,407**	**1,342,396**
Other comprehensive income for the period, after tax		-452	1,302
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,231,955**	**1,343,698**
Comprehensive income for the period, attributable to:			
- founder		1,231,955	1,343,698

6. STATEMENT OF CHANGES IN EQUITY

Changes in equity (in CZK '000)	Reserve fund & other capital funds & retained profit *)	Revaluation differences	Total
31 December 2015	**1,724,246**	**8,282**	**1,732,528**
Capital transfer	-1,342,396		-1,342,396
Income for the accounting period	1,232,407		1,232,407
Revaluation		-452	-452
31 December 2016	**1,614,257**	**7,830**	**1,622,087**

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

Statement of cash flows for the year ending 31 December 2016 (in CZK '000)		
Description	*31 December 2016*	*31 December 2015*
CASH AT THE BEGINNING OF THE PERIOD	982,098	970,368
ACCOUNTING PROFIT OR LOSS FROM ORDINARY ACTIVITIES BEFORE TAX	1,453,545	1,607,731
Adjustment for non-cash transactions	-2,094,377	-2,168,970
Fixed asset depreciation/amortisation	36,130	49,855
Change in allowances and provisions	-500,159	106,382
Gain (loss) from the disposal of fixed assets	-2,280	-3,368
Proceeds from dividends and profit sharing	-3,323	-4,530
Net interest expense and income	-2,175,253	-2,401,588
Adjustments for other non-cash transactions, if any	550,508	81,322
NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE TAX, CHANGE IN WORKING CAPITAL AND NON-RECURRING ITEMS	**-640,832**	**-564,195**
Change in the non-cash portion of working capital	2,331,120	187,905
Change in receivables from operating activities, prepayment accounts and estimated receivables	915,036	1,239,443
Change in current liabilities from operating activities and estimated payables	1,416,084	-1,051,538
NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE TAX AND NON-RECURRING ITEMS	**1,690,288**	**-376,290**
Interest expense excluding capitalised interest	-78,052	-98,928
Interest income	2,144,029	2,399,491
Income tax on ordinary activities paid and additional assessments for previous years	-243,479	-303,977
Income and expense on non-recurring accounting transactions		
Dividends and profit shares received	3,323	4,530
NET CASH FLOW FROM OPERATING ACTIVITIES	**3,516,109**	**1,624,826**
Fixed asset acquisition costs	-201,966	-66,708
Proceeds from the disposal of fixed assets	2,312	11,355
NET CASH FLOW FROM INVESTING ACTIVITIES	**-199,654**	**-55,353**
Change in non-current liabilities	-2,008,933	197,197
Capital transfer	-1,342,396	-1,754,800
NET CASH FLOW FROM FINANCING ACTIVITIES	**-3,351,329**	**-1,557,603**
Exchange rate differences		**-139**
NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS	**-34,874**	**11,730**
CASH AT THE END OF THE PERIOD	**947,224**	**982,098**

8. NOTES TO THE FINANCIAL STATEMENTS

I. BACKGROUND

I.1 COMPANY ORIGINATION AND CHARACTERISTIC OF THE ACCOUNTING UNIT

BNP Paribas Personal Finance, SA, odštěpný závod (hereinafter referred to as "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 Engliše 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 Engliše 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 2016

Statutory authority of the founder	Management Board	In office from
LAURENT DAVID	Member of Management Board and CEO	12 April 2014
JEAN-MARIE BELLAFIORE	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
BÉATRICE COSSA DUMURGIER	Member of Management Board	28 November 2012
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
PETR SKOK

I.3 Organisational Structure

During 2016 period there were no significant changes in the organizational structure of the entity.

Number of employees – average full time equivalents

Year	Total	Of whom, managers
2015	**425**	**17**
2016	**463**	**16**

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 Christophe Bordeaux was deleted on 15 April 2016.

Changes in the statutory body of the founder - a foreign entity were registered on 19 August 2016.

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 2016).

In accordance with the processes of the BNP Paribas Group, the entity 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 2016.

Standards mandatory from 1 January 2016 had no impact on the financial statement.

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.

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 2016 financial statements do not cover any new standards, amendments or interpretations (SIC) adopted by the European Union, which were not binding for 2016 and standards applied by the European Union because their application should has no impact on the 2016 financial statements.

NEW ACCOUNTING STANDARDS, PUBLISHER BUT NOT YET APPLICABLE

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.

Implementation of IFRS 9 within the Group

The implementation of IFRS 9 within the Group relies on a set of projects corresponding to each of the different phases of the standard. Steering committees bringing together the heads of the Risk and Finance functions have been set up, as well as operational committees dedicated to the various issues associated with the implementation of the new standard. The project on classification and measurement is managed by the Finance Department, through dedicated governance. The work relating to the analysis of business models and the contractual cash flows characteristics of the Group's assets is being finalised. Meanwhile, the required IT developments and adaptations have proceeded through 2016 and will be finalised in 2017. The project on the impairment model is conducted under the joint responsibility of the Finance and Risk Departments.

The work conducted to this day has led to the definition of the Group methodology for the new impairment model (see above). The model is currently being adapted to operational requirements and refined. Operational implementation is based on the convergence of Finance, Risk and Liquidity reporting streams with the aim of guaranteeing high quality data.

IFRS 15 Revenue 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.

The Group is in the process of analysing the standard and its potential impacts. Revenues from net banking income falling within the scope of application concern in particular the commissions received for banking and similar services provided (except those arising from the effective interest rate). The implementation of IFRS 15 within the Group is based on a project structure managed by the Finance Department. The analysis of the standard and the documentation and identification of its potential impacts will be finalised in 2017. Impacts are not expected to be material.

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 accounting entity solely exercises control, jointly exercises control or is under the significant influence of the accounting entity with the exception of entities which are immaterial for the Group. The accounting entity 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 accounting entity'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 accounting entity holds an equity interest but which it does not control fully. To have significant influence, the accounting entity 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" (measured by the equity method) 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 accounting entity holds an equity interest reaches or exceeds the equity interest, the value of the equity interest is reduced to nil and the accounting entity's interest is written off as a future loss. Recognition of further losses is discontinued except to the extent that the accounting entity 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.

Subsequently, loans are re-measured to the carrying amount, 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 life of the asset).

The Bank does not hold or issue 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 stated at remaining value using the effective interest rate.

III.5.3 Debt securities

Financial instruments issued by the accounting entity are classified as debt instruments in such case that there is a commitment of the accounting entity 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 contracted as part of a hedging relationship are designated according to the purpose of the hedge.

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

The accounting entity 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 accounting entity 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". The amounts taken to shareholders' equity over the life of the hedge are transferred to the Statement of Comprehensive Income under "Net interest income". 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 risk that debtors will not be able to meet all are part of its obligations.

b.) Impairment of financial assets, provisioning and hedging

The accounting entity 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 accounting entity assesses the probability of permanent 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 accounting entity 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 accounting entity 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 accounting entity 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 Foreign Currency Transactions

Foreign currency transactions are transactions denominated or requiring settlement in a currency other than the functional currency. A functional currency is the currency of the primary economic environment in which the accounting entity operates. The method employed depends on the classification of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into Czech crowns at the end of reporting period at the exchange rate of the Czech National Bank at that date. Non-monetary assets and liabilities denominated in a foreign currency, which are stated at historical cost, are translated at the foreign exchange rate as at the date of the transaction.

Foreign exchange differences arising on translation are charged to financial expense or to financial income as at the date of the financial statements.

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 accounting entity 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 accounting entity 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.

In 2016 there was a change of the methodology of provisioning.

The basic parameters for calculation of provision for doubtful loans were kept at December 2016. There were two changes compared to previous period:

Probability the receivables would became CTX is calculated contract by contract and from actual balances of outstanding and the observation period for calculation of probability of CTX was unified. From September 2016 the Bank uses 3 year period for all portfolio products.

In 2015, the probability was calculated from aggregate value of outstanding per type of product and from the 3 month average of outstanding. The observation period was 3 years for personal loans and 1 year for cards.

The change of the methodology had a positive financial impact on the 2016 P&L accounts in the amount of 22,5 MCZK.

III.10 Tangible and Intangible Assets

Property, plant and equipment are stated in the Balance Sheet as operating assets. The accounting entity 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 accounting entity'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 accounting entity 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 accounting entity re-measures the asset to its realisable value by a one-time write-off. The asset impairment losses are recognised in the item of "change in allowances and provisions". 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 accounting entity 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 (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 accounting entity 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

Entity uses for operational the operating lease (cars). The asset is not recognised in the balance sheet of the lessee. 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
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 accounting entity 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

These 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 and not linked to the BNP Paribas share price, 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 accounting entity 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 accounting entity 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 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 accounting entity measures the deferred tax liability on the basis of the temporary differences caused by the different accounting and tax treatment of certain items only when the accounting entity expects to generate a future taxable income against which the temporary differences can be offset, provided that tax deductibility conditions are met. The corporate income tax rate enacted for the next taxation period, or the expected rate, is used for the measurement of deferred tax.

Provision for income tax
The accounting entity 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").

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 THE USE OF 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.

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. BALANCE SHEET: ADDITIONAL INFORMATION

IV.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents (in CZK '000)	31 December 2016	31 December 2015
Cash and valuables	1,548	270
TOTAL	**1,548**	**270**

IV.2 RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Receivables from financial institutions (in CZK '000)	31 December 2016	31 December 2015
Bank accounts	15,675	21,828
Term-accounts	930,000	960,000
TOTAL	**945,675**	**981,828**
Allowance for receivables from financial institutions		
RECEIVABLES FROM FINANCIAL INSTITUTIONS (NET VALUE)	**945,675**	**981,828**

IV.3 RECEIVABLES FROM CLIENTS

Receivables from clients (in CZK '000)	31 December 2016	31 December 2015
Loans provided	16,382,587	17,751,069
TOTAL RECEIVABLES FROM CLIENTS	**16,382,587**	**17,751,069**
Of which doubtful loans	**2,524,064**	**3,215,617**
Allowances for receivables	-3,042,808	-3,531,058
NET VALUE OF RECEIVABLES FROM CLIENTS	**13,339,779**	**14,220,011**

Change in allowance for impaired assets (in CZK '000)	31 December 2016	31 December 2015
Allowance at the beginning of the period	-3,531,058	-3,429,716
Net increase in the allowance	488,250	-101,342
ALLOWANCE AT THE END OF THE PERIOD	**-3,042,808**	**-3,531,058**

Change in allowance by asset type (in CZK '000)	31 December 2016	31 December 2015
Receivables from financial institutions		
Loans to and receivables from clients	- 3,042,808	-3,531,058
ALLOWANCE AT THE END OF THE PERIOD	**-3,042,808**	**-3,531,058**

IV.4 Other Long-term Securities and Investments

Name, registered office (in CZK '000)	% of share capital	Amount of equity for the 2016 accounting period *preliminary data	Accounting income for the 2016 accounting period *preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	38 091	13 836

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 accounting entity in terms of the balance sheet total, net turnover and equity.

In 2016, 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 2016 (equity method) * preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	572	9 853	10 425

The accounting entity is not a member with unlimited liability.

IV.5 Tax Assets: Current and Deferred

Deferred tax (in CZK '000)	31 December 2016			31 December 2015		
Item	**Temporary difference**	**Tax rate**	**Deferred tax**	**Temporary difference**	**Tax rate**	**Deferred tax**
Tangible and intangible non-current assets	37,415	19%	7,109	49,776	19%	9,457
Amortisation of fees	-60,225	19%	-11,443	-97,708	19%	-18,565
TOTAL ASSETS	**-22,810**		**-4,334**	**-47,932**		**-9,108**
Amortisation of fees	2,605	19%	495	5,384	19%	1,023
Liabilities arising from industrial relations	71,839	19%	13,649	52,085	19%	9,896
Allowance for receivables	142,728	19%	27,119	131,021	19%	24,895
TOTAL LIABILITIES	**217,172**		**41,236**	**188,490**		**35,814**
Revaluation of equity	2,498	19%	475	2,431	19%	462
TOTAL EQUITY	**2,498**		**475**	**2,431**		**462**
TOTAL DEFERRED TAX LIABILITY/TAX ASSET	**196,860**		**37,404**	**142,989**		**27,168**

IV.6 Property, Plant 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
ASSETS AS AT 1 JANUARY 2015 AT COST	**53,314**	**21,551**	**102,391**	**31,794**	**209,050**
Additions to non-current assets		530	9,182		9,712
Disposals of non-current assets		-48	-11,229	-24,593	-35,870
Transfer of completed capital projects					
ASSETS AS AT 31 December 2015 AT COST	**53,314**	**22,033**	**100,344**	**7,201**	**182,892**
Accumulated depreciation as at 1 Jan 2015	-43,704	-20,268	-89,455	-18,659	-172,086
Current year depreciation	-3,435	-309	-6,827	-4,888	-15,459
Net book value of non-current assets disposed of during the period				-7,987	-7,987
Accumulated depreciation of non-current assets disposed of during the period		49	11,229	24,593	35,871
Accumulated depreciation as at 31 Dec 2015	-47,139	-20,528	-85,053	-6,941	-159,661
Net book value of tangible non-current assets as at 31 December 2015	**6,175**	**1,505**	**15,291**	**260**	**23,231**
ASSETS AS AT 1 JANUARY 2016 AT COST	**53,314**	**22,033**	**100,344**	**7,201**	**182,892**
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
ASSETS AS AT 31 December 2016 AT COST	**53,314**	**25,030**	**100,634**	**1,358**	**180,336**
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
Current year 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 and provisions as at 31 Dec 2016	-53,314	-20,904	-93,756	-1,358	-169,332
Net book value of tangible non-current assets as at 31 December 2016		**4,126**	**6,878**		**11,004**

IV.7 Intangible Assets

Intangible non-current assets (in CZK '000)	Software	Other intangible non-current assets	Additions to intangible non-current assets	Intangible non-current assets
ASSETS AS AT 1 JANUARY 2015 AT COST	**326,313**			**326,313**
Additions to intangible non-current assets			59,698	59,698
Disposals of intangible non-current assets				
Transfer of completed capital projects	31,723		-31,723	
ASSETS AS AT 31 December 2015 AT COST	**358,036**		**27,975**	**386,011**
Accumulated amortisation as at 1 January 2015	-293,081			-293,081
Current year amortisation	-34,396			-34,396
Net book value of intangible non-current assets disposed of during the period				
Accumulated amortisation as at 31 December 2015	-327,477			-327,477
Net book value of intangible non-current assets as at 31 December 2015	**30,559**		**27,975**	**58,534**
ASSETS AS AT 1 JANUARY 2016 AT COST	**358,036**		**27,975**	**386,011**
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	
ASSETS AS AT 31 December 2016 AT COST	**373,927**		**218,720**	**592,647**
Accumulated amortisation as at 1 January 2016	-327,477			-327,477
Current year amortisation	-25,406			-25,406
Current year provisions	-543			-543
Net book value of intangible non-current assets disposed of during the period				
Accumulated amortisation as at 31 December 2016	-353,426			-353,426
Net book value of intangible non-current assets as at 31 December 2016	**20,501**		**218,720**	**239,221**

IV.8 Other Assets

Accruals and other assets (in CZK '000)	31 December 2016	31 December 2015
Accrued income		
Prepaid expenses	8,476	14,567
Trade receivables	61,729	66,556
TOTAL ACCRUALS AND OTHER ASSETS	**70,205**	**81,123**

Temporary asset accounts contain prepaid expenses (prepaid overhead consumables, technical support for information systems, etc.); accrued income; payments expected but not yet received, attributable to the current period revenue (payable in the next period); and other assets, including, but not limited to, trade receivables.

IV.9 Liabilities to Banks and Other Financial institutions

Liabilities to financial institutions (in CZK '000)	31 December 2016	31 December 2015
Bank accounts (overdraft)	280,843	142,090
Bank loans	10,888,622	10,119,450
TOTAL LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS	**11,169,465**	**10,261,540**

Liabilities to banks (in CZK '000) Type of liability	Interest rate	Security	31 December 2016 audited	31 December 2015 audited	Validity
Uncommitted line of credit (including overdraft) of CZK 1,000 million	Fixed	Guarantee by BNP Paribas S.A.	672,151	751,186	indefinite period
Uncommitted line of credit of CZK 2,500 million	Fixed	Guarantee by BNP Paribas S.A.	627,182	1,864,772	indefinite period
Uncommitted line of credit of CZK 3,050 million	Fixed	Guarantee by BNP Paribas S.A.	501,155	450,812	indefinite period
Uncommitted line of credit (including overdraft) of CZK 3,000 million (merged overdraft)	Fixed	Guarantee by BNP Paribas S.A.	1,257,896	2,512,949	indefinite period
Uncommitted line of credit (including overdraft) of CZK 5,250 million	Fixed	Guarantee by BNP Paribas S.A.	3,092,932	2,743,751	indefinite period
TOTAL BANK LOANS			**6,151,316**	**8,323,470**	
Bank loans from related parties	Fixed	Unsecured	5,018,149	1,938,070	indefinite period
TOTAL BANK LOANS			**11,169,465**	**10,261,540**	

IV.10 Debt Securities

Debt Securities (in CZK '000) Title	Issue date	Maturity date	Total nominal value	Interest rate	31 December 2016	31 December 2015
CETELEM ČR VAR/16	27. 6. 2013	27. 6. 2016	1,500,000	6M Pribor+0,55%		1,499,671
CETELEM ČR VAR/19	8. 10. 2014	8. 10. 2019	1,500,000	6M Pribor+0,46%	1,500,163	1,499,223
DEBT SECURITIES					**1,500,163**	**2,998,894**

IV.11 Provisions

Provisions (in CZK '000)	31 December 2016	31 December 2015
Provisions at the beginning of the period	25,109	28,066
Additions to provisions	1,721	2,127
Charges to provisions	-13,630	-5,084
TOTAL PROVISIONS	**13,200**	**25,109**

In 2016 the accounting entity created accounting 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 2016 provision resulting from liabilities arising from compensation for costs associated with the failed recovery of debts via seizure was partially dissolved and the provision for the Bank's contingent liabilities arising from remuneration of management was also partially dissolved.

IV.12 Tax Liabilities: Current and Deferred

Income tax payable (in CZK '000)	31 December 2016	31 December 2015
Current period income tax	231,361	295,230
Income tax advance	296,514	283,111
INCOME TAX ASSETS	**65,135**	
INCOME TAX LIABILITY		**12,119**

IV.13 Other Liabilities

Accruals and other liabilities (in CZK '000)	31 December 2016	31 December 2015
Accrued income	65	76
Prepaid expenses	129,240	140,201
Trade payables and other liabilities	283,624	229,839
Interest Rate SWAP	2,552	2,682
ACCRUALS AND OTHER LIABILITIES	**415,481**	**372,798**

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 accounting entity'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 2016, payable in January 2017, the tax liability in respect of indirect taxes payable in January 2017, 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.).

Negative fair value of interest derivatives are liabilities from hedge derivatives in total amount of 1 500 million CZK with the maturity between 12 and 60 months.

As at 31 December 2016, the accounting entity 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 2016		31 December 2015	
	Positive Fair Value	Negative Fair Value	Positive Fair Value	Negative Fair Value
Hedging of cash flow		**2,552**		**2,682**
Interest rate SWAP		2,552		2,682
TOTAL HEDGING DERIVATIVES		**2,552**		**2,682**

Total nominal value of derivatives used for the purpose of interest risk hedge was 1 500 million CZK as at 31 December 2016. The nominal value of hedging derivatives as at 31 December 2015 was likewise 3,000 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.

Cash flows are expected in line with signed contracts until due days of hedged instruments (bonds payable in 2019). In the accounting period, in the Statement of comprehensive income was recognized expenses of realized Interest rate derivatives of MCZK 1.9, in 2015 in the amount of MCZK 3.66. No other transactions, accounting entries during the period were implemented.

IV.14 Equity

As at 31 December 2016, the Bank's equity was 1,622,087 thousand CZK; as at 31 December 2015 amounted to 1,732,528 thousand CZK. The equity comprises Reserves allocated to branch, Profit for the period, Other comprehensive gains/losses and Gains or losses from revaluation of assets and liabilities.

Other comprehensive income, losses and Gains or losses from 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 29 March 2016 the founder decided to transfer part of retained earnings in the amount of 1,342,396 thousand CZK.

Until the balance sheet preparation date the founder has not decided on a capital transfer the year 2016.

V. STATEMENT OF COMPREHENSIVE INCOME: EXPLANATORY NOTES

V.1 NET INTEREST INCOME

Net interest income (in CZK '000)	31 December 2016			31 December 2015		
	Income	Expense	Net income	Income	Expense	Net income
Client transactions						
Credit and loans	2,132,554		2,132,554	2,301,887		2,301,887
Transactions with banks and other financial institutions						
Deposits, interest and loans		-123,484	-123,484		-172,951	-172,951
NET INTEREST INCOME /(EXPENSE)	**2,132,554**	**-123,484**	**2,009,070**	**2,301,887**	**-172,951**	**2,128,936**

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.

V.2 FEES AND COMMISSIONS

Fees and commissions (in CZK '000)	31 December 2016			31 December 2015		
	Income	Expense	Net	Income	Expense	Net
Client transaction charges	206,591	-6,652	199,939	240,347	-7,666	232,681
Payment transaction charges	5,639		5,639	6,976		6,976
Commissions from insurance	194,415		194,415	214,345		214,345
Other income	74,271	-35,670	38,601	90,216	-31,296	58,920
NET INCOME ON FEES	**480,916**	**-42,322**	**438 594**	**551,884**	**-38,962**	**512,922**

Charge and commission income and expense comprise, in particular, the fees, commissions and contract penalties related to the Banks's 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 2016, the accounting entity received dividends at the amount of 3,323 thousand CZK. In 2015 entity received dividends at the amount of 4,530 thousand CZK.

V.4 OTHER INCOME AND EXPENSE

Net income from other activities includes the accounting entity's income and expenses related to the provision of non-core services. In 2016, other net expenses amounted to 516 thousand CZK, in 2015 other net income amounted to 2,818 thousand CZK.
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V.5 Payroll and Personnel Costs

Employee costs (in CZK '000)	31 December 2016	31 December 2015
Wage costs	-297,902	-272,595
Other personnel expenses	-31,308	-28,301
Social and health insurance	-92,419	-82,870
Social fund	-7,500	-7,500
TOTAL PAYROLL COSTS	**-429,129**	**-391,266**

V.6 General Operating Costs

General operating costs (in CZK '000)	31 December 2016	31 December 2015
Costs of payment instruments	-13,822	-12,893
Rent	-52,630	-44,331
Travel costs	-9,563	-9,668
Information technology	-149,029	-143,706
Low-value tangible and intangible assets	-6,429	-4,411
Other services	-236,068	-209,343
Other taxes and charges	-14,113	-17,580
Others	39,332	34,827
NET OPERATING COSTS	**-469,322**	**-407,105**

V.7 Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment (in CZK '000)	31 December 2016	31 December 2015
Buildings and equipment	-6,176	-3,435
Computers	-10,651	-6,827
Vehicles	-227	-4,888
Other tangible assets	-377	-309
TOTAL DEPRECIATION OF PP&E	**-17,431**	**-15,459**

V.8 Amortisation of Intangible Assets

Amortisation of intangible assets (in CZK '000)	31 December 2016	31 December 2015
Software	-25,948	-34,396

TOTAL AMORTISATION OF INTANGIBLE ASSETS	**-25,948**	**-34,396**

V.9 Impairment of Receivables

Cost of risk for the current period (in CZK '000)	31 December 2016	31 December 2015
Net additions to allowances	703,262	-58,226
Reversal of allowances	-766,552	-131,680
Receivables' write-off not covered by allowances	-5,994	-9,668
TOTAL COST OF RISK	**-69,284**	**-199,574**

Cost of risk for the current period by type of asset (in CZK '000)	31 December 2016	31 December 2015
Loans to and receivables from clients	-69,284	-199,574
TOTAL ALLOWANCE	**-69,284**	**-199,574**

The entity 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 124 978 thousand CZK in 2016, it was CZK 134,483 thousand in 2015.

In 2016, income from written-off outstanding amounted to 215,012 thousand CZK, in 2015 51,112 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 2016, this gain amounted to CZK 2,279 thousand. In 2015, this amounted to CZK 3,368 thousand.

V.11 Provisions

The accounting entity 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.

The accounting entity created in 2015 accounting provisions at the amount of 2,127 thousand CZK concerning contingent liabilities arising from remuneration of management where the payment depends on the fulfilment of conditions in the future periods. In 2015 provision resulting from labour relations liabilities in the amount of

5,012 thousand CZK was dissolved and the provision resulting from lease agreement was partially dissolved in the amount of 72 thousand CZK.

V.12 Income Tax

Income tax	31 December 2016	31 December 2015
Profit before tax	1,453,545	1,607,731
Income tax rate	19%	19%
Tax rate for the assessment of deferred tax	19%	19%
Non-tax deductible costs	289,663	211,228
Other non-tax deductible items	196,860	142,989
INCOME TAX	**-221,138**	**-265,335**
of which:		
Current period income tax (income tax provision)	-231,361	-295,230
Deferred tax	10,223	29,895
Impact occurring after the closing of the period		

As at 31 December 2016, the effective tax rate was 15.92 %. The difference between the effective tax rate and tax rate is due to reduction of allowances for doubtful debts on loans: owing to the limit on tax deductible allowances, they were not accepted 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 including risk of loss due to violation or non-observing of legal regulation. Operational risk includes risks of human resources, compliance risks, legal risks, tax risks, informational technology risks, risk of failure and reputational risk (public reputation of the Bank).
- **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 loss and expected effectiveness of recovery actions in the case of default are the 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.

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, 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, prises 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 CNCB – Czech Non-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 book 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 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									
TOTAL	**965,651**	**965,651**				**764,200**	**1,729,851**		

Overdue receivables and liabilities reduced by individual allowances, as at 31 January 2015 (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	1,362,407	1,362,407				868,098	2,230,505		
Overdue receivables reduced by individual allowances	1,362,407	1,362,407				868,098	2,230,505		
Off-balance sheet liabilities – loan commitments									
Guarantees granted									
Off-balance sheet liabilities reduced by allowances									
TOTAL	**1,362,407**	**1,362,407**				**868,098**	**2,230,505**		

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 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 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
FINANCIAL ASSETS BY MATURITY	960,046	1,579,615	5,757,108	4,285,375	130,120	12,712,264
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
FINANCIAL LIABILITIES BY MATURITY	1,100,000	1,760,000	4,410,000	5,017,319	60,000	12,347,319
NET POSITION	**-139,954**	**-180,385**	**1,347,108**	**-731,944**	**70,120**	**364,945**

Financial assets and liabilities by maturity as at 31 January 2015 (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	981,803	1,656,983	6,149,600	4,609,110	124,997	13,522,493
FINANCIAL ASSETS BY MATURITY	981,803	1,656,983	6,149,600	4,609,110	124,997	13,522,493
Liabilities to financial institutions	1,300,000	1,050,000	2,630,000	3,090,000	70,000	8,140,000
Bonds			1,499,479	1,496,344		2,955,823
FINANCIAL LIABILITIES BY MATURITY	1 300,000	1,050,000	4,129,479	4,586,344	70,000	11,135,823
NET POSITION	**-318,197**	**606,983**	**2,020,121**	**22,766**	**54,997**	**2,386,670**

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 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. 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 Banks'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, respectively until 30 November 2016, Act No 145/2010 on consumer credit, Act No 89/2012, the Civil Code Act No 634/1992 on consumer protection, Act No 248/2009 on payment system and Act No 21/1992 on banks.

The new Consumer Credit Act since 1 December 2016 brought tightening the conditions for banking and non-banking subjects providing and intermediating consumer loan, including loan for housing. Considering the interest to create effective mechanisms for consumer protection, among other things, the new Act expanded the conduct of business requirements, including remuneration of workers, rules for assessing the creditworthiness of the client, the rules for dealing with consumers and control mechanisms. The Act also introduced changes in the certification of persons involved in the process of arranging consumer loans.

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 amendment to the Consumer Protection Act introduced since 2016, among others, institute of information database about the solvency and credibility of the consumer. It established the legal basis for the operation and use of client information registers, one of the main tools that the Bank uses in credit risk management.

It poses a potential risk for the Bank to change the law on criminal liability of legal persons and proceeding against them. The amendment to the Act was to redefine the criminal offence which can a legal person commit, the change is also an extension of

the legal exonerate a person from responsibility for committing an unlawful act, the principle of effective prevention is introducing and the scope of imputability of acting was changed.

Changes to the legal framework whether adopted in 2016 or announced for 2017 will be reflected into banking processes also in the period of 2017 and in the following period.

It will be so in connection with the amendment to the Payment System Act, which introduces to the bank an obligation to offer co-called basic payment account, which enables to clients the mobility of payment accounts, to ensure comparability of providing services through the introduction of a single label or to provide clients an annual account statement with the summary of payments.

The changes were made in the modification of the law on some measures against the legalization of revenues from crimes and terrorism financing. The main is the change of definition of politically exposed persons, the obligation to ensure information about the real owner, the obligation to evaluate risk. In further to this, the bank must adjust the internal rules and procedures in the area of Compliance processes.

In the area of reporting obligations, the bank will be obliged to fulfill the requirements set by the Act of central evidence of accounts, obligations arising from the global standard against the tax evasion (AEOI) and the like.

Failure to comply with the obligations mentioned above may be considered as an administrative offense.

The Bank is strongly committed to preparations for legislative changes also in other areas, e.g. personal data protection, payment system, computerization, insolvency proceedings, cybernetic security, etc.

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 the area of regulation of personal data protection, the bank is preparing to changes caused by adoption of the Regulation of the European Parliament and of the Council (EU) 2016/679 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (“GDPR”).

One of the most significant upcoming changes in the area of payments will be the implementation of the European Parliament and the Council 2015/2366 on payment services on the internal market (“PSD2”).

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 adoption of new legislation in insolvency and enforcement proceedings will constitute the change with the significant impact on the bank's processes.

The internal processes of the Bank will be also reviewed with respect to the contemplated amendment to the Labor Code.

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 2016, the potential liabilities arising from approved lines of credit and loan commitments to clients amounted to CZK 13,204,858,000 and as at 31 January 2015 they amounted to CZK 13,812,333,000. 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 to related parties Income Statement items (in CZK '000)	31 December 2016	31 December 2015
Interest expenses	-40,627	-54,066
Interest revenues	145	196
Commissions and fees	197,482	214,223
Services provided by the Company	39,158	34,574
Services provided to the Company	-26,355	-33,806
TOTAL	**169,803**	**161,121**

VII.3.2 Amounts Receivable from and Payable to Related Parties

Relationships to related parties Balance Sheet items (in CZK '000)	31 December 2016	31 December 2015
Assets		
Term-accounts	930,000	960,000
Other assets	37,543	38,885
TOTAL ASSETS	**967,543**	**998,885**
Liabilities		
Amounts payable on loans	5,018,149	1,938,070
Other liabilities	16,843	15,681
Liabilities IRS	2,552	2,682
TOTAL LIABILITIES	**5,037,544**	**1,956,433**

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. 2016	459	69 990	6 042
31. 12. 2015	601	65 297	5 771

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.

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 2016 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 2016, and the date of the financial statements.

Prague, 31 March 2017

Statutory authority

Emmanuel BOURG
Head of the branch

Person responsible for
the Financial Statements

Blažena VALKOŠÁKOVÁ
Chief Financial Officer