PPF banka a.s.

Report on Business Activities 2012

PPF Banka

PPF banka a.s. Report on Business Activities 2012

PPF banka a.s. ("PPF banka" or the "Bank") is an integral part of the PPF financial group. The Bank focuses on providing financial, investment and consulting services to selected customers who, in the course of their business activities, require an individually tailored approach in addressing their needs while maintaining maximum effectiveness of the Bank's services.

In terms of its strategy, PPF banka specializes in investment banking services, financial markets, corporate banking and private banking. Since 2010, PPF banka has been successfully developing an export financing business with support from EGAP. In the investment banking field, the Bank provides services in most markets of Europe, the USA, Russia and certain Asian countries. PPF banka's targeted customer segments are financial institutions, medium and large industrial enterprises, municipal entities and high net worth individuals. Indeed, since 2011 the Bank has been providing private banking services, including a new Concierge service, to individuals. PPF banka also acts as PPF's central treasury bank. For other PPF Group companies, the Bank both conducts international transactional business and provides hedging and other investment services, such as arranging for financing in the capital markets.

Over the past few years, PPF banka has built up a reputation, both in the financial world and amongst its customers, for being a solid, trustworthy partner. This renown, combined with our strategic role in PPF Group, enables the Bank to achieve above-average financial performance.

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Letter from the Chairman

Petr Milev

Chairman of the Board of Directors and Chief Executive Officer

Dear shareholders, customers, business partners, and colleagues:

Allow me to share the good news concerning a number of developments that took place in 2012.

We posted record net income of nearly CZK 1 billion. In terms of total assets, we're one of the top eight banks in the country. Our customer base is constantly growing, as are our transaction volumes and numbers. Although the bank grew on all fronts, we managed to keep its structure streamlined. Most of our performance indicators were high above the market average. We have a stable equity base and a very good liquidity position. We hold a portfolio of high-quality assets with a minimum of loans in default and practically no non-liquid or high-risk securities.

As you are well aware, good news was at a premium last year. In terms of overall market developments, there was very little of it. We received it with joy, and I am grateful for the trust placed in us by our customers, as well as for the hard work and dedication of PPF banka's people. It was definitely no walk in a rose garden, full of positives and certitude. The Czech economy has still not recovered from the recession. Stagnation in the Czech Republic's most important export territories added itself to the growing list of internal factors restricting domestic demand. The financial markets continued to struggle with high volatility, and a lack of confidence among the general and investing public made itself felt both in returns and a general dearth of investment opportunities. In an effort to jump-start the economy, the Czech National Bank lowered interest rates near "technical zero". Since the Czech Koruna's yield curve was low over its entire span, to achieve a sufficient return on assets the Bank had to bring all its creative powers to bear while maintaining the necessary degree of prudence. In the challenging external environment that has been with us nearly constantly since 2008, we managed to succeed. And this year, might I say, we managed not only to succeed, but to excel.

Although statements to the effect that the Bank's excellent results are due primarily to the pro-active approach of all its employees, the dedication of its management and the decision-making leeway provided by the shareholders may seem clichéd to you, in PPF banka's case their truth is backed up by the numbers. The fact that total assets and loans to customers were up 15% and 14%, respectively, in year-over-year terms attests to expansion, particularly in customer business. That it has not been accompanied by rising costs, which are a major cause for concern in times of recession, is demonstrated by the fact that, while the Bank's business revenues rose CZK 250 million (15%), its efficiency indicator, CIR, fell from 53% (which was in line with the market average), to 39%: in other words, revenues grew faster than the accompanying costs. Prudent management of expenses related to the Bank's expansion was not enough, however. We also had to exercise prudent management of market and credit risk, as well. The quality of our risk management function and ability to gauge issuers' credit is best demonstrated by the fact that, over the past eight years, the Bank has had to deal with problematic loans in just three cases. In 2011, our ratio, calculated according to CNB criteria, of corporate classified receivables to overall corporate receivables from clients was 5.05%, which was far below the market average. In late 2012 we placed 15.13% of all corporate assets on the watch list. Despite this, our overall ratio of classified loans actually declined, to 13.30% from 13.55%. At year end 2012 the proportion of loans in default for longer than 90 days was still a very low 2.72%. So, in this respect we continue to be a top performer. The above facts helped drive a 56% year-on-year growth in profit and a 19% increase in ROE. That said, the important thing is that this is a long-term trend: growth in the Bank's net earnings, as expressed by the CAGR indicator from 2002, is a formidable 35.9%.

Our strategy of business diversification and leveraging of the flexibility and speed afforded by the Bank's streamlined decision-making and implementation structure, in comparison with the competition, bore fruit last year. In addition to working for PPF Group – in particular for Home Credit companies, the Generali PPF Holding and Energy and Industrial Holding (EPH) – as well as supporting our "niece", Air Bank, and accompanying the Group in transactions in Russia and Asia, we became a regular participant in Czech export deals and project finance and carried out a major personnel reinforcement of our Corporate Banking Division, where business development initiatives are planned following similar initiatives conducted at the Export & Structured Finance Division. For our private clients, we formed a team of experienced private bankers within the Bank, who will be tasked not only with guiding our respected clients through the world of investments and opportunities, but also creating products for them that will be like our bank: an optimum combination of return and risk.

Navigating the Bank through the stormy waters of economic recession and financial crisis, with all their attendant complexities, is difficult work. The helmsman bears responsibility, but it is the crew that ensures the trip is safe and secure. I thank the Bank's employees for their hard work, professionalism, and invention. I thank the Bank's management for their cooperation on the bridge. I thank the shareholders for their trust and support in these years. I thank you, our customers and partners, for being with us: it is thanks to you and the people of PPF banka that we can present this Annual Report, to you and to the market as a whole, with results that I personally consider excellent. I am confident that you share the good feelings that our mutual cooperation has brought to me and my team.

Prague, 22 April 2013

Petr Milev
Chairman of the Board of Directors

Consolidated Financial Highlights

According to International Financial Reporting Standards

Assets

CZK thousands (TCZK)	2012	2011	2010	2009	2008
Financial assets	22,450,378	17,199,237	10,640,365	8,028,784	9,219,837
Loans and advances to banks	18,612,944	26,936,406	22,342,506	20,854,949	20,177,544
Loans and advances to customers	25,513,359	22,370,500	20,175,278	14,993,928	8,838,464
Other assets	10,487,694	557,620	1,007,742	932,190	6,474,236
Total assets	**77,064,375**	**67,063,763**	**54,165,892**	**44,809,851**	**44,710,081**

Liabilities and Shareholders' Equity

TCZK	2012	2011	2010	2009	2008
Deposits from banks	765,222	1,159,835	1,898,257	67,335	383,585
Deposits from customers	54,222,543	45,596,835	35,997,964	29,343,753	34,947,996
Debt securities issued	3,729,500	2,841,846	3,203,552	4,258,718	3,463,315
Trading liabilities	5,333,505	8,804,731	3,970,780	4,380,344	2,381,348
Subordinated liabilities	0	0	0	0	0
Total shareholders' equity	5,934,517	4,693,699	4,172,664	3,513,506	2,673,827
Other liabilities	7,074,488	3,966,817	4,922,675	3,246,195	860,010
Total liabilities and shareholders' equity	**77,059,774**	**67,063,763**	**54,165,892**	**44,809,851**	**44,710,081**

Profit and Loss Statement

TCZK	2012	2011	2010	2009	2008
Net interest income	2,105,739	2,391,052	2,039,135	1,658,120	1,156,212
Dividend income	10,974	12,019	96	408	24,428
Net fee and commission income	533,708	814,471	580,700	157,730	(113,795)
Net trading income	317,737	(237,846)	141,016	531,342	138,798
Other operating income	14,789	10,106	24,028	46,593	26,770
Operating income	2,982,947	2,989,802	2,784,976	2,394,193	1,232,413
Operating expenses	(1,837,418)	(2,228,907)	(1,978,429)	(1,357,866)	(662,070)
Net gain (loss) from associates	0	0	0	0	0
Income from associates	0	0	0	0	0
Profit before income tax	1,145,529	760,895	806,546	1,036,327	570,343
Income tax expense	(198,973)	(152,526)	(144,009)	(224,946)	(28,019)
Net profit for the year	**946,556**	**608,370**	**662,537**	**811,381**	**542,324**

Basic Ratios

%	2012	2011	2010	2009	2008
ROE	19.33	16.69	20.31	25.73	22.39
ROA	1.21	1.01	1.26	1.72	1.50
Operating expenses/operating income	61.60	74.55	71.04	56.71	53.72
Non-interest operating income/operating income	29.41	20.03	26.78	30.74	6.18

Corporate Profile

General Information

Name	PPF banka a.s.
Legal form	joint stock company
Seat	Evropská 2690/17, Prague 6, Post Code 160 41, Czech Republic
ID No.	47116129
Registry court	Municipal Court in Prague, part B, insert 1834
Date of incorporation	31 December 1992

Registered capital	TCZK 769,004
Shareholders' equity	TCZK 4,170,324
Total assets	TCZK 52,360,785
Shares	unlisted, registered ordinary, recorded in the Central Securities Depository Prague

Note: figures as at 31 December 2012

Core Businesses

PPF banka's principal businesses encompass all types of banking transactions, provision of banking and financial services together with related services, both within the Czech Republic and in relation to other countries. The Bank's offering is targeted, in particular, at Czech clients in the municipal and corporate segments. The Bank specializes in financial and capital markets trading, in the scope stipulated by applicable law and on the basis of the licenses granted by the Czech National Bank.

PPF banka Is a Member of:

— Czech Banking Association,
— Czech Institute of Internal Auditors,
— Union of Banks and Insurance Companies,
— Prague Economic Chamber,
— Prague Stock Exchange,
— Chamber for Economic Relations with the CIS.

Shareholder Structure

PPF Group N.V.	92.96%
City of Prague	6.73%
Others	0.31%

Josef Zeman

Vice Chairman of the Board of Directors and Managing Director, Risk Management

Governing Bodies

as at 31 December 2012

Board of Directors

Petr Milev

Chairman of the Board of Directors of PPF banka,
Chief Executive Officer

Josef Zeman

Vice Chairman of the Board of Directors of PPF banka,
Managing Director, Risk Management

Jaroslava Studenovská

Member of the Board of Directors of PPF banka since
16 April 2012, Managing Director, Operations, currently in
charge of ITC

Supervisory Board

Jiří Šmejc

Chairman of the Supervisory Board of PPF banka until
27 August 2012

Martin Štefunko

Chairman of the Supervisory Board of PPF banka since
27 November 2012

Antonín Weinert

Vice Chairman of the Supervisory Board of PPF banka until
19 July 2012

Karel Hanzlík

Vice Chairman of the Supervisory Board of PPF banka since
27 August 2012

Martin Dlouhý

Member of the Supervisory Board of PPF banka since
19 July 2012

Bohuslav Samec

Member of the Supervisory Board of PPF banka

Lenka Baramová

Member of the Supervisory Board of PPF banka

Martin Hýbl

Member of the Supervisory Board of PPF banka

Audit Committee

Jiří Šmejc

Valdemar Linek

Bohuslav Samec

Senior Management

Petr Milev

Chief Executive Officer since 1 June 2005

Josef Zeman

Managing Director, Risk Management since 1 December 2006

Jaroslava Studenovská

Managing Director, Operations since 1 May 2007, currently in charge of ITC since 1 May 2012

Petr Jirásko

Managing Director, Financial Markets since 30 April 2004

František Vencl

Chief Financial Officer since 1 January 2009

Marek Ploc

Managing Director, Private Banking from 1 November 2008 to 30 November 2012

Břetislav Tichánek

Managing Director, Export & Structured Finance since 1 September 2010

Jiří Kaňák

Managing Director, Public Sector since 1 April 2012

Tomáš Hadžega

Managing Director, Corporate Banking since 1 April 2012

Jaroslava Studenovská

Member of the Board of Directors and Managing Director, Operations, currently in charge of ITC

Petr Jirásko

Managing Director, Financial Markets

Report of the Board of Directors

Bank Financial Performance in 2012

Despite ongoing difficult conditions in the real economy and the capital markets, PPF banka achieved excellent results in 2012. Net income was the highest in the Bank's history. The Bank's business performance was positively impacted by excellent performance in the financial and capital markets (+ CZK 556 million year over year), which offset stagnation in net interest income and a drop in net fee and commission income together with the creation and use of allowances for loans in default. General administrative expenses copied the Bank's development in new business directions and were up just 3% year over year. Overall, PPF banka is continuing to see a growth trend, not just in total assets, but also in income while keeping risk to a reasonably low level. Profit before income tax according to International Financial Reporting Standards (IFRS) was CZK 1.146 billion. PPF banka's net income in 2012 was up 56% from 2011's figure, and surpassed even the previous record net income figure (from 2009) by 17%. In absolute terms, the net income was CZK 946.6 million, compared to CZK 608.4 million in 2011.

PPF banka's total operating income, after allowances, reached CZK 1,875.7 million in 2012, up 15% from 2011's figure of CZK 1,626.7 million. Growth was driven primarily by a CZK 556 million year-on-year increase in gains on financial transactions and lower creation/use of allowances, which was down CZK 255.7 million from the previous year, while declines in net interest income and net fee and commission income by CZK 285.3 million and CZK 280.8 million, respectively, had a negative impact on the top line.

Despite continuing investment in expanding existing businesses, such as the Corporate Banking Division and the Public Sector Division, general administrative expenses grew only 3%, i.e. CZK 15.2 million. The entire growth amount is attributable to the higher number of employees throughout the Bank, and expenses associated therewith.

PPF banka's total assets grew substantially – by 15% to CZK 77.1 billion in 2012, from CZK 67.1 billion in the previous year. In order to diversify its revenue streams, PPF banka continued to expand lending in 2012, growing lending volume by 14% to CZK 25.5 billion. The 26% rise in PPF banka's shareholders' equity had a positive effect on the Bank's acquisition efforts, as customers appreciated our superior stability in comparison with certain other European banks.

In conjunction with new projects, PPF banka increased expenditures for tangible and intangible fixed assets, and depreciation and amortization was up 30% year over year. The highly conservative strategy applied in 2012 to creation and use of allowances and provisions for debts and guarantees, together with the resolution of a large loan that had been in default for several years, led to the use of CZK 241.2 million in allowances. The 30% rise in PPF banka's tax liability, from CZK 152.5 million in 2011 to CZK 198.9 million 2012, was brought about by higher profit before income tax and the reversal in 2012 of tax-exempt allowances that were absent in 2011.

The NPLs ratio for the corporate loan book, calculated according to CNB criteria – i.e., the proportion of classified loans – increased year-over-year as a result of PPF banka's highly cautious strategy and conservative approach to customer classification and creation of allowances for a deterioration in the credit profile of the loan portfolio by 10 percentage points, to 12.14% in 2012 from 2.85% as at 31 December 2011. The volume of classified corporate loans grew CZK 2.5 billion year-over-year, to CZK 3.1 billion, while allowances for these loans stood at CZK 276.8 million.

PPF banka continued in its charity-related activities, similar to past years.

PPF banka paid no stock dividends in 2012; the 2011 earnings were retained to reinforce the Bank's shareholders' equity. The return on average equity (ROAE) reached 19.33% at 31 December 2012; the return on average assets (ROAA) was 1.21%; and capital adequacy ended the year at 10.83%.


PPF
Reebok

František Vencl

Chief Financial Officer

Capital and Capital Adequacy

TCZK	2012	2011	2010	2009	2008
Capital adequacy	10.83%	10.85%	11.55%	10.52%	10.74%
Tier 1	4,631,539	4,086,350	3,442,653	2,636,082	2,074,944
Tier 2 and Tier 3	0	0	0	0	0
Sum of deductible items	0	0	0	0	0
Total capital	4,631,539	4,086,350	3,442,653	2,636,082	2,074,944
Capital requirements for investment portfolio	2,705,067	2,454,694	1,769,937	1,447,247	1,145,422
Capital requirements for trading portfolio	496,545	371,435	436,327	427,629	278,934
Capital requirements for operational risks	219,776	187,634	179,199	129,504	121,276
Risk weighted assets	34,563,283	31,173,247	22,677,646	21,534,979	14,317,773

Business Operations in 2012

PPF banka Operations in the Financial Markets

In the financial and capital markets area, 2012 saw PPF banka expand both its portfolio of products and its trading volume. PPF banka conducted trading in the offered instruments for both investment and hedging purposes.

During the past year, PPF banka completed transactions in the following volumes: On the FOREX market, total trading volume was the equivalent of CZK 106 billion for spot transactions and roughly CZK 1 billion (nominal value) for financial derivatives.

PPF banka's total securities trading volume of CZK 338.9 billion exhibited the following structure:

Securities Trading Volume

CZK millions	2012	2011	2010
Domestic bonds	150,680	196,066	217,895
Foreign bonds	93,040	89,529	48,456
Total bonds	**243,720**	**285,595**	**266,442**
Domestic shares	1,376	2,494	14,332
Foreign shares	93,881	55,804	55,049
Total shares	**95,257**	**58,298**	**69,382**
Total	**338,977**	**343,893**	**335,824**

Jiří Kaňák

Managing Director, Public Sector

In the Czech government bond market, PPF banka was ranked the most active primary dealer (according to Ministry of Finance methodology). This is an overall ranking for both the primary and secondary markets. In primary auctions, PPF banka underwrote CZK 27.76 billion in Czech government bonds, or 18.4% of the total volume of Czech Koruna-dominated government bonds issued.

PPF banka expanded its trading activities conducted through the Bloomberg system, particularly by increasing the number of listed items. In terms of bond trading volume in the secondary market, PPF banka was one of the three biggest members of the Prague Stock Exchange in 2012, for the fifth year in a row.

This year, PPF banka participated in two bond issues. In June 2012, as lead manager, PPF banka successfully placed a CZK 3.75 billion (nominal value) bond issue of Home Credit B.V. In October 2012, as manager, it participated in underwriting a USD 500 million subordinated bond issue of Home Credit and Finance Bank.

Municipal Banking

The 2012 business year saw the Bank respond to changing market conditions and intensify its collaboration with existing customers. The CNB cut basic interest rates several times: in a highly competitive market, this limited transactions on both sides of the balance sheet. Also important were ongoing negotiations concerning a new EU Cohesion Policy program period, 2014–2020, and parliamentary debate on an amendment of the Act on Budget Rules which, at the very close of the year, reclassified the bank accounts of some of the Bank's customers as State budget accounts.

Despite the already mentioned rate cuts and the anticipated impacts of budgetary developments on future cooperation between the public sector and banks active in the municipal banking segment, we were able to keep our level of primary deposits high, at roughly CZK 27 billion, thereby stabilizing the major upswing in liabilities seen in the preceding year. The Bank continued to expand geographically as well, to the point that now, after two years of acquisition work, two thirds of customer deposits in this segment are generated outside of Prague.

A focus on deposit products, a different type of active trading and a major expansion in the Bank's corporate banking activities led the Bank to split off services for public sector customers into a separate division formed as of 1 April 2012. In addition to conventional products, the Public Sector Division also offers joint project implementation with customers in the areas of public services, public transportation and energy conservation.

In mid-2012, the Bank formed PPF Financial Consulting, a consulting arm specializing in strategic planning, integrated development plans, subsidy consulting and, in particular, the application of financial instruments in the 2014–2020 program period.

Late in the year, the Bank entered several tenders for managers of securities issues. The aim of the Public Sector Division is to cover all the sector's needs: from payment services, through consulting and structuring of projects for providing public services, achieving budget savings and generating returns for the public sector, to securing financing from multiple sources.

Corporate Banking

In corporate banking, several experienced bankers joined the sales team in 2012. This was a positive development that drove a doubling of both lending volume and returns. The month-over-month growth rate continues to rise, giving us a high degree of confidence in our performance potential for the year to come. Besides conventional operational financing, we also succeeded in closing several energy investment and corporate M&A financing deals, as well as some joint deals with other banks. However, PPF banka's corporate banking activities have long surpassed the bounds of mere corporate financing. We have also penetrated the corporate deposits market and, more and more, we are also involved in meeting our customers' treasury needs as well.

Export & Structured Finance

2012 saw the Bank engage in a number of export & structured finance transactions, both in the Czech Republic and abroad. PPF banka's weighting in the overall volume of transactions insured by Exportní a garanční pojišťovací společnost continued to increase rapidly. Export financing deals focus on supporting export and investment by Czech entities, primarily in countries of Eastern Europe and the Commonwealth of Independent States. From a macroeconomic perspective, the focus on export financing proved to be the right choice in what has turned out to be a period of stagnation in the domestic economy. We intend to continue developing this type of financing in the future as well, in order to help Czech exporters and investors to expand and, at the same time, to support a highly lucrative area of the financial sector.

Private Banking for Corporate and Individual Clients

The Private Banking Department provides specialized services to both small and medium enterprises (SMEs) and private individuals who are members of SME governance bodies. 2012 saw major growth in the department's client base and assets under management, and this of course was accompanied by dynamic growth in business results. The sales team expanded with the addition of new employees who reinforced the Bank's existing team at the Kavčí hory and Vinice branches. Knowing the client, taking an individualized approach and tailoring solutions to the client's needs – whether in deposits, transactions or loans – hand in hand with systemization of internal procedures: these were the drivers of the department's excellent performance results in 2012.

In 2012, PPF banka continued to develop its offering of services and products targeted at wealthy individuals, and successfully placed several non-public issues of investment certificates among these private investors. We will continue in this successful strategy in the next year as well. Private banking clients appreciate the unique and innovative offering of investment instruments, the ease and comfort of communication with the Bank through private bankers, and opportunities for collaboration in other areas in which PPF Group is strong.

An integral part of the offering for Private Banking clients is the Concierge service, which the Bank introduced in 2011. This highly sought-after service plays a very important role in improving our clients' quality of life.

Břetislav Tichánek

Managing Director, Export & Structured Finance

Information Technologies and Security Policy

In the area of information and telecommunication technologies, 2012 saw the implementation of a number of projects made necessary by growth in the Bank's business. One major project was automation of the approvals process and related functions in the area of the Bank's active trades. In conjunction with the Prague Stock Exchange's migration to the XETRA trading system, new financial markets trading functionality was added to the system. Also, a project was begun to implement contactless smartcards – and it was completed in February 2013. Further developments took place in the area of electronic payment systems. Smaller projects were implemented to comply with regulatory requirements and a project was begun to change regulatory reporting for the Czech National Bank. A data warehouse redesign project was begun to address needs relating to the growing amount of data under management and its further processing.

At the operational infrastructure level, servers and storage systems were added to keep up with increased data processing needs in operations. Also, storage and application servers were upgraded to improve their performance parameters in view of new functionality of operated environments and growing data processing volume. Important investments went on developing the separate testing infrastructure.

In the communications area, which includes communications security, appropriate application firewall technologies were deployed, as was a system for controlling administration and external access to systems.

All developments and changes in this area share the common goal of providing effective support to business processes and ancillary functions with regard for increasing the efficiency of working the various applications. Emphasis is placed on making the systems easier for users to work with, as well as on their secure operation. The only changes that are made are those that are planned and coordinated far in advance as part of the approved information technologies investment plan.

As in years past, changes that took place both in the sector and in the Bank itself were reflected in the security area. We took measures on the basis of risk analyses, completed the implementation of a tool for monitoring remote access to the Bank, and commenced work on virtualizing terminal equipment.

Human Resources and Personnel Strategy

At PPF banka, human resources management respects the overall corporate strategy of PPF Group, of which the Bank is a member.

Our HR strategy is in full accordance with the business strategy plans and objectives of the Bank as well as of the Group as a whole.

At PPF banka, emphasis is placed above all on maintaining a pleasant and friendly work environment, mutual trust among employees, open lines of communication, and a focused corporate culture, since we realize that these are the elements that enable continual improvement of employee efficiency and performance. The ways in which we achieve our goals include, among others, developing employee skills through a systematic training process and supporting our junior employees.

Our system of benefits and compensation and our emphasis on equal opportunity motivate employees to work together as a team and lay a firm foundation for building loyalty and effectiveness. The correctness of this approach is demonstrated by the sustained, high level of interest shown by job applicants in working for PPF banka. Our effective candidate selection process is driven by the goal of finding employees that will help us to create a reliable, flexible, and dynamic company – a place where people love to work because they share in our joint accomplishments. In selecting new employees we give opportunities to young applicants, including those who are fresh out of college or university.

We are confident that, by pursuing this strategy, we will succeed in fostering the high-quality work environment that is so crucial for ensuring customer satisfaction.

The average number of employees in 2012 was 182, and the head count at 31 December 2012 was 187 employees.

Directions of Further Growth and Outlook for 2013

As the beginning of 2013 has shown us, the financial crisis is far from over and the problems in countries on the periphery, such as Cyprus, have yet to be solved. The economy is expected to remain flat, with low corporate demand for financing accompanied by deteriorating quality of bank loan portfolios.

In 2013 the Bank will focus on the following commercial activities:

- active dealing in the financial and capital markets;
- expanding the Private Banking division's business;
- supporting the Czech Republic's exports through export & structured finance;
- preparing joint projects with public sector involvement.

Tomáš Hadžega

Managing Director, Corporate Banking

Public Benefit Projects

PPF Group, of which PPF banka has been a member for 10 years now, directs its financial support and professional know-how primarily to the areas of art and education. In addition to participating in the Summer Shakespeare Festival, a traditional theater project where in 2012 visitors could see a premiere of Richard III, the Bank also contributes to the everyday operation of the Jára Cimrman Theater.

Last year, PPF banka provided a financial donation to THE KELLNER FAMILY FOUNDATION, which focuses on supporting the education of children – particularly those growing up in orphanages and other socially challenging environments. It also provides financial support enabling extraordinarily talented Czech students to study abroad, as well as other support for science, volunteer work, and culture.

As it does every year, in 2012 the Bank provided a financial donation to the Bilingual Nursery School for the Hearing Impaired. An in-kind donation was provided to senior citizens at the Center for Social and Health Services and the Bank also provided a financial donation to the Švanda Theater in Smíchov.

In the sports area, we supported Helicoptershow 2012 in Hradec Králové, as well as smaller events in football (FC Vojenské lesy – Dukla Klub), golf tournaments (Goram s.r.o.), and the volleyball-focused company Volejbal 2011.

Prague, 15 April 2013

Petr Milev
Chairman of the Board of Directors of PPF banka a.s.

Josef Zeman
Vice Chairman of the Board of Directors of PPF banka a.s.

Financial Section

Independent Auditor's Report to the Shareholders of PPF banka a.s.

We have audited the accompanying consolidated financial statements of PPF banka a.s., which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Statutory Body's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of PPF banka a.s. as of 31 December 2012, 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.

Prague, 22 April 2013

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Licence number 2059

Consolidated Financial Statements for the Year Ended 31 December 2012

According to International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

In thousands of CZK	Note	2012	2011
Interest and similar income	6	3,523,659	4,183,679
Interest expense and similar charges	6	(1,417,920)	(1,792,627)
Net interest income		**2,105,739**	**2,391,052**
Dividend income	7	10,974	12,019
Fee and commission income	8	688,894	880,432
Fee and commission expense	8	(103,217)	(65,961)
Net fee and commission income		**585,677**	**814,471**
Net trading income	9	317,737	(237,846)
Other operating income	11	14,789	10,106
Operating income		3,034,916	2,989,802
General administrative expenses	12	(674,210)	(767,904)
Impairment (loss)/reversal	25	(1,107,282)	(1,363,020)
Other operating expenses	13	(107,895)	(97,983)
Operating expenses		(1,889,387)	(2,228,907)
Profit before income tax		**1,145,529**	**760,895**
Income tax expense	22	(198,973)	(152,526)
Net profit for the year		**946,556**	**608,369**
Other comprehensive income			
Fair value reserve (AFS financial assets)		303,167	(85,205)
Net change in fair value, net of tax		303,167	(85,205)
Other comprehensive income for the period		**303,167**	**(85,205)**
Total comprehensive income for the period		**1,249,723**	**523,164**

The notes on pages 42 to 83 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 22 April 2013.

Signed on behalf of the Board of Directors by:

Petr Milev

Josef Zeman

Consolidated Statement of Financial Position

In thousands of CZK	Note	2012	2011
Assets			
Cash and balances with the central bank	14	10,057,644	147,109
Trading assets	15	10,720,324	10,828,541
Financial assets available for sale	16	11,730,054	6,370,696
Loans and advances to banks	17	18,612,944	26,936,406
Loans and advances to customers	18	25,513,359	22,370,500
Property, plant and equipment	20	57,293	59,225
Intangible assets	21	74,140	84,366
Current tax assets	30	–	27,953
Deferred tax assets	22	–	4,410
Other assets	24	298,617	234,557
Total assets		**77,064,375**	**67,063,763**
Liabilities			
Deposits from banks	26	765,222	1,159,835
Deposits from customers	27	54,222,543	45,596,835
Debt securities issued	28	3,729,500	2,841,846
Trading liabilities	29	5,333,505	8,804,731
Income tax provision	30	74,976	–
Deferred tax liabilities	22	51,019	–
Other liabilities	31	6,953,093	3,966,817
Total liabilities		**71,129,858**	**62,370,064**
Shareholders' equity			
Issued capital	33	769,004	769,004
Share premium	33	411,545	411,545
Statutory reserve fund	34	153,801	153,801
Retained earnings		4,382,257	3,444,606
Fair value reserve		217,910	(85,257)
Total shareholders' equity		**5,934,517**	**4,693,699**
Total liabilities and shareholders' equity		**77,064,375**	**67,063,763**

Consolidated Statement of Cash Flows

In thousands of CZK	2012	2011
Profit before income tax	1,145,529	760,895
Adjustments for non-cash items		
Impairment (loss)/reversal	1,107,282	1,363,020
Depreciation and amortisation	55,484	42,752
Net interest income	(2,105,739)	(2,391,052)
Increase/decrease in fair value of financial instruments	(164,634)	90,574
Profit/(loss) on the sale of property and equipment	(205)	(34)
Profit/(loss) on the sale of securities	(188,921)	(147,273)
Operating profit before changes in operating assets and liabilities	**(151,204)**	**13,427**
Changes in balances of operating assets and liabilities		
Balances with central bank	(1,424,290)	450,926
Trading assets	108,217	(4,291,427)
Loans and advances to banks	8,323,462	(4,593,900)
Loans and advances to customers	(1,744,726)	(2,317,982)
Other assets	(64,060)	112,349
Deposits from banks	(394,613)	(738,422)
Deposits from customers	8,625,708	9,598,871
Trading liabilities	(3,471,226)	4,833,951
Taxes	(158,358)	68,240
Other liabilities	2,986,276	(919,981)
	12,786,390	2,202,625
Interest received	3,501,846	3,949,283
Interest paid	(1,434,701)	(1,810,152)
Dividend received	10,974	12,019
Cash flows from operating activities	**14,713,304**	**4,367,202**
Acquisition of investment securities	(4,838,145)	(4,291,863)
Proceeds from sale of investment securities	283,080	1,039,269
Purchase of property, plant and equipment and intangible assets	(93,690)	(105,248)
Proceeds from sale of property, plant and equipment	211	34
Proceeds from sale of subsidiaries	6,751	–
Cash flow from investing activities	**(4,648,544)**	**(3,357,808)**
Revenues from issued securities	17,934,396	13,762,622
Repayment of issued securities	(17,102,112)	(14,487,226)
Cash flow from financing activities	**832,284**	**(724,604)**
Net increase/(decrease) in cash and cash equivalents	9,910,386	284,790
Cash and cash equivalents at 1 January	**715,480**	**420,459**
FX differences of cash flow equivalents	(9,231)	10,231
Net cash flows from operating activities	14,713,304	4,367,202
Net cash flow from investing activities	(4,648,544)	(3,357,808)
Net cash flow from financing activities	832,284	(724,604)
Cash and cash equivalents at 31 December (see Note 38 (f))	**11,603,293**	**715,480**

Consolidated Statement of Changes in Equity

In thousands of CZK	Issued capital	Share Premium	Statutory Reserve Fund	Reserves from revaluation of available-for-sale securities	Retained Earnings	Total Equity
Balance at 1 January 2012	**769,004**	**411,545**	**153,801**	**(85,257)**	**3,444,606**	**4,693,699**
Total comprehensive income for the period						
Profit for 2012	–	–	–	–	946,556	946,556
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	303,167	–	303,167
Transfers	–	–	–	–	(8,905)	(8,905)
Total comprehensive income for the period	**769,004**	**411,545**	**153,801**	**217,910**	**4,382,257**	**5,934,517**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2012	**769,004**	**411,545**	**153,801**	**217,910**	**4,382,257**	**5,934,517**
Balance at 1 January 2011	**769,004**	**411,545**	**153,801**	**(52)**	**2,838,366**	**4,172,664**
Total comprehensive income for the period						
Profit for 2011	–	–	–	–	608,369	608,369
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	(85,205)	–	(85,205)
Transfers	–	–	–	–	(2,129)	(2,129)
Total comprehensive income for the period	**769,004**	**411,545**	**153,801**	**(85,257)**	**3,444,606**	**4,693,699**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2011	**769,004**	**411,545**	**153,801**	**(85,257)**	**3,444,606**	**4,693,699**

Notes to the Consolidated Financial Statements

1. Introduction

PPF banka a.s. ("the Bank") was established on 31 January 1995 as the successor to the former Royal Bank (operating on the market from 3 December 1992) by a resolution of the Prague City Council in order to create a strong financial partner for cities and municipalities.

The Bank is registered in the Commercial Register as a joint-stock company, with the following scope of business:

– execution of banking transactions and provision of banking services in the Czech Republic as well as overseas, to the extent permitted by relevant legislation and the license granted by the Czech National Bank. The Bank can acquire an interest in other companies both in the Czech Republic and abroad including non-financial service companies.

On 23 June 2004 the shareholders of the Bank decided to change the name of První městská banka, a.s. to PPF banka a.s. The change of name to PPF banka a.s. was recorded in the Commercial Register on 1 September 2004.

The ultimate controlling entity of the Bank is PPF Group N.V. registered in the Netherlands.

The registered office of the Bank

PPF banka a.s.
Evropská 2690/17
160 41 Praha 6
Czech Republic

2. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

3. Significant Accounting Policies

(a) Basis of preparation

The financial statements are presented in Czech Crowns, which is the functional currency, rounded to the nearest thousand. The financial statements are prepared on the historical cost basis except for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and available-for-sale assets.

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements concerning the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5.

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

In 2009 the Bank acquired two subsidiaries: PPF B1 B.V. and PPF B2 B.V. In 2012 the Bank sold these participations. On 21 May 2012 the Bank established the subsidiary Ruconfin B.V., in which it holds 100% ownership; on 13 February 2012, the subsidiary PPF Financial Consulting, s.r.o., in which it also has 100% ownership; and on 25 June 2012 the Bank acquired a 100% stake in FRM Střední Morava, s.r.o. Therefore, the Bank prepares consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the presentation currency of the Bank at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the presentation currency at the foreign exchange rate ruling at the dates that the values were determined.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are those acquired or incurred principally for the purpose of selling or repurchasing in the near term or those that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking (financial instruments held for trading), or instruments that are designated upon initial recognition as at fair value through profit or loss. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

– those designated upon initial recognition as at fair value through profit or loss or available for sale, or

– those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration, which should be classified as available for sale.

Loans and receivables include loans and advances to banks and customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale financial assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt, equity and other investments.

(ii) Recognition

The Bank recognises financial assets on the day they are transferred to the Bank (settlement date accounting).

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all financial instruments at fair value through profit or loss and all available-for-sale assets are measured at fair value, except for any instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured, which are stated at cost, including transaction costs, less impairment losses.

All financial liabilities that are not at fair value through profit or loss, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques or pricing models where all significant inputs are directly or indirectly observable from market data.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets and liabilities at fair value through profit or loss are recognised directly in profit or loss as "Operating income".

Gains and losses arising from a change in the fair value of financial assets available-for-sale are recognised directly in other comprehensive income and become an equity item "Changes in fair value on available-for-sale financial assets".

(vi) Specific instruments

Cash and balances with the central bank

Cash and balances with the central bank comprise cash in hand, cash deposited with central banks and short-term highly liquid investments, including treasury bills and other bills eligible for refinancing with the central bank.

Loans and advances to banks and customers

Loans and advances to banks and customers and purchased loans that the Bank has the intent and ability to hold to maturity are classified as loans and receivables.

Loans and advances are reported net of allowances for impairment to reflect the estimated recoverable amounts – see accounting policy (g).

Debt securities issued (Other liabilities supported by paper evidence)

Other liabilities for which paper evidence exists are classified as non-trading liabilities.

(vii) Embedded Derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of a combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative may be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognised in the statement of financial position.

(d) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is terminated.

Available-for-sale assets and trading assets that are sold are derecognised and the corresponding receivables from the buyer are recognised on the date they are transferred (settlement date accounting). The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day of maturity or on the day they are transferred by the Bank.

(e) Repurchase transactions

The Bank enters into purchases (sales) of financial assets under agreements to resell (repurchase) substantially identical financial assets at a certain date in the future at a fixed price. Financial assets purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Financial assets sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. Financial assets purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

(f) Offsetting

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

(g) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment of assets is recognised.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, then the write-down or provision is reversed through the statement of comprehensive income.

Loans and advances and held-to-maturity investments

Loans and advances are presented net of specific and portfolio provisions for uncollectibility.

Specific provisions are established against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of the outstanding balances to reduce these loans and advances to their recoverable amounts. The provisions are calculated as the difference between the carrying amount of a loan and the present value of the estimated future cash flows from the loan, including amounts recoverable from guarantees and collateral discounted at the financial asset's original effective interest rate.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the assets in a group of financial assets with similar risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Provisions recognized on a portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and historical record of losses considering significant information about current economic situation. Short term receivables are not discounted.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

Increases in the provision account are recognised in the statement of comprehensive income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to statement of comprehensive income.

(h) Interest income and expense

Interest income and expenses are recognised in the statement of comprehensive income as they accrue, using the effective yield of the asset or the applicable floating rate. Interest income and expenses includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(i) Fee and commission income

Fee and commission income arises from financial services provided by the Bank including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions.

Fee and commission income is recognised when the corresponding service is provided.

(j) Penalty fees

Penalty fees are recognised in the statement of comprehensive income when a penalty is charged to a customer, taking into account its collectability.

(k) Gains/Losses from financial operations

Gains/Losses from financial operations include gains and losses arising from disposals of financial assets and liabilities at fair value through profit or loss and available-for-sale assets and gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss.

(l) Dividend income

Dividend income is recognised in the statement of comprehensive income on the date that the dividend is declared.

Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated using the straight line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Buildings	10–30 years
Other	1–5 years

Leasehold improvements are depreciated over the leasing period or over their lifetime whichever period is the shorter.

Low value tangible assets with a purchase price of less than TCZK 40 and an estimated useful life shorter than 1 year are recognized as expenses in the period in which they are purchased.

(n) Intangible assets

Software and other intangible assets

Software and other intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets.

(o) Provisions

Provision means a probable outflow of an uncertain amount and in an uncertain period of time.

Provisions are recognised when:

– there is a legal or constructive obligation as a result of past events,

– it is probable, and the probability exceeds 50%, that an outflow of resources will be required to settle the obligation,

– a reliable estimate of the amount of the obligation can be made.

(p) Income taxes

The income tax base is calculated from the current year profit. Expenses considered as non-taxable expenses are added and income considered as non-taxable income is deducted. The income tax base is modified by tax allowances and tax benefits.

Deferred income tax arises from temporary differences between the accounting values of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated using the tax rates applicable in the periods in which the timing difference is expected to reverse. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised.

(q) Financial guarantees

Financial guarantees are contracts that require the Bank to make a specified payment to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under guarantee has become probable). Financial guarantees are included in other liabilities.

4. Standards, Interpretations and Amendments to Published Standards that Are not yet Effective and Are Relevant for the Bank's Financial Statements

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force, but which are already approved and will have an impact in the future on the Bank's financial statements. The Bank plans to implement these standards as at the date they become effective.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013) contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014; Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.) provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014; Retrospective and earlier application is permitted) requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013; Earlier application is permitted.) replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains "how" to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012; Retrospective and earlier application is permitted) The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. Change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2013; Retrospective and earlier application is permitted) The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities must also be made.) The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Bank has evaluated the impact of standards to be immaterial.

5. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning future economic developments. The resulting accounting estimates will, by definition, seldom be equal to the actual results. The estimates and assumptions that carry the most significant risk of a material adjustment being required to the carrying amounts of assets and liabilities in the next financial year are discussed below.

(i) Impairment of loans and receivables

The Bank assesses at each balance sheet date whether there is objective evidence that any loan or receivable, or any group of loans and receivables, is impaired. A loan or receivable is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition and that loss event (or events) has an impact on the estimated future cash flows from the loan or receivable, or from the group of loans and receivables, that can be reliably estimated.

Objective evidence that a loan or receivable, or a group of loans and receivables, is impaired includes observable data that comes to the attention of the Bank about the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as default in the payment of interest or principal payments;

– the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

The Bank first assesses whether objective evidence of impairment exists individually for any loan or receivable that is individually significant, and individually or collectively for any loan or receivable that is not individually significant. For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics.

Future cash flows from loans and receivables are estimated on the basis of contractual cash flows and historical loss experience for loans and receivables with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

(ii) Estimated market value of credit default swap

The Bank had an open credit default swap where neither the counterparty nor the underlying asset was quoted on the market. The credit default swap was used to protect the existing asset (loan) in the statement of financial position. The Bank had estimated the market value of this swap using the accrual principle.

(iii) Change in accounting policy

There were no changes in accounting policies during the year 2012 and 2011.

(iv) Effect of the changes in accounting standards in these financial statement

In 2012 and 2011 the Bank did not identify any changes of financial reporting standards that would affect the Bank's financial statements.

6. Net Interest Income

TCZK	2012	2011
Interest and similar income		
Interest and similar income arise from		
Cash and balances with the central bank	6,482	5,322
Loans and advances to banks	404,288	323,311
Loans and advances to customers	2,509,074	3,284,410
Debt securities	603,815	570,636
	3,523,659	**4,183,679**
Interest expense and similar charges		
Interest expense and similar charges arise from		
Deposits from banks	(16,587)	(8,033)
Deposits from customers	(550,040)	(540,699)
Debt securities issued and short sales	(262,500)	(250,304)
Change in deferred purchase price	(455,558)	(993,591)
Other – subordinated debt	(133,235)	–
	(1,417,920)	**(1,792,627)**
Net interest income	**2,105,739**	**2,391,052**

The change in deferred purchase price follows the interest income from the purchased portfolio of receivables and consists of excess spread after waterfall of all costs (e.g. funding costs, service costs, etc.). It is paid to Home Credit a.s., originator and servicer of the acquired retail receivables portfolio.

The Bank dispensed no interest on late payment during years 2012 and 2011.

7. Dividend Income

In 2012 the Bank received dividend payments amounting to TCZK 10,974 (2011: TCZK 12,019), all from ownership of trading securities.

8. Net Fee and Commission Income

TCZK	2012	2011
Fee and commission income		
Transaction fee with banks	4,348	3,494
Transaction fee with clients	543,999	660,200
Fees from guarantees provided	31,514	13,708
Fees from payment protection insurance	69,264	86,578
Fees from administration of shares/bonds issue	6,593	80,202
Other	33,176	36,250
	688,894	**880,432**
Fee and commission expenses		
Transaction fee with banks	(30,712)	(20,408)
Transaction fee with clients	(72,505)	(45,553)
	(103,217)	**(65,961)**
Net fee and commission income	**585,677**	**814,471**

9. Net Trading Income

TCZK	2012	2011
Net profit/(loss) from FX transactions	389	773
Net profit/(loss) from securities/FX trading	68,848	37,956
Net profit/(loss) from derivatives	248,500	(276,575)
	317,737	**(237,846)**

10. Net Income from other Instruments Carried at Fair Value

The Bank did not gained any net income from other instruments carried at fair value for the years 2012 and 2011.

11. Other Operating Income

TCZK	2012	2011
Reinvoicing and other similar income	367	4,851
Advisory services	3,189	5,120
Proceeds from the sale of subsidiaries	6,751	–
Proceeds from the sale of receivables	4,086	100
Proceeds from sales of fixed assets	211	34
Other	185	1
	14,789	**10,106**

The Bank received TCZK 6,751 from the sales of subsidiaries PPF B1 B.V. and PPF B2 B.V. in 2012.

12. General Administrative Expenses

TCZK	2012	2011
Personal expenses		
Wages and salaries	(140,679)	(123,661)
Social expenses	(42,705)	(50,425)
Responsibility insurance, Pension insurance	(1,675)	(1,549)
Remuneration paid to		
Board of Directors	(27,910)	(20,938)
Supervisory Board	(4,746)	(4,997)
Executives	(33,297)	(27,268)
	(251,012)	(228,838)
Other general operating expenses	(423,198)	(539,066)
	(674,210)	**(767,904)**

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2012 and 2011 was as follows:

	2012	2011
Board of Directors	3	3
Supervisory Board	5	6
Executives	6	6
Employees	168	155

13. Other Operating Expenses

TCZK	2012	2011
Depreciation of fixed assets	(55,484)	(42,752)
Payment to Deposit Insurance Fund	(46,789)	(31,235)
Payment to Guarantee Fund	(5,180)	(2,822)
Other	(442)	(21,174)
	(107,895)	**(97,983)**

14. Cash and Balances with the Central Bank

TCZK	2012	2011
Cash on hand	60,940	74,704
Balances with the central bank	1,496,691	72,401
Nostro accounts with the central bank	2	4
Term deposits with the central bank	8,500,011	–
	10,057,644	**147,109**

At 31 December 2012 cash and balances with the central bank included balances with the central bank amounting to TCZK 1,496,691 (2011: TCZK 72,401) representing the obligatory minimum reserves. These funds are not available for the Bank's daily business.

15. Trading Assets

All financial assets at fair value through profit or loss are classified as held for trading.

TCZK	2012	2011
Bonds and notes issued by		
Government	5,953,878	6,725,037
Other issuers	2,899,567	2,739,360
Shares and other equity instruments issued by		
Other issuers	74,800	–
Positive fair value of derivatives		
Other counterparties	1,792,079	1,364,144
Of which		
Listed instruments	8,928,245	9,464,397
Unlisted instruments	1,792,079	1,364,144
	10,720,324	**10,828,541**

Interest income from trading assets is recognised in interest and similar income. The fair value of unlisted bonds and notes at fair value through profit or loss was estimated using discounted cash-flow techniques.

Shares and other equity instruments issued by Other issuers are traded on the stock exchange in Czech Republic (2012: TCZK 74,800; 2011: TCZK 0).

16. Financial Assets Available for Sale

TCZK	2012	2011
Bonds and notes issued by		
Government	8,420,690	4,464,103
Other issuers	2,778,514	1,342,133
Shares and other equity instruments issued by		
Other issuers	530,850	564,461
Of which		
Listed instruments	10,336,606	5,822,312
Unlisted instruments	1,393,448	548,384
	11,730,054	**6,370,696**

Interest income from financial assets available for sale is recognised in interest and similar income. The fair value of unlisted bonds and notes available for sale was estimated using discounted cash-flow techniques. The fair value of shares available for sale was established at cost due to non-existence of active market and at net asset value per mutual fund share.

17. Loans and Advances to Banks

TCZK	2012	2011
Loans to central bank under reverse repo transaction	–	2,000,256
Loans to banks	1,466,642	9,299,510
Money market transactions	14,103,962	14,995,868
Other (nostro / current account balances)	3,042,340	640,772
Net loans and advances to banks	**18,612,944**	**26,936,406**

During 2012 and 2011 the Bank did not create or release any impairment to loans and advances to banks.

18. Loans and Advances to Customers

TCZK	2012	2011
Corporate customers		
Financial institutions	667,446	1,687,539
Non-financial institutions	9,627,341	5,576,940
Individuals – entrepreneurs	59,980	77,870
Public sector	18,383	22,429
Resident individuals	48,623	12,195,326
Non-residents	15,404,870	4,521,813
Total loans and advances to customers	25,826,643	24,081,917
Impairment loss on loans and advances to customers	(313,284)	(1,711,417)
Net loans and advances to customers	**25,513,359**	**22,370,500**

The decrease in Loans and advances to customers – resident individuals was caused by the sales of participations in the subsidiaries PPF B1 B.V. and PPF B2 B.V. in 2012. The increase in the Non-residents category was due to the establishment of the subsidiary Ruconfin B.V., which purchases receivables of Home Credit and Finance Bank in Russia.

Specific allowances for impairment (loans and advances to customers only from the Bank):

TCZK	2012	2011
As at 1 January	247,906	259,184
Impairment losses recognised in the statement of comprehensive income	398,093	63,362
Reversal of impairment of loans to customers	(161,498)	(66,097)
Use of impairment on loans and receivables	(207,612)	(8,820)
Exchange difference	(95)	277
	(28,888)	(11,278)
As at 31 December	**276,794**	**247,906**

Collective allowances for impairment (loans and advances to customers only from subsidiaries):

TCZK	2012	2011
As at 1 January	1,463,511	1,329,473
Impairment losses recognised in the statement of comprehensive income	1,078,299	1,374,575
Amount related to loans written off	(127,628)	(1,240,537)
Amount related to the sale	(2,377,692)	–
	(1,427,021)	134,038
As at 31 December	**36,490**	**1,463,511**

Decrease in the amount of collective allowances for impairment was caused by the sale of participations in subsidiaries PPF B1 B.V. and PPF B2 B.V. in 2012.

19. Business Combinations

The Bank held 100% shares in Ruconfin B.V. in the amount of TCZK 51,339 as at the end of 2012 (2011: TCZK 0), PPF Financial Consulting, s.r.o. in the amount of TCZK 3,000 (2011: TCZK 0) and FRM Střední Morava, s.r.o. in the amount of TCZK 165 (2011: TCZK 0). The Bank sold its participations in the subsidiaries PPF B1 B.V. (2011: TCZK 595) and PPF B2 B.V. (2011: TCZK 509) in 2012. The Bank acquired its participations in Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation. Ruconfin B.V. buys receivables from Home Credit and Finance Bank in the Russian Federation.

The Bank also acquired participations in PPF Financial Consulting, s.r.o. and FRM Střední Morava, s.r.o. for the purpose of entering the segment of municipal client consultations.

The full method of consolidation is used.

The Bank held no interest participation with significant influence in 2011 and 2012.

20. Property, Plant and Equipment

TCZK	Low value fixed assets	Building	Cars	Furniture and Fittings	Equipment	Works of art	Fixed assets not yet in use	Total
Cost								
At 1 January 2011	1,985	11,647	–	16,249	119,607	4	634	150,126
Additions	344	4,198	–	2,350	21,501	–	5,392	33,785
Transfers	–	–	–	–	634	–	(634)	–
Disposals	(339)	–	–	(654)	(11,950)	–	–	(12,983)
At 31 December 2011	**1,990**	**15,845**	**–**	**17,945**	**129,792**	**4**	**5,392**	**170,968**
At 1 January 2012	1,990	15,845	–	17,945	129,792	4	5,392	170,968
Additions	690	–	–	89	16,872	–	28,433	46,084
Transfers	–	–	–	–	5,392	–	(5,392)	–
Disposals	(232)	–	–	(2,165)	(188)	–	(23,068)	(25,653)
At 31 December 2012	**2,448**	**15,845**	**–**	**15,869**	**151,868**	**4**	**5,365**	**191,399**
Depreciation								
At 1 January 2011	1,985	196	–	12,008	92,077	–	–	106,266
Additions	344	279	–	2,242	15,555	–	–	18,420
Disposals	(339)	–	–	(654)	(11,950)	–	–	(12,943)
At 31 December 2011	**1,990**	**475**	**–**	**13,596**	**95,682**	**–**	**–**	**111,743**
At 1 January 2012	1,990	475	–	13,596	95,682	–	–	111,743
Additions	690	378	–	1,878	22,002	–	–	24,948
Disposals	(232)	–	–	(2,165)	(188)	–	–	(2,585)
At 31 December 2012	**2,448**	**853**	**–**	**13,309**	**117,496**	**–**	**–**	**134,106**
Net book value								
At 31 December 2011	**–**	**15,370**	**–**	**4,349**	**34,110**	**4**	**5,392**	**59,225**
At 31 December 2012	**–**	**14,992**	**–**	**2,560**	**34,372**	**4**	**5,365**	**57,293**

21. Intangible Assets

TCZK	Software	Total
Cost		
At 1 January 2011	205,894	205,894
Additions	71,423	71,423
Disposals	(21,075)	(21,075)
At 31 December 2011	**256,242**	**256,242**
At 1 January 2012	256,242	256,242
Additions	47,606	47,606
Disposals	(27,296)	(27,296)
At 31 December 2012	**276,552**	**276,552**
Depreciation		
At 1 January 2011	147,548	147,548
Additions	24,332	24,332
Disposals	(4)	(4)
At 31 December 2011	**171,876**	**171,876**
At 1 January 2012	171,876	171,876
Additions	30,536	30,536
Disposals	–	–
At 31 December 2012	**202,412**	**202,412**
Net book value		
At 31 December 2011	**84,366**	**84,366**
At 31 December 2012	**74,140**	**74,140**

22. Deferred Tax and Current Tax

Deferred taxes are calculated from all temporary differences between the tax and accounting value of assets and liabilities. To determine the recognised deferred tax asset the Bank uses the income tax rate applicable in the periods in which the losses carried forward are expected to be utilised, i.e. 19% for the following years (in 2012 and 2011 the tax rate in the Czech Republic was 19%).

The recognized deferred tax assets and liabilities consist of the following items:

TCZK	2012	2011
Deferred tax assets		
Deferred tax asset from financial assets available for sale	2,307	19,987
Deferred tax asset from wages and unpaid social and health insurance	1,390	4,133
Deferred tax assets	**3,697**	**24,120**
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	(53,422)	–
Deferred tax liability from penalty interest not yet collected	(1,294)	(19,710)
Deferred tax liabilities	**(54,716)**	**(19,710)**
Total deferred tax assets (liabilities)	**(51,019)**	**4,410**

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is TCZK 0 (2011: TCZK 0). There was no unrecognized item related to deferred tax.

At 31 December 2012 the Bank recorded receivables from customers of penalty interest not yet collected of TCZK 6,811 (2011: TCZK 103,737), where the relevant income is not tax deductible. Therefore, the bank created a deferred tax liability of TCZK 1,294 (2011: TCZK 19,710), all of which was recognised.

A change in deferred tax from financial assets available for sale disclosed as at 31 December 2012 in the amount of TCZK 71,102 (2011: TCZK 19,987) and was included in Bank's equity through an adjustment to "Fair value reserve".

Income tax reconciliation:

TCZK	2012 Tax basis	2012 Tax	2011 Tax basis	2011 Tax
Tax rate		**19.0%**		**19.0%**
Profit from operations (before taxation)	1,145,529		760,895	
Computed taxation using applicable tax rate		217,651		144,570
Tax non-deductible expenses	147,806	28,083	127,943	24,309
Non-taxable income	(221,371)	(42,060)	(67,317)	(12,790)
Other items	(107,231)	(20,374)	9,974	1,895
Deferred tax	82,489	15,673	(28,726)	(5,458)
Total income tax (expense)/income		**(198,973)**		**(152,526)**

23. Operating Leasing

Non-cancellable operating lease rentals are payable as follows:

TCZK	2012	2011
Less than one year	32,907	30,723
Between one and five years	73,915	43,333
More than five years	668	3,305
Total	**107,490**	**77,361**

The Bank leases branch and office premises under operating leases. The leases typically run for a period of up to 10 years, with an option to renew the lease after that date. The operating leasing expense was TCZK 32,020 in 2012 (2011: TCZK 30,075).

24. Other Assets

TCZK	2012	2011
Clearing with securities market	145,761	69,402
Prepayments and deferred expenses	31,269	23,011
Cash collateral to payment cards	95,027	99,441
Other	26,560	42,703
Impairment loss on Other assets	–	–
	298,617	**234,557**

25. Impairment Losses

TCZK	Receivables to clients (note 18)	Total
As at 1 January 2011	1,588,657	1,588,657
Impairment of loans to customers	1,437,937	1,437,937
Reversal of impairment of loans to customers	(1,306,634)	(1,306,634)
Use of impairment on loans and receivables	(8,820)	(8,820)
FX difference	277	277
As at 31 December 2011	**1,711,417**	**1,711,417**
As at 1 January 2012	1,711,417	1,711,417
Impairment of loans to customers	1,391,792	1,264,165
Reversal of impairment of loans to customers	(289,126)	(161,498)
Use of impairment on loans and receivables	(207,612)	(207,612)
Release related to the sale of portfolios	(2,293,092)	(2,293,093)
FX difference	(95)	(95)
As at 31 December 2012	**313,284**	**313,284**

26. Deposits from Banks

TCZK	2012	2011
Other deposits from banks	631,960	1,020,367
Other (loro account balances)	133,262	139,468
	765,222	**1,159,835**

27. Deposits from Customers

TCZK	2012	2011
Payable on demand		
Corporate customers		
Financial services	3,268,128	95,002
Non-financial institutions	4,659,975	2,827,526
Insurance institutions	236,864	178,809
Non-profit organisations	209,633	53,260
Self-employed	320,821	299,876
Public sector	12,711,076	8,239,361
Resident individuals	736,279	241,344
Non-residents	15,210,532	3,062,542
Total payable on demand	37,353,308	14,997,720
Term deposits		
Corporate customers		
Financial services	2,970,783	8,326,815
Non-financial institutions	7,368,435	4,643,659
Insurance institutions	2,804,362	3,928,172
Non-profit organisations	71,098	227,826
Self-employed	277,373	289,605
Public sector	1,569,674	3,940,474
Resident individuals	232,852	232,063
Non-residents	1,574,658	9,010,501
Total term deposits	16,869,235	30,599,115
	54,222,543	**45,596,835**

Interest is recognised in item Interest expense and similar charges.

28. Debt Securities Issued

TCZK	2012	2011
Financial institutions	164,483	71,003
Non-financial institutions	1,320,744	1,266,878
Public sector	705,990	335,430
Non-resident individuals	45,662	796,209
Resident individuals	1,492,621	372,326
	3,729,500	**2,841,846**

29. Trading Liabilities

All financial liabilities at fair value through profit or loss are classified as held for trading.

TCZK	2012	2011
Negative fair value of derivatives		
Interest rate contracts	1,226,690	886,511
Currency contracts	516,828	705,405
Other contracts	–	99
Liabilities from short sales of securities	3,589,987	7,212,716
	5,333,505	**8,804,731**

30. Income Tax Assets and Provision

As of 31 December 2012 a tax provision of TCZK 214,194 (2011: TCZK 146,369) is offset against income tax advances totalling TCZK 139,218 (2011: TCZK 174,322).

31. Other Liabilities

TCZK	2012	2011
Payables to suppliers	54,084	41,511
Accrued expenses and deferred income	11,425	406,773
Cash deposited as pledge	2,707,732	1,943,526
Social and health insurance	6,335	5,288
Other liabilities to employees	53,634	13,999
Liabilities from securities transactions	12,339	40,143
Deposits insurance fund	12,282	8,954
Payable related to acquired receivables portfolios	–	325,298
Deferred part of purchase price of receivables	–	596,271
Subordinated debt	672,751	462,004
Liabilities from clearing	3,387,206	103,784
Other liabilities	35,305	19,266
	6,953,093	**3,966,817**

Deferred part of purchase price of receivables was calculated as a present value of expected interest collections. The calculation was based on expected gross yield of receivables portfolio acquired, defaults and deduction of expenses as defined by the receivables transfer agreement. In 2012 receivables were purchased with premium, not with deferred purchase price.

The agreement on subordinated debt allows postponing repayment of the debt if there are no sufficient cash flows in Ruconfin B.V. which might lead to the reduction of the carrying value of the subordinated debt.

32. Repurchase and Resale Agreements

The Bank purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers.

Assets purchased subject to agreements to resell them were as follows:

TCZK	Carrying amounts of receivables	Fair value of assets held as collateral
Loans and advances at 31 December 2012		
to banks	4,764,201	4,746,089
to clients	1,293,882	1,958,313
Loans and advances at 31 December 2011		
to banks	9,328,909	9,255,906
to clients	1,126,316	1,730,656

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing.

Assets sold under repurchase agreements were as follows:

TCZK	Carrying amounts of liabilities	Fair value of assets given as collateral
Deposits at 31 December 2012		
from banks	163,458	162,818
from clients	–	–
Deposits at 31 December 2011		
from banks	–	–
from clients	893,127	882,622

33. Issued Capital

	Number of shares	Nominal value CZK	Registered capital TCZK
As at 31 December 2012			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**
As at 31 December 2011			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**

The shareholder structure as at 31 December 2012 was as follows:

Name	Residence	Number of shares	Share (TCZK)	Share (%)
PPF Group N.V.	the Netherlands	554,711	714,866	92.96%
Hlavní město Praha	Czech Republic	19,882	51,754	6.73%
Other (less than 1%)		1,800	2,384	0.31%
		576,393	**769,004**	**100.00%**

No members of the management, the Board of Directors or the Supervisory Board held any shares of the Bank as at 31 December 2012 or as at 31 December 2011.

The Bank has not introduced any scheme for the purchase of its own shares or provided any remuneration in the form of options to purchase its shares.

All shares of the Bank were fully paid resulting in share premium amounting to TCZK 411,545 (2011: TCZK 411,545).

34. Statutory Reserve Fund

The statutory reserve fund was established for covering potential future losses of the Bank. The Bank annually contributes to the statutory reserve fund from its net profit for the year in the amount of at least 5% up to 20% of issued capital. The statutory reserve fund is not readily distributable to the shareholders of the Bank.

The Bank completed the statutory reserve fund from distribution of profit for 2009 and therefore no additional contributions neither from 2011 nor 2012 profit were required.

35. Proposed Allocation of Net Profit for the Year

The Bank and its subsidiaries propose to allocate their profit as follows:

TCZK	Net profit for the year
Net profit for the year 2012	946,556
Proposed allocation of profit for 2012	
Transfer to social funds	(2,000)
Transfer to retained earnings	(944,556)
	–

36. Off Balance Sheet Items

(a) Commitments and contingent liabilities

Guarantees and credit commitments are subject to the same procedures within the standard lending process, in terms of credit risk monitoring and regulation of the Bank's credit activity.

TCZK	2012	2011
Guarantees issued	4,177,574	2,396,712
Undrawn credit commitments	11,075,293	20,915,066
Letters of credit	129,746	19,614
	15,382,613	**23,331,392**

The total outstanding contractual commitments to extend credits indicated above do not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded especially regarding consumer financing products held by Bank's subsidiaries.

(b) Off-balance sheet financial instruments

TCZK	Notional value 2012	Notional value 2011	Fair value 2012	Fair value 2011
Derivatives held for trading				
Interest Rate Swaps	53,641,872	54,781,217	(172,210)	(143,069)
Interest Forwards			–	–
Purchase	–	–		
Sale	–	–		
Foreign Exchange derivatives			143,138	(253,143)
Purchase	96,718,982	35,664,055		
Sale	96,575,844	35,917,197		
Equity derivatives			–	–
Purchase	–	–		
Sale	–	–		
Options	655,240	–	602	–
Other derivatives			77,031	168,341
Purchase	646,322	1,673,065		
Sale	646,366	1,675,904		
			48,561	**(227,871)**

Other derivatives consisted of futures and credit default swap.

(c) Residual maturity of derivatives

This table presents the notional amounts of all types of derivatives according to their residual maturity.

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 year	Unspecified	Total
As at 31 December 2012						
Derivatives held for trading						
Interest Rate Swaps	–	104,428	51,779,096	1,758,348	–	53,641,872
FX derivatives (purchase)	71,350,550	22,425,585	2,942,847	–	–	96,718,982
FX derivatives (sale)	71,193,783	22,443,127	2,938,934	–	–	96,575,844
Options	502,800	152,440	–	–	–	655,240
Other derivatives (purchase)	–	646,322	–	–	–	646,322
Other derivatives (sale)	–	646,366	–	–	–	646,366
As at 31 December 2011						
Derivatives held for trading						
Interest Rate Swaps	349,489	–	52,831,728	1,600,000	–	54,781,217
FX derivatives (purchase)	22,164,749	12,351,428	1,147,878	–	–	35,664,055
FX derivatives (sale)	22,394,160	12,377,288	1,145,749	–	–	35,917,197
Other derivatives (purchase)	202,993	76,241	879,292	514,539	–	1,673,065
Other derivatives (sale)	322,784	1,152,403	200,717	–	–	1,675,904

The Bank obtained a derivative license from the Czech National Bank in 2006.

37. Fair Value Disclosures

The following table shows a comparison of the carrying amounts and fair values of the Bank's financial assets and liabilities that are not carried at fair value.

TCZK	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
Financial assets				
Cash and balances with the central bank	10,057,644	10,057,644	147,109	147,109
Loans and advances to banks	18,612,944	18,612,944	26,936,406	26,936,406
Loans and advances to customers	25,513,359	28,530,117	22,370,500	22,423,707
Financial liabilities				
Deposits from banks	765,222	765,222	1,159,835	1,159,835
Deposits from customers	54,222,543	54,273,635	45,596,835	45,536,154
Debt securities issued	3,729,500	3,729,500	2,841,846	2,841,846

The major methods and assumptions used in estimating the fair values of financial instruments shown in the table are summarised below.

Quoted market prices, when available, were used as the measure of fair value of financial assets and liabilities. Where quoted market prices were not available, the fair values were based on present value estimates or other valuation techniques. The fair value of short term financial instruments that will mature or be renewed within twelve months and have no significant change in credit risk was deemed to be equal to the carrying amount in the Bank's balance sheet.

Cash and balances with the central bank

For cash and cash equivalent assets, the carrying value is deemed to be equal to the fair value.

Loans and advances to banks

Loans and advances with banks will mature in less than twelve months and their fair value has therefore been deemed to be equal to their carrying value.

Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at current market rates to determine the fair value. For loans and advances that will mature or be renewed within twelve months, the fair value was deemed to be equal to the carrying value.

Deposits from customers

The estimated fair value of current and deposit accounts without stated maturity were deemed to be equal to the carrying value.

All fixed rate term deposits and loans from banks are renewed regularly; thus the fair value is deemed to be equal to the carrying value.

Debt securities issued

For issued debt securities maturing within twelve months the fair value is deemed to be equal to the carrying value.

The following table analysed financial assets and liabilities recognised at fair value based on the quality of entry data used for valuation. The fair value levels are defined in Note 3 (c) (iv):

TCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2012				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	8,271,840	656,405	–	8,928,245
Derivatives held for trading	57,769	1,734,310	–	1,792,079
Available-for-sale securities	9,493,972	649,346	1,586,736	11,730,054
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	3,589,987	–	–	3,589,987
Derivatives held for trading	–	1,743,518	–	1,743,518
As at 31 December 2011				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	8,487,518	976,879	–	9,464,397
Derivatives held for trading	166,165	1,197,979	–	1,364,144
Available-for-sale securities	5,306,311	48,461	1,015,924	6,370,696
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	7,212,716	–	–	7,212,716
Derivatives held for trading	–	1,592,015	–	1,592,015

The following table states the transfers of financial assets recognised at fair value to and from Level 3:

	Financial assets at fair value through profit or loss		
TCZK	Securities for trading	Available-for-sale securities	Total
Balance as at 1 January 2012	**–**	**1,015,924**	**1,015,924**
Profit and loss from revaluation			
In profit or loss	–	46,611	46,611
In other comprehensive income	–	(21,606)	(21,606)
Purchases	–	1,055,792	1,055,792
Sales/ maturity	–	(509,985)	(509,985)
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	–	–
Transfers between portfolios	–	–	–
Balance as at 31 December 2012	**–**	**1,586,736**	**1,586,736**

Profit of TCZK 18,466 is included in Interest and similar income and profit of TCZK 28,145 in Net trading income.

38. Risk Management Disclosure

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control risk. The most important types of financial risk to which the Bank is exposed are:

(a) credit risk

(b) liquidity risk

(c) market risks

(d) operational risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Trading

The Bank holds trading positions in certain financial instruments. The majority of the Bank's business activities are based on the requirements of its customers. These positions are also held for the purpose of speculation on the future development of financial markets. The Bank's business strategy is thus affected by the speculative expectation and market creation and its goal is to maximise net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are volume limits for individual transactions, stop loss limits and Value at Risk (VaR) limits.

(a) Credit risk

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers.
- Reviewing and assesing credit risk. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grades are subject to regular reviews of the Bank's risk department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided on the credit quality of local portfolios and appropriate corrective action is taken.

The Bank started calculating the capital requirement for credit risk of investment portfolio under the standardised approach as at 1 January 2008, i.e. as at the Basel II implementation date.

The capital requirement for credit risk of investment portfolio amounted to TCZK 2,705,067 (2011: TCZK 2,454,694).

Exposure to credit risk

The credit risk reflects the counterparty's ability to meet its commitments.

Credit risk management is regulated by the Bank's internal policies. For each customer, the Bank sets a limit of total credit exposure, which is decided during the process of approving of the credit product.

For the classification of receivables the Bank uses an internal system of receivable categorisation.

The rating quantifies the total risk connected with the customer and takes into account the nature of the requested transaction. Apart from an assessment of the number of days overdue the Bank assesses the quality of management, the position of the debtor in the market, the current market conditions, the macroeconomic situation, the structure and quality of collateral, the nature of the financial sources used to repay the debt, and an analysis of the financial statements (i.e. the structure of the financial position, operating cash-flow, productivity and others).

Impairment of individual loans

The Bank recognises the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off such amount; that is, part of the loan receivable corresponding to the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default. The Bank writes off a receivable when it does not expect any income from the receivable or from received collateral related to such receivable.

The Bank calculates the individual impairment in the amount of loss resulting from the decrease in the loan's carrying amount, i.e. impairment loss is equal to the difference between the carrying amount (reduced by the materially acceptable value of collateral) and the discounted value of estimated future cash flows from the unsecured part of the loan.

Collectively impaired portfolio of loans

The majority of the Bank's exposure to credit risk from collectively assessed portfolios arises in connection with the provision of consumer financing to private individual customers, which is the principal business of the Bank's subsidiaries. The Bank classifies the loans to individual customers into several classes where the significant ones are consumer loans, revolving loans, cash loans and car loans. As the consumer loan portfolio consists of large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items. The loans are allocated into time buckets as per due days and respective impairment allowance is calculated for each time bucket balance.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of not impaired and individually impaired assets by risk grade.

Loans and advances to banks

TCZK	Gross	2012 Net	Gross	2011 Net
Not impaired				
Standard	18,612,944	18,612,944	26,936,406	26,936,406
Total	**18,612,944**	**18,612,944**	**26,936,406**	**26,936,406**

There was no accrued interest to individually impaired loans and advances to banks as at 31 December 2012 and 2011.

Loans and advances to customers (individually impaired)

TCZK	2012 Gross	2012 Net	2011 Gross	2011 Net
Not impaired				
Standard	17,415,439	17,415,439	11,329,888	11,329,888
Impaired				
Watched	1,554,122	1,458,735	100,681	100,213
Sub-standard	1,473,544	1,342,796	–	–
Doubtful	34,968	9,931	38,479	10,631
Loss loans	42,001	16,379	463,257	243,667
Total	**20,520,074**	**20,243,280**	**11,932,305**	**11,684,399**

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2012 TCZK 19,735 (2011: TCZK 218).

Loans and advances to customers (collectively impaired)

TCZK	2012	2011
Collectively impaired		
Gross amount	4,658,640	11,553,341
Due	4,414,691	8,973,772
Past due 1–90 days	235,523	1,315,490
Past due 91–360 days	8,426	1,264,079
Past due more than 360 days	–	–
Allowances for impairment	(36,490)	(1,463,511)
Net amount	4,622,150	10,089,830
Premium of purchased receivables	647,929	–
Deferred purchase price of receivables	–	596,271
Carrying amount	5,270,079	10,686,101
Total	**5,270,079**	**10,686,101**

Loans and advances to customers – Past due, but not impaired

As at 31 December 2012 and 2011 the Bank did not report any loans and advances to customers as "Past due, but not impaired".

As at 31 December 2012 and 2011 the Bank did not report any other assets as "Past due, but not impaired".

Evaluation of collateral

The Bank generally requires collateral before providing loans to certain debtors. To reduce the gross credit exposure and for the purpose of calculating adjustments, the Bank considers the following to be acceptable types of collateral:

- Cash
- Securities
- First-class receivables
- Bank guarantees
- Guarantees provided by a reputable third party
- Real estate
- Machinery and equipment.

The Bank's assessment of the net realisable value of the collateral is based on an expert appraisal or an internal evaluation prepared by the Bank's specialist department. The net realisable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realise the collateral when necessary.

The Bank usually does not require collateral for the consumer loans.

The following table shows Loans and advances to customers split according to type of collateral:

TCZK	2012	2011
Bank guarantees	3,929	42,708
Property	14,824,449	8,170,800
Unsecured	10,684,981	14,156,992
Total	**25,513,359**	**22,370,500**

The following table shows Loans and advances to customers classified as watched, substandard, doubtful and loss loans (individually impaired) according to type of collateral:

TCZK	2012	2011
Bank guaragntees	995,179	–
Property	1,031,082	290,774
Unsecured	801,580	63,737
Total	**2,827,841**	**354,511**

The Bank did not record any collateral for loans and advances to customers past due, but not impaired as at 31 December 2012; and 2011 whereas any such loans were not reported by the entity (page 69).

Concentration of credit risks

The concentration of credit risks arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet his obligations. The Bank treats a receivable from a debtor or an economically connected group of debtors that exceeds 25% of the Bank's capital as a significant exposure. At the balance sheet date the Bank did not have any significant concentration of credit risks with respect to any individual debtor and the limits were not exceeded in relation to individual debtors and to related parties.

i) Concentration of credit risks according to economic sector/industry

An analysis of the concentration of credit risks according to the individual sector/industries is included in Note 17 and 18.

ii) Concentration of credit risks according to geographical sectors

Loans and advances to customers

TCZK	2012	2011
Czech Republic	10,144,554	17,848,710
Slovak Republic	5	11,760
Russia	7,087,644	1,117,560
Cyprus	888,822	1,446,195
Vietnam	759,448	735,481
Netherlands	452,967	310,829
Bulgaria	3,360,283	–
The Republic of Maldives	968,244	214,932
United Kingdom	573,202	–
Luxembourg	504,263	–
Other	773,927	685,032
Total	**25,513,359**	**22,370,500**

Loans and advances to banks

TCZK	2012	2011
Czech Republic	3,957,303	17,306,652
Slovak Republic	876,535	–
Russia	4,979,805	3,642,482
Ukraine	238	250
Austria	54,684	2,915,764
United Kingdom	3,784,958	1,352,354
Netherlands	323,742	420,962
Kazakhstan	980,747	196,672
Belarus	679,269	645,759
United States of America	16,656	288,143
Hungary	180,882	82,861
Germany	2,745,406	24,697
Poland	22,579	1,386
France	–	56,780
Other	10,140	1,644
Total	**18,612,944**	**26,936,406**

Debt securities

TCZK	2012	2011
Czech Republic	15,845,811	12,736,803
Russia	–	103,961
Luxembourg	1,573,912	1,279,592
Slovakia	161,966	399,929
United Kingdom	184,262	34,757
Austria	–	2,618
Kazakhstan	–	21,293
Netherlands	1,245,516	–
Ireland	1,041,182	691,680
Total	**20,052,649**	**15,270,633**

(b) Liquidity risk

The liquidity risk represents the risk of the Bank incurring losses due to momentary insolvency. The Bank can also suffer a loss as a result of low liquidity in the market for the financial instruments included in the Bank's portfolios. The insolvency risk threatens the Bank's funding and investment needs. Market liquidity risk represents the risk of not being able to liquidate financial instruments quickly enough, or in sufficient volume and for reasonable prices. If the conditions are not favourable, this risk can substantially worsen the Bank's position.

The Bank has access to diverse sources of funds, which comprise deposits and other savings, loans accepted and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Board of Directors. The Bank also holds, as part of its liquidity risk management strategy, a portion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Residual maturity of the Bank's assets and liabilities

The following table shows undiscounted cash flows on the Bank's financial assets and liabilities on the basis their earliest possible contractual maturity.

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2012						
Cash and balances with the central bank	8,560,953	–	–	–	1,496,691	10,057,644
Trading assets	542,462	1,154,008	6,819,667	2,129,387	74,800	10,720,324
Financial assets available for sale	49,748	683,335	6,164,705	4,301,416	530,850	11,730,054
Loans and advances to banks	16,291,184	1,526,722	500,000	295,038	–	18,612,944
Loans and advances to customers	4,127,068	3,088,595	9,012,289	8,280,229	1,005,178	25,513,359
Property, plant and equipment	–	–	–	–	57,293	57,293
Intangible assets	–	–	–	–	74,140	74,140
Other assets	146,167	–	–	–	152,450	298,617
Total	**29,717,582**	**6,452,660**	**22,496,661**	**15,006,070**	**3,391,402**	**77,064,375**
Deposits from banks	607,051	158,171	–	–	–	765,222
Deposits from customers	43,605,627	9,583,638	1,033,274	–	4	54,222,543
Debt securities issued	503,391	2,182,525	1,043,584	–	–	3,729,500
Trading liabilities	246,545	301,413	3,285,570	1,498,867	1,110	5,333,505
Tax and other liabilities	6,112,992	723,771	–	–	242,325	7,079,088
Shareholders' equity	–	–	–	–	5,934,517	5,934,517
Total	**51,075,606**	**12,949,518**	**5,362,428**	**1,498,867**	**6,117,958**	**77,064,375**
Gap	**(21,358,024)**	**(6,496,858)**	**17,134,233**	**13,507,203**	**(2,786,554)**	**–**
Cumulative gap	**(21,358,024)**	**(27,854,882)**	**(10,720,649)**	**2,786,554**	**–**	**–**
At 31 December 2011						
Cash and balances with the central bank	74,708	–	–	–	72,401	147,109
Trading assets	478,628	576,935	4,539,065	5,233,913	–	10,828,541
Financial assets available for sale	257,406	1,228,450	1,255,368	3,065,011	564,461	6,370,696
Loans and advances to banks	25,698,078	1,192,121	42	46,165	–	26,936,406
Loans and advances to customers	10,713,425	1,168,571	6,059,738	4,428,766	–	22,370,500
Property, plant and equipment	–	–	–	–	59,225	59,225
Intangible assets	–	–	–	–	84,366	84,366
Other assets	231,297	–	–	–	35,623	266,920
Total	**37,453,542**	**4,166,077**	**11,854,213**	**12,773,855**	**816,076**	**67,063,763**
Deposits from banks	719,783	440,052	–	–	–	1,159,835
Deposits from customers	34,772,937	10,797,067	26,831	–	–	45,596,835
Debt securities issued	2,313,831	334,762	193,253	–	–	2,841,846
Trading liabilities	7,712,691	173,366	801,387	117,287	–	8,804,731
Tax and other liabilities	2,872,447	631,635	210,539	131,887	120,309	3,966,817
Shareholders' equity	–	–	–	–	4,693,699	4,693,699
Total	**48,391,689**	**12,376,882**	**1,232,010**	**249,174**	**4,814,008**	**67,063,763**
Gap	**(10,938,147)**	**(8,210,805)**	**10,622,203**	**12,524,681**	**(3,997,932)**	**–**
Cumulative gap	**(10,938,147)**	**(19,148,952)**	**(8,526,749)**	**3,997,932**	**–**	**–**

The above table shows the residual maturity of the accounting value of the items, not the total expected cash flows.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Bank buys and sells derivatives, and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Department.

Value at risk

Market risks arising from the Bank's trading activities are managed using the Value at Risk method. Value at Risk represents the potential loss arising from an unfavourable movement on the market within a certain time period and at a certain confidence level. The Bank determines the Value at Risk using the parametric method based on the historical development of interest rates, exchange rates and prices of equity instruments. Value at Risk is measured based on a one-day holding period and a confidence level of 99%.

TCZK	31 December 2012	Average for 2012	31 December 2011	Average for 2011
VaR of interest instruments	4,676	6,092	10,328	8,690
VaR of currency instruments	568	878	238	529
VaR of equity instruments	2,179	136	–	15,550

Stress testing

The Bank carries out daily stress testing of interest rate, currency risks and changes in prices of equity instruments by applying internally defined improbable scenarios and simulating their impact on the net present value of the Bank's portfolio.

i) Currency risk

Currency risk is the risk of a change in the value of a financial instrument due to a change in the exchange rates.

Assets and liabilities denominated in foreign currencies including off-balance sheet instruments represent the Bank's exposure to exchange rate risk. Realised and non-realised exchange rate gains and losses are stated directly in the profit and loss statement.

The Bank has set currency risk limits based on its net currency exposure in individual currencies according to their significance. The Bank also sets a limit with respect to the total net currency exposure.

ii) Interest rate risk

The interest rate risk is the risk of a change in the value of a financial instrument due to a change in market interest rates.

The Bank is exposed to interest rate risks resulting from the different maturity or renewal period of interest rates and the different amounts of interest bearing assets and liabilities in these periods. Interest rate management activities are intended to optimise the net interest income of the Bank in accordance with the strategy approved by its Board of Directors.

Part of the Bank's income is generated by the difference between interest rate sensitive assets and liabilities, which is summarised in the table below.

Interest sensitivity of the Bank's assets and liabilities

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2012						
Cash and balances with the central bank	10,057,644	–	–	–	–	10,057,644
Trading assets	242,982	1,152,091	7,314,006	144,366	1,866,879	10,720,324
Financial assets available for sale	2,711,331	4,852,414	3,635,459	–	530,850	11,730,054
Loans and advances to banks	18,109,298	503,646	–	–	–	18,612,944
Loans and advances to customers	17,226,156	6,045,346	340,356	886,943	1,014,558	25,513,359
Property, plant and equipment	–	–	–	–	57,293	57,293
Intangible assets	–	–	–	–	74,140	74,140
Other assets	146,167	–	–	–	152,450	298,617
Total	**48,493,578**	**12,553,497**	**11,289,821**	**1,031,309**	**3,696,170**	**77,064,375**
Deposits from banks	607,051	158,171	–	–	–	765,222
Deposits from customers	43,605,627	9,583,637	1,033,274	–	4	54,222,543
Debt securities issued	503,391	2,182,525	1,043,584	–	–	3,729,500
Trading liabilities	246,545	301,413	3,285,570	1,498,867	1,110	5,333,505
Tax and other liabilities	6,190,678	723,770	–	–	164,640	7,079,088
Shareholders' equity	–	–	–	–	5,934,517	5,934,517
Total	**51,153,292**	**12,949,517**	**5,362,428**	**1,498,867**	**6,100,271**	**77,064,375**
Gap	**(2,659,714)**	**(396,020)**	**5,927,393**	**(467,558)**	**(2,404,101)**	**–**
Cumulative gap	**(2,659,714)**	**(3,055,734)**	**2,871,659**	**2,404,101**	**–**	**–**
At 31 December 2011						
Cash and balances with the central bank	147,109	–	–	–	–	147,109
Trading assets	1,198,268	577,766	8,212,990	817,972	21,545	10,828,541
Financial assets available for sale	257,406	1,228,450	1,255,368	3,065,011	564,461	6,370,696
Loans and advances to banks	25,897,478	1,038,886	42	–	–	26,936,406
Loans and advances to customers	14,722,769	935,836	3,783,844	2,928,051	–	22,370,500
Property, plant and equipment	–	–	–	–	59,225	59,225
Intangible assets	–	–	–	–	84,366	84,366
Other assets	15,000	–	–	–	251,920	266,920
Total	**42,238,030**	**3,780,938**	**13,252,244**	**6,811,034**	**981,517**	**67,063,763**
Deposits from banks	719,783	440,052	–	–	–	1,159,835
Deposits from customers	34,772,937	10,797,067	26,831	–	–	45,596,835
Debt securities issued	2,313,831	528,015	–	–	–	2,841,846
Trading liabilities	8,513,255	258,009	33,467	–	–	8,804,731
Tax and other liabilities	2,088,129	468,939	–	–	1,409,749	3,966,817
Shareholders' equity	–	–	–	–	4,693,699	4,693,699
Total	**48,407,935**	**12,492,082**	**60,298**	**–**	**6,103,448**	**67,063,763**
Gap	**(6,169,905)**	**(8,711,144)**	**13,191,946**	**6,811,034**	**(5,121,931)**	**–**
Cumulative gap	**(6,169,905)**	**(14,881,049)**	**(1,689,103)**	**5,121,931**	**–**	**–**

The carrying amounts of assets and liabilities are recorded either in the period in which they are due or in the period in which the interest rate changes, i.e. whichever occurs earlier.

Certain assets or liabilities are allocated to individual periods on the basis of an expert appraisal due to their expected preliminary repayment or non-defined maturity dates.

Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Bank as at 31 December 2012 and 2011 were as follows:

In %	2012	2011
Financial assets		
Cash and balances with the central bank	0.04	0.37
Trading assests	2.42*	4.25*
Financial assets available for sale	0.52*	4.34*
Loans and advances to banks	2.42	1.48
Loans and advances to customers	6.60	14.37
Financial liabilities		
Deposits from banks	0.87	1.14
Deposits from customers	0.46	1.01
Debt securities issued	2.54	2.18
Trading liabilities	0.68	1.69

Note: (*) Yield interest rate is calculated from debt securities only.

Apart from gap analysis as indicated above, the Bank monitors its exposure to interest rate risk by Basis Point Value (BPV) and stress testing. Both of these methods measure the potential impact on the Bank's overall position of shift of intererst rate yield curves.

Basis point value

Basis point value measures how much monetary positions of the Bank will gain or loose for a 100 basis point (bp) movement in the yield curve in terms of fair value changes. Therefore, it quantifies the Bank's interest rate risk for small changes in interest rates.

As at 31 December 2012 BPVs for individual currencies were as follows:

TCZK Currency	Banking Book BPV	Trading book BPV
CZK	(79,092)	7,128
EUR	(102,849)	(22,647)
USD	(28,401)	(19,230)
RUB	(5,720)	–
SKK	–	–
KZT	(4,529)	–
UAH	–	–
GBP	50	–
VND	–	–
Total BPV (absolute)	220,641	49,005

As at 31 December 2011 BPVs for individual currencies were as follows:

TCZK Currency	Banking Book BPV	Trading book BPV
CZK	(23,524)	13,461
EUR	(25,926)	(16,004)
USD	(25,088)	(3,075)
RUB	(3,386)	(389)
SKK	–	–
KZT	(1,557)	–
UAH	–	–
GBP	(37)	–
VND	–	–
Total BPV (absolute)	79,518	32,929

Stress testing

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in significant currencies with respect to the Bank in related yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates in terms of fair value changes (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

		2012		2011
TCZK	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
At 31 December	220,541	220,541	79,518	79,518
Average for the period	140,207	140,207	66,337	66,337
Maximum for the period	220,541	220,541	79,518	79,518
Minimum for the period	62,514	62,514	54,683	54,683

iii) Equity risk

The equity risk is the risk of a change in the value of a financial instrument due to a change in market prices of equities or equity related instruments.

The Bank is exposed to equity risk resulting from open positions in equities or equity related instruments in accordance with the strategy approved by its Board of Directors. The Bank measures equity risk via the Value at Risk method as described above in the section Value at Risk.

iv) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

The Bank is not exposed to settlement risk as all transactions are settled in delivery versus payment manner.

(d) Operational risk

Operational risks

The IT security and operational risk management departments are responsible for mitigation and management of operational risk, i.e. risk of loss resulting from human factors, inadequate or failed internal processes and systems, or from external events including legal risk, and therefore risk of increased expenses, decreased revenues of the Bank or penalties and sanctions, and impairment losses of tangible and intangible assets.

Based on the Organisational manual, the IT security and operational risk management department is sufficiently independent in its operations. The IT security and operational risk management department prepares methodology and procedures for operational risks; it identifies, measures, monitors, evaluates and proposes corrective action in relation to operational risks. In addition, it supervises information risk management, i.e. it monitors, measures, and evaluates information security and prepares methodology and procedures for management of information risks.

If a controllable operational risk is identified by the Bank's management, it proposes and implements operational, control or organisational measures to mitigate such risk. The Bank uses diversification of its activities (e.g trading activities) through its system of operational limits for elimination or mitigation of identified operational risks. The Bank controls the access of employees to tangible and intangible assets, and controls the risk from provision of bank services, from implementation of new products, and from outsourcing, etc. If operational, control or organisational measures are proposed by the Bank's management, the impact on the Bank's expenses and revenues is considered.

If an inherent operational risk is identified, the risk manager from the IT security and operational risk management department proposes procedures for its mitigation, transfer or acceptance. Termination of activities comprising any inherent operational risk is considered. The operational risk manager considers accessibility of insurance, insurance costs and the impact of potential measures on the Bank's expenses and revenues. The Bank accepts inherent operational risk of a one-off loss up to CZK 500 and inherent operational risk of recurring losses up to CZK 3,000 per month.

Legal and other risks

The Compliance department is responsible for monitoring and mitigation of legal risks, potential regulatory sanctions, financial losses or reputation losses from the Bank's non-compliance with the legal framework, regulatory requirements, executive regulations, internal guidelines and business practices. The compliance department's main responsibilities are to ensure that the Bank's internal guidelines and processes comply with requirements set by external standards; to create an environment that ensures this compliance; to set up an environment for fair provision of services to the Bank's customers and fair and equal treatment of the Bank's customers and its employees; to prevent conflicts of interest; to monitor the Bank's behaviour on financial markets (regulation of non-transparent trading); to ensure consistency of internal guidelines; to carry out and monitor AML procedures (anti money laundering) and to resolve complaints.

The Compliance department is an independent body, which is responsible to the Bank's Board of Directors. If part of the Compliance department's activities is assigned to another department within the Bank, the Compliance department coordinates this activity.

Each Bank employee is responsible for compliance with external standards within their duties and responsibilities, as well as with binding internal guidelines. If an employee has any doubts about their own or another person's compliance with external regulations, they are obliged to immediately ask their superior to express an opinion on the situation. If the employee or their superior has any doubts, even after positive assurance, they are obliged to ask an employee from the Compliance department to express an opinion.

The Bank's management is responsible for establishing an environment that enables compliance with external regulations and for supporting the education of subordinates in the area of external standards. Further, the Bank's management is responsible for issuing internal guidelines on each particular area of the Bank's activity; it is responsible for ensuring that internal guidelines comply with external standards, and monitors adherence to those standards. If non-compliance is identified, it immediately reports this to the Compliance department with suggested corrective action.

The Compliance department ensures that internal regulations comply with external standards mainly through suggestions/amendments in the process of issuing/updating internal regulations, where approval of the Compliance department is required. If non-compliance of internal and external standards is identified, the Compliance department notifies the responsible department. The Compliance department is entitled to carry out spot checks on Bank employees to check that their activities are in compliance with external standards and internal guidelines.

Since 2008, the Bank has applied standard the Basel II standard approach to operational risk. The Bank started calculating the capital requirement for operational risk under the basic indicators approach (BIA) as at 1 January 2008, i.e. as at the Basel II implementation date.

(e) Capital management

Regulatory capital

The Bank's lead regulator, the Czech National Bank, sets and monitors the capital requirements of the Bank. The Bank and individual banking operations are directly supervised by their local regulators. As the capital regulatory requirements are set only for the Bank, the structure of Tier 1 capital and Tier 2 capital is set only for the Bank.

In implementing current capital requirements the Czech National Bank requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve funds and retained earnings after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

The Bank's regulatory capital position at 31 December was as follows calculated in compliance with Czech National Bank requirements were as follows:

TCZK	2012	2011
Tier 1 capital	**4,631,539**	**4,086,350**
Issued capital	769,004	769,004
Share premium	411,545	411,545
Statutory reserve fund	153,801	153,801
Retained earnings	3,434,588	2,836,366
Negative change in fair value of financial assets available for sale	–	–
Less intangible assets	(74,140)	(84,366)
Negative value diff from the change in the FV of realised capital instruments	(63,259)	–
Tier 2 capital		
Qualifying subordinated liabilities	–	–
Total regulatory capital	**4,631,539**	**4,086,350**
Risk weigted assets	34,563,283	31,173,247
Capital requirements		
Capital requirement for credit risk of investment portfolio	2,705,067	2,454,694
Capital requirement for credit risk of trading portfolio	298,041	210,129
– for specific interest rate risk	232,060	170,693
– for specific equity risk	5,984	–
– for derivatives	59,997	39,166
Capital requirements for market risks	198,504	161,306
– for general interest rate risks of trading portfolio	178,369	159,015
– for general equity risks of trading portfolio	5,984	–
– for foreign exchange risks	14,151	2,291
Capital requirements for settlement risks	–	–
Capital requirements for operational risks	219,776	187,634
Total capital requirements	**3,421,388**	**3,013,764**
Capital adequacy ratio	**10.83%**	**10.85%**

The capital adequacy ratio is calculated according to regulatory requirements as the ratio of regulatory capital to total capital requirements multiplied by 8%. The capital adequacy ratio is required to be at least 8%.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation and is subject to review by the Bank's Credit Committee or ALCO as appropriate.

(f) Components of cash flow statement

Cash and cash equivalents include cash in hand and account balances with the Czech National Bank, treasury bills with residual maturity up to three months and nostro account balances with financial institutions. Statutory minimum reserves are not included as cash equivalents in the cash flow statement due to their limited availability.

TCZK	2012	2011
Cash on hand	60,940	74,704
Balances with the central bank	8,500,013	4
Nostro account balances	3,042,340	640,722
Total	**11,603,293**	**715,480**

39. Related Party Transactions

The Bank has a related party relationship with its parent company, PPF Group N.V., and with its subsidiaries and associates.

The Bank also has related party relationships with its Directors and Executives, and enterprises in which it has in common key members of management.

All transactions with related parties were concluded under arm's length conditions.

(a) Transaction with the parent company

Below stated balances are included in statement of financial position and represented transactions with the parent company:

TCZK	2012	2011
Trading assets	1,006,058	736,421
Other assets	121	–
Deposits from customers	(10,099,290)	(4,602,308)
Trading liabilities	–	(14,906)
Subordinated debt	(672,751)	–
Other liabilities	(1,101,150)	(1,302,133)
Total	**(10,867,012)**	**(5,182,926)**

The Bank neither accepted nor provided guarantees related to the above mentioned transactions.

Below stated figures are included in statement of comprehensive income and represented transactions with the parent company:

TCZK	2012	2011
Interest expense and similar charges	(46,458)	(91,046)
Fee and commission income	4,986	5,938
Net trading income	783,965	593,106
Total	**742,493**	**507,998**

(b) Transaction with other related parties

Below stated balances are included in statement of financial position and represented transactions with other related parties:

TCZK	2012	2011
Cash and balances with the central bank	31,334	17,751
Trading assets	1,178,018	799,144
Financial assets available for sale	2,037,734	411,152
Loans and advances to banks	1,939,962	800,412
Loans and advances to customers	27,892	115,132
Other assets	8,751	6,216
Deposits from customers	(10,652,434)	(5,242,839)
Deposits from banks	(110,982)	(505,263)
Trading liabilities	(267,108)	(8,438)
Other liabilities	(240,812)	(2,026,418)
Total	**(6,047,645)**	**(5,633,151)**

The Bank neither accepted nor provided guarantees related to the above mentioned transactions.

Below stated figures are included in statement of comprehensive income and represented transactions with other related parties:

TCZK	2012	2011
Interest expense and similar income	262,034	161,968
Interest expense and similar charges	(102,210)	(999,041)
Fee and commission income	146,549	17,321
Fee and commission expense	(3,501)	(1,208)
Net trading income	(106,687)	52,555
Other operating income	7,247	8,605
General administrative expenses	(99,397)	(239,762)
Total	**104,035**	**(999,562)**

(c) Supervisory Boards members, Directors and Executives

Below stated balances are included in statement of financial position and represented transactions with Supervisory Board members, Directors and Executives:

	Board of Directors		Supervisory Board		Executives	
	2012	2011	2012	2011	2012	2011
Loans and advances to customers	–	–	–	–	1,819	–
Trading assets	–	–	–	–	–	437
Deposits from Customers	(4,821)	(13,762)	(59,467)	(806)	(2,169)	(2,468)

The above payables consist mainly of term deposits and balances of current accounts with the Bank.

The above receivables consist of positive value of derivatives.

The Bank did not report related expenses and income for its Supervisory Board members, Directors and Executive as at 31 December 2012 and 2011 whereas these figures are considered to be not material.

(d) Off balance sheet items

As a related party transaction, as at 31 December 2012 the Bank provided a credit commitment to related parties of TCZK 25,140 (2011: TCZK 66,974) and guarantee in the amount of TCZK 5,340 (2011: TCZK 0).

40. Subsequent Events

There have been no events subsequent to the balance sheet date that require adjustment of or disclosure in the financial statements or notes thereto.

Prague, 22 April 2013

Petr Milev
Chairman of the Board of Directors of
PPF banka a.s.

Josef Zeman
Vice Chairman of the Board of Directors of
PPF banka a.s.

Individual responsible for financial statements:

František Vencl
Chief Financial Officer

Individual responsible for accounting:

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Chief Accountant

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