PPF banka a.s.
Report on Business Activities 2013

PPF Banka

PPF banka a.s. Report on Business Activities 2013

Contents

Letter from the Chairman

Dear shareholders, customers, business partners, and colleagues:

Despite the ongoing recession in the Czech Republic, PPF banka managed to grow in 2013. For the first time in the Bank's history, total assets exceeded CZK 100 billion and operating income reached CZK 2.7 billion.

PPF banka posted a solid profit before tax of CZK 757 million for 2013, and net profit was CZK 544 million. Compared to past years, the earnings performance was affected by higher impairment allowances for classified loans.

The past year saw several interesting developments at PPF banka. We took part in the preparation of important and, in a way, unique bond issues both within PPF Group and with Home Credit & Finance Bank in Russia, as well as for a new client, Kofola, on financial markets in Central Europe. PPF banka also increased its own capital by issuing a subordinated ten-year bond: thanks to high investor interest, the issue value reached CZK 1.4 billion.

I am also pleased to report on the accomplishments of our private banking experts, for whom the past year was the best ever in terms of sales: we managed to more than double the volume of client funds under management and expand the client base as well.

PPF banka's position in the public sector remained strong. Thanks to our active approach, both the client base and client deposits stabilized in this segment. Unfortunately, our plans regarding pilot projects in European funds financial instruments did not come to fruition. Most of the tenders were cancelled and due to the unfavorable circumstances this market did not open in the Czech Republic at all. Nonetheless, we will continue to prepare joint projects with the public sector, in line with PPF banka's position in this segment.

PPF banka has built a reputation for being a trustworthy partner, both in the financial world and among its demanding clients, whether they are from the corporate or municipal sectors, in the capital markets, or in private banking. This renown, based on the work of our top-notch team of professionals and combined with our strategic role within PPF Group, enables the Bank to continue winning clients' trust, posting good financial performance, and taking part in major international transactions.

I would like to thank the shareholders for their support and their active approach to the Bank's strategic governance. I also thank the management and, importantly, all the Bank's employees for their excellent performance. And, most of all, I am grateful to our clients for showing us their favor.

Prague, 22 April 2014

Petr Jirásko
Chairman of the Board of Directors and Chief Executive Officer of PPF banka


Petr Jirásko

Chairman of the Board of Directors and Chief Executive Officer

Consolidated Financial Highlights

According to International Financial Reporting Standards

Assets

In millions of CZK	2013	2012	2011	2010	2009
Financial assets	27,241	22,450	17,199	10,640	8,029
Loans and advances to banks	22,195	18,613	26,936	22,343	20,855
Loans and advances to customers	31,635	25,513	22,370	20,175	14,994
Other assets	23,977	10,488	558	1,008	932
Total assets	**105,047**	**77,064**	**67,064**	**54,166**	**44,810**

Liabilities and Shareholders' Equity

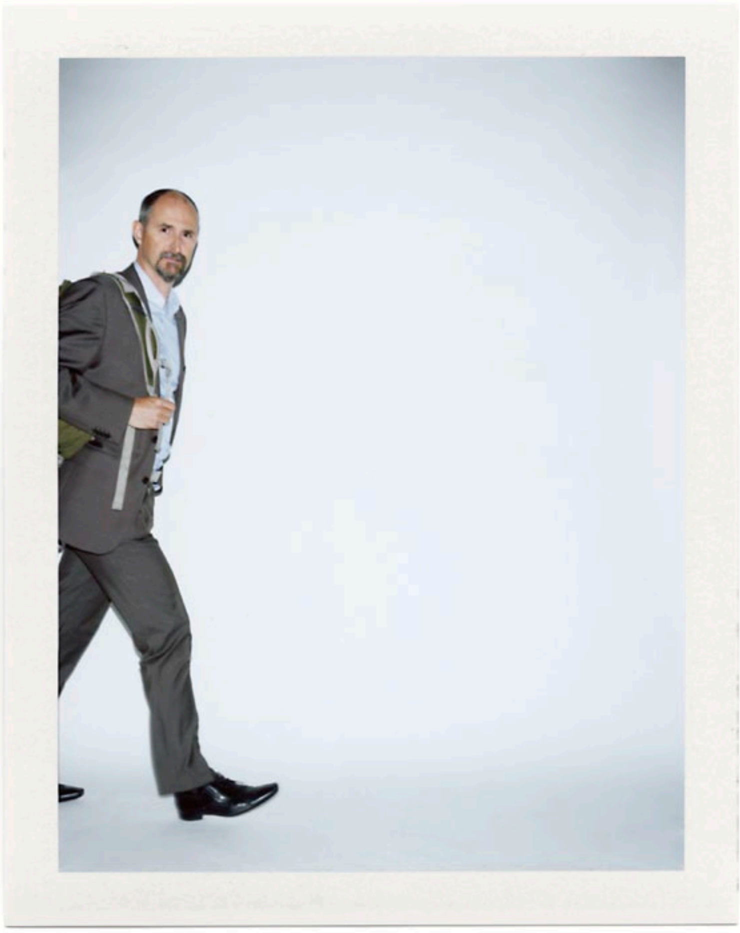
In millions of CZK	2013	2012	2011	2010	2009
Deposits from banks	1,743	765	1,160	1,898	67
Deposits from customers	75,117	54,222	45,597	35,998	29,344
Debt securities issued	11,593	3,730	2,842	3,204	4,259
Trading liabilities	7,180	5,333	8,805	3,971	4,380
Subordinated liabilities	2,522	673	–	–	–
Total shareholders' equity	5,098	5,935	4,694	4,173	3,514
Other liabilities	1,793	6,407	3,967	4,923	3,246
Total liabilities and shareholders' equity	**105,047**	**77,064**	**67,064**	**54,166**	**44,810**

Profit and Loss Statement

In millions of CZK	2013	2012	2011	2010	2009
Net interest income	2,636	2,106	2,391	2,039	1,658
Dividend income	8	11	12	–	–
Net fee and commission income	203	534	814	581	158
Net trading income	(125)	318	(238)	141	531
Other operating income	2	15	10	24	47
Operating income	2,724	2,983	2,990	2,785	2,394
Operating expenses	(1,966)	(1,837)	(2,229)	(1,978)	(1,358)
Net gain (loss) from associates	–	–	–	–	–
Income from associates	–	–	–	–	–
Profit before income tax	757	1,146	761	807	1,036
Income tax expense	(213)	(199)	(153)	(144)	(225)
Net profit for the year	**544**	**947**	**608**	**663**	**811**

Basic Ratios

%	2013	2012	2011	2010	2009
ROE	12.34	18.98	16.69	20.31	25.73
ROA	0.57	1.31	1.01	1.26	1.72
Operating expenses/operating income	72.20	61.60	74.55	71.04	56.71
Non-interest operating income/operating income	3.22	29.41	20.03	26.78	30.74



Pavel Fuchs

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

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 5,097,196
Total assets	TCZK 105,046,988
Shares	unlisted, registered ordinary, recorded in the Central Securities Depository Prague

Note: figures as at 31 December 2013

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%

Jaroslava Studenovská

Member of the Board of Directors and Managing Director, Operations

Governing Bodies

Board of Directors

Petr Jirásko

Chairman of the Board of Directors of PPF banka since 14 October 2013

Chief Executive Officer

Pavel Fuchs

Vice Chairman of the Board of Directors of PPF banka since 14 October 2013

Managing Director, Risk Management

Jaroslava Studenovská

Member of the Board of Directors of PPF banka

Managing Director, Operations

Supervisory Board

Martin Štefunko

Chairman of the Supervisory Board of PPF banka

Karel Hanzlík

Vice Chairman of the Supervisory Board of PPF banka

Martin Dlouhý

Member of the Supervisory Board of PPF banka

Bohuslav Samec

Member of the Supervisory Board of PPF banka

Lenka Baramová

Member of the Supervisory Board of PPF banka

Martin Hýbl

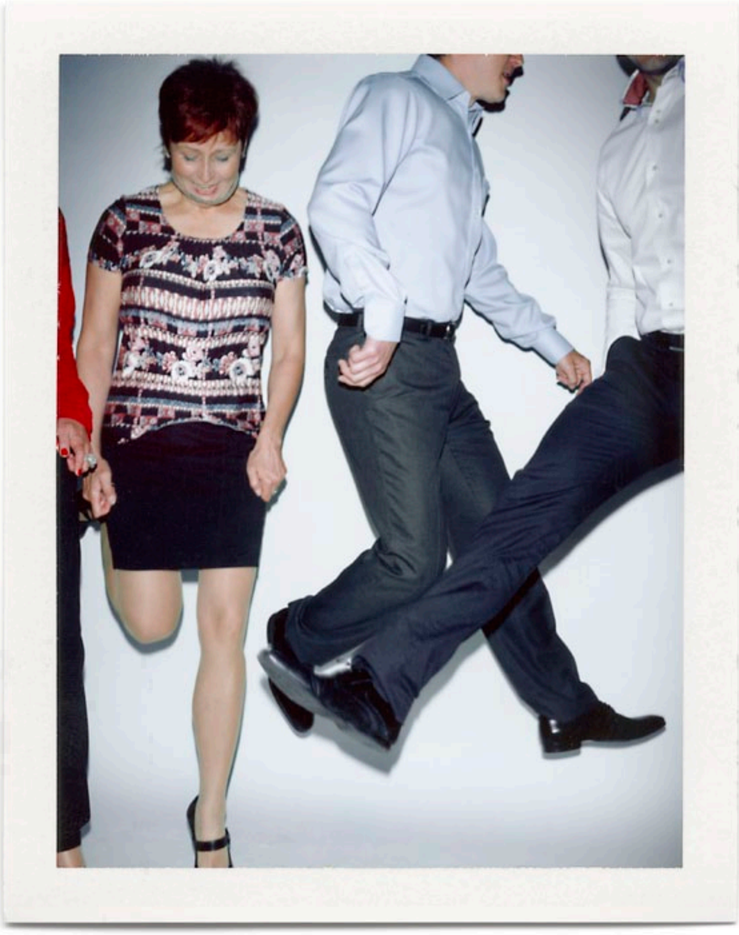
Member of the Supervisory Board of PPF banka

Audit Committee

Jitka Mašátová

Valdemar Linek

Bohuslav Samec

Senior Management

Petr Jirásko

Chief Executive Officer since 14 October 2013

Pavel Fuchs

Managing Director, Risk Management since 8 October 2013

Jaroslava Studenovská

Managing Director, Operations since 1 May 2007

Karel Tregler

Managing Director, Financial Markets since 1 January 2014

Miroslav Hudec

Chief Financial Officer since 1 January 2014

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

Tomáš Janota

Managing Director, ITC since 1 August 2013

Report of the Board of Directors

Bank Financial Performance in 2013

PPF banka was successful last year, growing more despite a Czech economy in recession. Total assets were up CZK 28 billion in 2013, surpassing CZK 100 billion for the first time in the Bank's history. Net interest income grew 25.2%, to CZK 2.6 billion. This growth was offset by a decline in net fee and commission income, to CZK 203 million, in 2013 as well as by the negative net trading result (CZK 125 million). Overall, the Bank generated CZK 2.7 billion in operating income in 2013, down CZK 259 million from the previous year. The Bank's operating expenses rose 7% in 2013, to CZK 1.97 billion. Impairment was a significant factor in the increase in operating expenses. General administrative expenses were down CZK 57 million.

2013 saw a slight drop in the quality of customer loans. Thanks to PPF banka's very conservative approach to loan classification, the Bank's "impairment to customers" allowance rose from CZK 277 million to CZK 894 million. Despite the large increase in impairment on classified loans, PPF banka managed to post pre-tax income of CZK 757 million in 2013. Last year, PPF banka paid CZK 213 million in income tax and its 2013 net income was CZK 544 million.

2013 saw total assets rise 36.3%, year-on-year, to CZK 105.0 billion at year-end. Loans and advances to customers were up 24.1% year-on-year, to CZK 31.6 billion, making them the largest component in total assets, with a 30% weighting. The impairment loss on loans and advances to customers rose by CZK 1.1 billion in 2013, to CZK 1.4 billion. The substantial upswing in other assets relates to the growth in cash and balances with the central bank, which more than doubled in 2013, to CZK 20.4 billion. Loans and advances to banks were up CZK 3.6 billion, to CZK 22.2 billion.

Deposits from customers continued to be the primary source of financing. In 2013, they increased by CZK 20.9 billion to CZK 75.1 billion, or 71.5% of total assets at year-end 2013.

Early in the second quarter of last year, PPF banka took advantage of favorable circumstances on financial markets to issue CZK 1.4 billion in subordinated debt. In late April, the General Meeting decided to pay out dividends of nearly CZK 1.4 billion in total. Return on average equity (ROAE) and Return on average assets (ROAA) were 12.34% and 0.57%, respectively, in 2013. Overall capital adequacy as at 31 December 2013 was 11.57% – compared to 2012, it was up 0.73 of a percentage point.

PPF banka continued in its charity projects in 2013, and sees social responsibility as one of its fundamental values.

Capital and Capital Adequacy

In millions of CZK	2013	2012	2011	2010	2009
Capital adequacy	11.57%	10.83%	10.85%	11.55%	10.52%
Tier 1	4,188	4,632	4,086	3,443	2,636
Tier 2 and Tier 3	1,387	–	–	–	–
Sum of deductible items	–	–	–	–	–
Total capital	5,575	4,632	4,086	3,443	2,636
Capital requirements for investment portfolio	2,908	2,705	2,455	1,770	1,447
Capital requirements for trading portfolio	519	497	371	436	428
Capital requirements for operational risks	429	220	188	179	130
Risk weighted assets	36,995	34,563	31,173	22,678	21,535

Business Operations in 2013

PPF banka Operations in the Financial Markets

During 2013, PPF banka actively traded on the financial and capital markets, and expanded its range of products offered and instruments traded. The growth in trading volume was especially significant in FX transactions, derivatives, and bonds trading.

Expressed in numerical terms: PPF banka carried out FX market transactions in an equivalent volume of CZK 143 billion (spot) and CZK 345 billion (financial derivatives). Furthermore, PPF banka registered the following trading volumes in securities:

Securities Trading Volume

In millions of CZK	2013	2012	2011
Domestic bonds	204,683	150,680	196,066
Foreign bonds	78,643	93,040	89,529
Total bonds	**283,326**	**243,720**	**285,595**
Domestic shares	6,384	1,376	2,494
Foreign shares	33,313	93,881	55,804
Total shares	**39,697**	**95,257**	**58,298**
Total	**323,023**	**338,977**	**343,893**

According to Czech Ministry of Finance methodology, PPF banka ranked as the second most active primary dealer in the Czech government bond market. This is an overall ranking for both the primary and secondary markets.

In primary auctions, PPF banka underwrote CZK 21.1 billion in Czech government bonds, or 15.5% of the total volume of Czech Koruna-denominated government bonds issued.

PPF banka is also an active trader on the secondary bond market, and we are a market maker (on the MTS platform) for Czech government bonds. For corporate bonds, we are a market maker in the Bloomberg trading system.

PPF banka took part in several large debt offerings in 2013. In the USD 200 million Home Credit & Finance Bank LLC subordinated debt offering we were a co-manager and in the CZK 330 million Kofola S.A. bond issue we were joint lead manager. In order to increase our own capital, PPF banka successfully issued (as both manager and distributor) 10-year subordinated debt – thanks to the enthusiastic investor response, the issue volume reached CZK 1.4 billion.

Municipal Banking

For years, the Bank's core customer base has consisted of regional and state governmental institutions. In 2011–2012 we substantially reinforced our position in this market, and this was reaffirmed in 2013, when customer deposits volume in this market segment approached CZK 30 billion. Although these liabilities declined in the spring when certain customers became subject to new legislation requiring state treasury accounts to be with the Czech National Bank (CNB), this was offset during the year by new acquisitions and the Bank's liquidity position, to which the public sector is a major contributor, remained stable.

Unfortunately, the Bank's plans for pilot projects regarding EU Cohesion Policy financial instruments did not come to fruition. Most of the tenders were cancelled by the procurers and the market did not open.

2013 saw the Bank reinforce its position, particularly in the regions outside of Prague. We structured the customer offering to keep our deposit products attractive even at a time of extraordinarily low rates and yields. In order to provide a commensurate response to growing demand for deposit and investment products on the part of churches and religious associations, late in the year the Bank set up a specialized desk staffed by professionals with the requisite knowledge and expertise to serve this customer segment, which is new for the Bank.

Corporate Banking

In 2013, the principal task in Corporate Banking was to stabilize the portfolio in terms of credit risk, in order to lay a firm foundation for further growth. We also reviewed all our trading relationships to maximize returns for the shareholders, and this review process will continue in 2014 as well. We continue to be successful in doing new business in energy-sector investments and are preparing several larger deals in the real estate market. We remain a bank that wants to provide its customers with a comprehensive range of products, and not a mere creditor without any business beyond lending.

Export & Structured Finance

In 2013, PPF banka continued to actively engage in export and structured finance transactions. In year-on-year terms, there was growth in both lending volume and yields in both areas. Within the structured finance area, the Bank did more business in acquisition finance. The customer base was further diversified during the year. In the second half of 2013, a number of deals got underway that will raise profitability even more in the years to come. In geographic terms, the division is focused on the Czech Republic and countries of the Commonwealth of Independent States (CIS), but also does business in other countries such as, for example, Bulgaria and Romania.

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 government bodies.

In the SME segment, 2013 was the best year ever for the Private Banking Department. We continued to grow the business result – exceeding plan figures – as well as total assets and the client base itself. All this was achieved while at the same time stabilizing the team of SME consultants and loan officers (no further expansion took place). The commercial focus remains as always: know the client, take an individualized approach, offer tailored solutions – and thereby achieve stipulated targets.

The private banking for individuals segment fills out the PPF banka's mosaic of services with a specialization in banking services for the most discerning private individuals. As these clients are exceptional, they are a unique segment and we are very pleased that PPF banka's private bankers succeeded in fulfilling their expectations in 2013. Thanks to a combination of innovative investment instruments and an expanding range of services, we managed to more than double the volume of funds clients have entrusted to us and, at the same time, we managed to significantly grow the number of clients who take advantage of our services.

We are confident that, in the next year, the importance and quality of PPF banka's private banking will continue to grow by leaps and bounds, making it an outstanding part of the Czech banking market.

Information Technologies and Security Policy

In 2013, a number of information and telecommunication technology projects were implemented to facilitate the development of the Bank's businesses and meet various compliance-related and systemic needs. Development activities in the area of the Bank's lending operations focused in particular on systematic record-keeping of collateral instruments, including daily re-valuation and accounting. Also implemented was an automated system for monitoring and record-keeping of overdue debts. In electronic payment systems, we rolled out a new type of dual-factor authentication that is independent of the customer's terminal equipment. In the compliance area, the Regulatory Reporting project continued to focus on implementing the CNB's new reporting methodology and changing the data source to "data from DWH". In 2013, the Bank implemented changes mandated by European Market Infrastructure Regulation (EMIR) provisions on OTC derivatives trading. In the DWH area, development continued with an expansion of data structures for profitability reporting automation. In terms of operational infrastructure, the most important accomplishment was the terminal equipment virtualization project, which is bringing new security elements and simplifying management of terminal equipment while at the same time making it more flexible to use. Past investments in infrastructure were leveraged by completing the implementation of a separate testing environment and changes in the data storage backup system. In the security area, we implemented a protective element securing the Bank's Internet service against external attacks. In the third quarter, the IT area was reorganized into a separate division with responsibility for operating and developing IT services. Inside the division, responsibilities were defined and allocated among three departments: IT Applications, IT Infrastructure, and IT Helpdesk. During 2013, we also introduced monthly Project Committee meetings, where changes taking place across the Bank's operations are discussed and decisions made with the participation of senior management.

Human Resources and Personnel Strategy

Human resources strategy and management is in full accordance with PPF banka's plans and goals, as well as with the overall strategy of PPF Group.

We consider the following to be of key importance: mutual trust among employees, open communication at all levels, and a corporate culture of fair play. These are elements that facilitate the process of improving employee performance.

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 targeted at finding employees who will help us to maintain and drive our company's dynamism and success.

The average number of employees in 2013 was 197, and the head count at 31 December 2013 was 199.

Principles of Remuneration of the Issuer's Executives and Supervisory Board Members

The remuneration principles were set on the basis of applicable regulatory requirements. All remuneration principles have been approved by the Supervisory Board. Compliance with the stipulated principles is vetted once per year by the Internal Audit Department, and the results of the vetting are reported to the Supervisory Board and the Board of Directors.

No unapproved cash remuneration was paid in relation to the year 2013, and no in-kind income was provided.

Fees Paid to Auditors

Fees for external auditor services rendered in 2013 totaled CZK 6 million (2012: CZK 7 million). All external auditor services relate to auditing and vetting of the financial statements, the annual report, the materials for consolidation, and MiFID reports.

Directions of Further Growth and Outlook for 2014

The economy is expected to exhibit flat performance again this year, with associated lower corporate demand for financing and deterioration in the quality of bank loan portfolios.

For 2014, the Bank will focus on the following commercial activities:

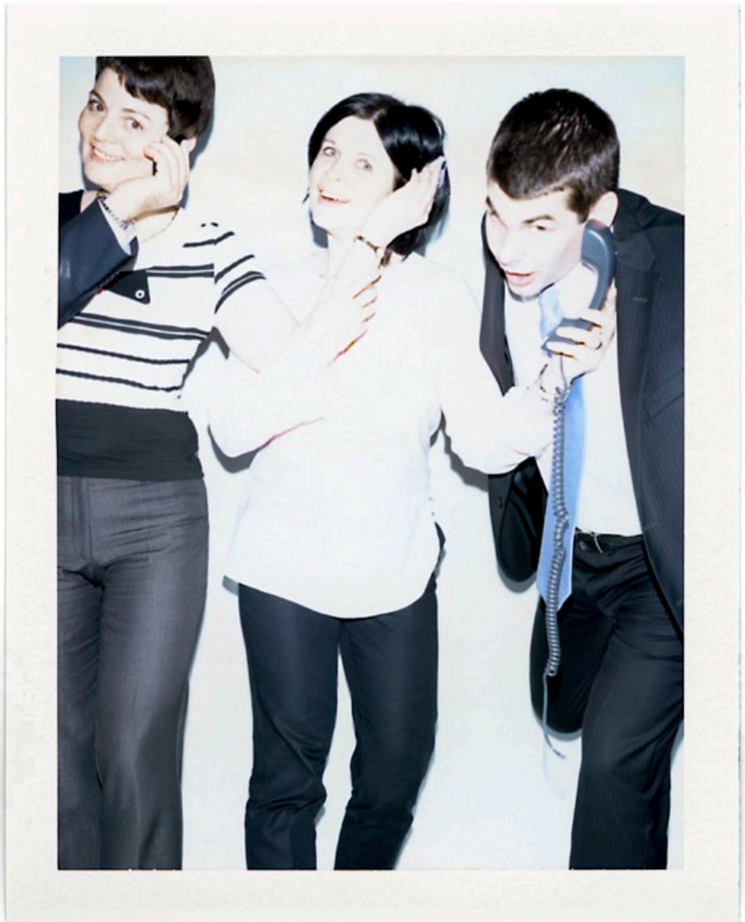
— active dealing in the financial and capital markets;
— supporting the Czech Republic's exports through export & structured finance;
— preparing joint projects with public sector involvement.

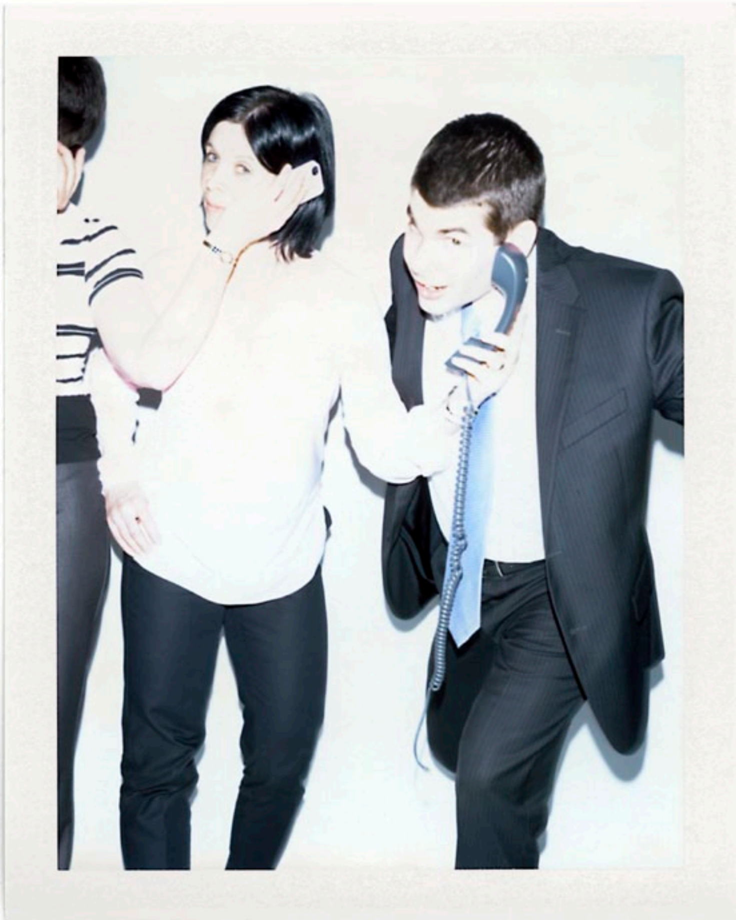
Public Benefit Projects

In 2013, like every year, the Bank was involved in certain PPF Group public-benefit projects. In culture and the arts, we played a role in sponsoring the traditional open-air Summer Shakespeare Festival and the Jára Cimrman Theater in Prague's Žižkov district, as well as providing a financial donation to the Švanda Theater in the Smíchov district of Prague.

The education area was represented by financial donations for the Bilingual Nursery School for the Hearing Impaired and THE KELLNER FAMILY FOUNDATION, which focuses primarily on supporting those who, through no fault of their own, find themselves in difficult life circumstances.

The Bank also supported sports – the Helicoptershow 2013 in Hradec Králové, Kluziště Praha 2013, and several smaller sports events held during the year.



Other Information

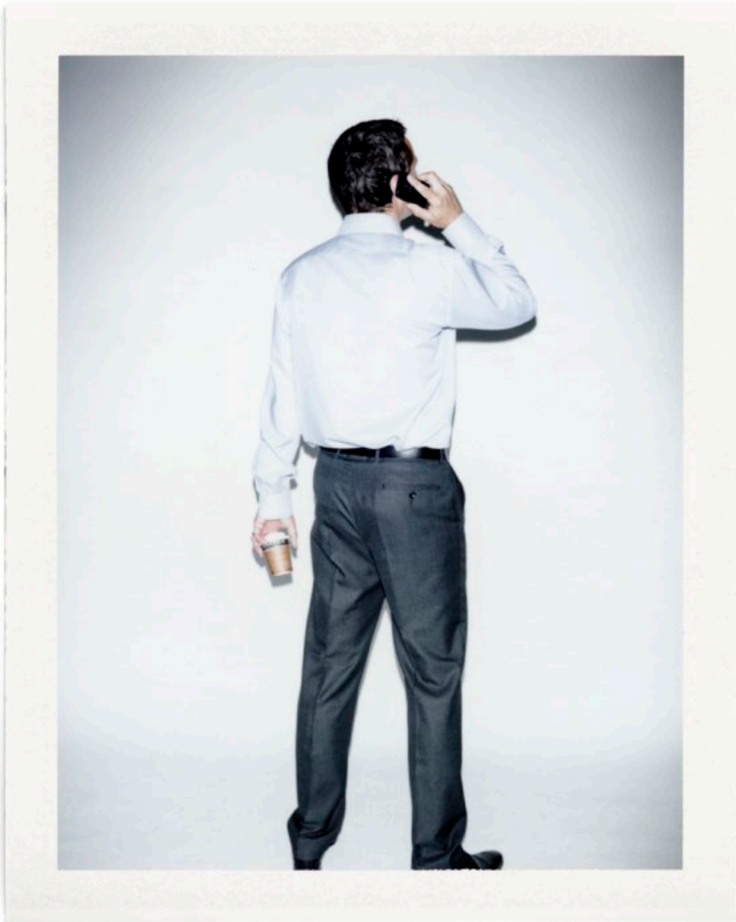
During 2013 and 2012, the company incurred no expenditures for R&D or environmental protection.

The company has no organizational units abroad.

Prague, 26 March 2014

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

Pavel Fuchs
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 2013, 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 2013, 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, 16 April 2014

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

Pavel Závitkovský
Partner
Licence number 69

Consolidated Financial Statements for the Year Ended 31 December 2013

According to International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

In millions of CZK	Note	2013	2012
Interest and similar income	6	3,463	3,524
Interest expense and similar charges	6	(827)	(1,418)
Net interest income		**2,636**	**2,106**
Dividend income	7	8	11
Fee and commission income	8	358	689
Fee and commission expense	8	(155)	(103)
Net fee and commission income		**203**	**586**
Net trading income	9	(125)	318
Other operating income	11	3	14
Operating income		2,725	3,035
General administrative expenses	12	(617)	(674)
Impairment (loss)/reversal	25	(1,241)	(1,107)
Other operating expenses	13	(110)	(108)
Operating expenses		(1,968)	(1,889)
Profit before income tax		**757**	**1,146**
Income tax expense	22	(213)	(199)
Net profit for the year		**544**	**947**
Other comprehensive income			
Fair value reserve (AFS financial assets)		25	303
Net change in fair value, net of tax		25	303
Other comprehensive income for the period		**25**	**303**
Total comprehensive income for the period		**569**	**1,250**

The notes on pages 42 to 82 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 16 April 2014.

Signed on behalf of the Board of Directors by:

Petr Jirásko

Pavel Fuchs

Consolidated Statement of Financial Position

In millions of CZK	Note	2013	2012
Assets			
Cash and balances with the central bank	14	23,591	10,058
Trading assets	15	8,134	10,720
Financial assets available for sale	16	19,106	11,730
Loans and advances to banks	17	22,195	18,613
Loans and advances to customers	18	31,635	25,513
Property, plant and equipment	20	42	57
Intangible assets	21	69	74
Other assets	24	275	299
Total assets		**105,047**	**77,064**
Liabilities			
Deposits from banks	26	1,743	765
Deposits from customers	27	75,117	54,222
Debt securities issued	28	11,593	3,730
Trading liabilities	29	7,180	5,333
Income tax provision	30	18	75
Deferred tax liabilities	22	53	51
Other liabilities	31	1,723	6,280
Subordinated liabilities	32	2,522	673
Total liabilities		**99,949**	**71,129**
Shareholders' equity			
Issued capital	34	769	769
Share premium	34	412	412
Statutory reserve fund	35	154	154
Retained earnings		3,520	4,382
Fair value reserve		243	218
Total shareholders' equity		**5,098**	**5,935**
Total liabilities and shareholders' equity		**105,047**	**77,064**

Consolidated Statement of Cash Flows

In millions of CZK	2013	2012
Cash flows from operating activities		
Profit before income tax	757	1,146
Adjustments for		
Depreciation and amortisation	55	55
Net impairment loss on loans and advances	1,241	1,107
Net interest income	(2,636)	(2,106)
Net gain on debt securities issued at fair value through profit or loss	(260)	(165)
Net gain/loss on the sale of available-for-sale securities	66	(189)
Dividends on available-for-sale securities	8	11
	(769)	**(141)**
Changes in		
Balances with central bank	(724)	(1,424)
Trading assets	2,586	108
Loans and advances to banks	(5,329)	8,323
Loans and advances to customers	(7,240)	(1,745)
Other assets	24	(64)
Trading liabilities	1,847	(3,471)
Deposits from banks	978	(394)
Deposits from customers	20,895	8,626
Other liabilities and provisions	(4,557)	2,313
	7,711	**12,131**
Interest received	2,792	3,502
Interest paid	(585)	(1,435)
Income taxes paid	(55)	(158)
Net cash used in operating activities	**9,863**	**14,040**
Cash flow from investing activities		
Acquisition of investment securities	(7,229)	(4,838)
Proceeds from sale of investment securities	364	283
Acquisition of property, plant and equipment	(20)	(46)
Acquisition of intangible assets	(73)	(47)
Proceeds from sale of subsidiaries	–	7
Net cash used in investing activities	**(6,958)**	**(4,648)**
Cash flow from financing activities		
Proceeds from issue of debt securities	38,278	17,934
Repayment of debt securities	(30,566)	(17,102)
Proceeds from issue of subordinated liabilities	1,789	673
Dividends paid	(1,400)	–
Net cash from financing activities	**8,101**	**1,505**
Net increase in cash and cash equivalents	11,006	10,897
Cash and cash equivalents at 1 January	**11,603**	**715**
Effect of exchange rate fluctuations on cash and cash equivalents held	56	(9)
Cash and cash equivalents at 31 December (see Note 40 (f))	**22,665**	**11,603**

Consolidated Statement of Changes in Equity

In millions 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 2013	**769**	**412**	**154**	**218**	**4,382**	**5,935**
Total comprehensive income for the period						
Profit for 2013	–	–	–	–	544	544
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	25	–	25
Transfers	–	–	–	–	(6)	(6)
Total comprehensive income for the period	**769**	**412**	**154**	**243**	**4,920**	**6,498**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	(1,400)	(1,400)
Balance at 31 December 2013	**769**	**412**	**154**	**243**	**3,520**	**5,098**
Balance at 1 January 2012	**769**	**412**	**154**	**(85)**	**3,445**	**4,695**
Total comprehensive income for the period						
Profit for 2012	–	–	–	–	947	947
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	303	–	303
Transfers	–	–	–	–	(10)	(10)
Total comprehensive income for the period	**769**	**412**	**154**	**218**	**4,382**	**5,935**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2012	**769**	**412**	**154**	**218**	**4,382**	**5,935**

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.

Valuation models

In accordance with transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

— Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

— Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

— Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes Risk Management, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

— verification of observable pricing;

— re-performance of model valuations;

— a review and approval process for new models and changes to models;

— calibration and back-testing of models against observed market transactions;

— analysis and investigation of significant daily valuation movements; and

— review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Risk Management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

— verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;

— understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

— when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and

— if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank Audit Committee.

(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.

Subordinated debt

Subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

(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.

Despite the amendments to IFRS 7, the Bank has not expanded its disclosures about the offsetting of financial assets and financial liabilities as Bank's agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Bank does not have any currently legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. This applies to ISDA agreements, sale and repurchase agreements and any related rights to financial collateral or securities borrowing and lending agreements.

(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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt this pronouncement when it becomes effective. The Company is in the process of analyzing the likely impact on its financial statements.

IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10 Consolidated Financial Statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). 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.

IFRS 9 Financial Instruments (effective from 1 January 2015), published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39. It deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities while most of the requirements in IAS 39 were carried forward unchanged to IFRS 9. IFRS 9 has not yet been adopted by the EU.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014). IFRS 10 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). Under the new single control model, an investor controls an investee when it is exposed or has rights to variable returns from its involvements with the investee, it has the ability to affect those returns through its power over that investee and there is a link between power and returns. 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 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014) supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014) 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.

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 2013 and 2012.

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

In 2013 and 2012 the Bank did not identify any changes of financial reporting standards that would affect the Bank’s financial statements.

6. Net Interest Income

MCZK	2013	2012
Interest and similar income		
Interest and similar income arise from		
Cash and balances with the central bank	7	7
Loans and advances to banks	345	404
Loans and advances to customers	2,304	2,509
Debt securities	807	604
	3,463	**3,524**
Interest expense and similar charges		
Interest expense and similar charges arise from		
Deposits from banks	(3)	(17)
Deposits from customers	(347)	(550)
Debt securities issued and short sales	(315)	(263)
Change in deferred purchase price	–	(455)
Other – subordinated debt	(162)	(133)
	(827)	**(1,418)**
Net interest income	**2,636**	**2,106**

The change in deferred purchase price followed the interest income from the purchased portfolio of receivables and consisted of excess spread after waterfall of all costs (e.g. funding costs, service costs, etc.). It was paid in 2012 to Home Credit a.s., originator and servicer of the acquired retail receivables portfolio.

The Bank dispensed no interest on late payment during years 2013 and 2012.

7. Dividend Income

In 2013 the Bank received dividend payments amounting to MCZK 8 (2012: MCZK 11), all from ownership of trading securities.

8. Net Fee and Commission Income

MCZK	2013	2012
Fee and commission income		
Transaction fee with banks	6	4
Transaction fee with clients	211	544
Fees from guarantees provided	37	32
Fees from payment protection insurance	–	69
Fees from administration of shares/bonds issue	61	7
Other	43	33
	358	**689**
Fee and commission expenses		
Transaction fee with banks	(27)	(31)
Transaction fee with clients	(128)	(72)
	(155)	**(103)**
Net fee and commission income	**203**	**586**

9. Net Trading Income

MCZK	2013	2012
Net profit/(loss) from securities/FX trading	(132)	69
Net profit/(loss) from derivatives	7	249
	(125)	**318**

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 2013 and 2012.

11. Other Operating Income

MCZK	2013	2012
Reinvoicing and other similar income	2	–
Advisory services	1	3
Proceeds from the sale of subsidiaries	–	7
Proceeds from the sale of receivables	–	4
	3	**14**

The Bank received MCZK 7 from the sale of subsidiaries PPF B1 B.V. and PPF B2 B.V. in 2012.

12. General Administrative Expenses

MCZK	2013	2012
Personal expenses		
Wages and salaries	(164)	(140)
Social expenses	(66)	(43)
Responsibility insurance, Pension insurance	(2)	(2)
Remuneration paid to		
Board of Directors	(27)	(28)
Supervisory Board	(5)	(5)
Executives	(28)	(33)
	(292)	(251)
Other general operating expenses	(325)	(423)
	(617)	**(674)**

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2013 and 2012 was as follows:

	2013	2012
Board of Directors	3	3
Supervisory Board	6	5
Executives	5	6
Employees	187	168

13. Other Operating Expenses

MCZK	2013	2012
Depreciation of fixed assets	(55)	(55)
Payment to Deposit Insurance Fund	(52)	(47)
Payment to Guarantee Fund	(3)	(5)
Other	–	(1)
	(110)	**(108)**

14. Cash and Balances with the Central Bank

MCZK	2013	2012
Cash on hand	70	61
Balances with the central bank	2,221	1,497
Nostro accounts with the central bank	–	–
Term deposits with the central bank	18,100	8,500
Repo with the central bank	3,200	–
	23,591	**10,058**

At 31 December 2013 cash and balances with the central bank included balances with the central bank amounting to MCZK 2,221 (2012: MCZK 1,497) 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.

MCZK	2013	2012
Bonds and notes issued by		
Government	3,837	5,954
Other issuers	2,756	2,899
Shares and other equity instruments issued by		
Other issuers	–	75
Positive fair value of derivatives		
Other counterparties	1,541	1,792
Of which		
Listed instruments	6,593	8,928
Unlisted instruments	1,541	1,792
	8,134	**10,720**

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 were traded on the stock exchange in Czech Republic (2013: MCZK 0; 2012: MCZK 75).

16. Financial Assets Available for Sale

MCZK	2013	2012
Bonds and notes issued by		
Government	14,434	8,421
Other issuers	4,111	2,778
Shares and other equity instruments issued by		
Other issuers	561	531
Of which		
Listed instruments	16,926	10,337
Unlisted instruments	2,180	1,393
	19,106	**11,730**

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

MCZK	2013	2012
Loans to banks	1,458	1,467
Money market transactions	19,442	14,104
Other (nostro/current account balances)	1,295	3,042
Net loans and advances to banks	**22,195**	**18,613**

During 2013 and 2012 the Bank did not create or release any impairment to loans and advances to banks.

18. Loans and Advances to Customers

MCZK	2013	2012
Corporate customers		
Financial institutions	1,560	667
Non-financial institutions	11,225	9,627
Individuals – entrepreneurs	69	60
Public sector	8	18
Resident individuals	179	49
Non-residents	20,025	15,405
Total loans and advances to customers	33,066	25,826
Impairment loss on loans and advances to customers	(1,431)	(313)
Net loans and advances to customers	**31,635**	**25,513**

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):

MCZK	2013	2012
As at 1 January	277	248
Impairment losses recognised in the statement of comprehensive income	802	398
Reversal of impairment of loans to customers	(167)	(161)
Use of impairment on loans and receivables	(37)	(208)
Exchange difference	(20)	–
	578	(29)
As at 31 December	**855**	**277**

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

MCZK	2013	2012
As at 1 January	36	1,464
Impairment losses recognised in the statement of comprehensive income	606	1,078
Amount related to loans written off	(58)	(128)
Amount related to the sale	–	(2,378)
Exchange difference	(8)	–
	540	(1,428)
As at 31 December	**576**	**36**

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 MCZK 51.3 as at the end of 2013 (2012: MCZK 51.3), PPF Financial Consulting, s.r.o. in the amount of MCZK 5 (2012: MCZK 3) and FRM Střední Morava, s.r.o. in the amount of MCZK 0.2 (2012: MCZK 0.2). The Bank sold its participations in the subsidiaries PPF B1 B.V. and PPF B2 B.V. in 2012. The Bank acquired its participations in Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation in 2012. 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 in 2012.

The full method of consolidation is used.

The Bank held no interest participation with significant influence in 2013 and 2012.

20. Property, Plant and Equipment

MCZK	Low value fixed assets	Building	Furniture and Fittings	Equipment	Fixed assets not yet in use	Total
Cost						
At 1 January 2012	2	16	18	130	5	171
Additions	1	–	–	17	28	46
Transfers	–	–	–	5	(5)	–
Disposals	–	–	(2)	–	(23)	(25)
At 31 December 2012	**3**	**16**	**16**	**152**	**5**	**192**
At 1 January 2013	3	16	16	152	5	192
Additions	–	–	–	12	8	20
Transfers	–	–	–	–	–	–
Disposals	–	–	–	(30)	(12)	(42)
At 31 December 2013	**3**	**16**	**16**	**134**	**1**	**170**
Depreciation						
At 1 January 2012	2	–	14	96	–	112
Additions	1	–	2	22	–	25
Disposals	–	–	(2)	–	–	(2)
At 31 December 2012	**3**	**–**	**14**	**118**	**–**	**135**
At 1 January 2013	3	–	14	118	–	135
Additions	–	–	1	22	–	23
Disposals	–	–	–	(30)	–	(30)
At 31 December 2013	**3**	**–**	**15**	**110**	**–**	**128**
Net book value						
At 31 December 2012	**–**	**16**	**2**	**34**	**5**	**57**
At 31 December 2013	**–**	**16**	**1**	**24**	**1**	**42**

21. Intangible Assets

MCZK	Software	Total
Cost		
At 1 January 2012	256	256
Additions	47	47
Disposals	(27)	(27)
At 31 December 2012	**276**	**276**
At 1 January 2013	276	276
Additions	73	73
Disposals	(46)	(46)
At 31 December 2013	**303**	**303**
Depreciation		
At 1 January 2012	171	171
Additions	31	31
At 31 December 2012	**202**	**202**
At 1 January 2013	202	202
Additions	32	32
At 31 December 2013	**234**	**234**
Net book value		
At 31 December 2012	**74**	**74**
At 31 December 2013	**69**	**69**

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 2013 and 2012 the tax rate in the Czech Republic was 19%).

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

MCZK	2013	2012
Deferred tax assets		
Deferred tax asset from financial assets available for sale	1	2
Deferred tax asset from wages and unpaid social and health insurance	9	1
Deferred tax assets	**10**	**3**
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	(58)	(53)
Deferred tax liability from penalty interest not yet collected	(5)	(1)
Deferred tax liabilities	**(63)**	**(54)**
Total deferred tax assets (liabilities)	**(53)**	**(51)**

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is MCZK 0 (2012: MCZK 0). There was no unrecognized item related to deferred tax.

At 31 December 2013 the Bank recorded receivables from customers of penalty interest not yet collected of MCZK 25 (2012: MCZK 7), where the relevant income is not tax deductible. Therefore, the bank created a deferred tax liability of MCZK 5 (2012: MCZK 1), all of which was recognised.

A change in deferred tax from financial assets available for sale disclosed as at 31 December 2013 in the amount of MCZK 6 (2012: MCZK 71) and was included in Bank's equity through an adjustment to "Fair value reserve".

Income tax reconciliation:

	2013	2013	2012	2012
MCZK	Tax basis	Tax	Tax basis	Tax
Tax rate		**19.0%**		**19.0%**
Profit from operations (before taxation)	757		1,146	
Computed taxation using applicable tax rate		144		218
Tax non-deductible expenses	112	21	148	28
Non-taxable income	(497)	(94)	(221)	(42)
Other items	726	138	(107)	(21)
Deferred tax	21	4	82	16
Total income tax (expense)/income		**(213)**		**(199)**

23. Operating Leasing

Non-cancellable operating lease rentals are payable as follows:

MCZK	2013	2012
Less than one year	24	33
Between one and five years	80	74
More than five years	–	1
Total	**104**	**108**

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 MCZK 35 in 2013 (2012: MCZK 32).

24. Other Assets

MCZK	2013	2012
Clearing with securities market	57	146
Prepayments and deferred expenses	34	31
Cash collateral to payment cards	155	95
Other	29	27
	275	**299**

25. Impairment Losses

MCZK	Receivables to clients (note 18)	Total
As at 1 January 2012	1,711	1,711
Impairment of loans to customers	1,392	1,392
Reversal of impairment of loans to customers	(289)	(289)
Use of impairment on loans and receivables	(208)	(208)
Release related to the sale of portfolios	(2,293)	(2,293)
As at 31 December 2012	**313**	**313**
As at 1 January 2013	313	313
Impairment of loans to customers	1,400	1,400
Reversal of impairment of loans to customers	(225)	(225)
Use of impairment on loans and receivables	(37)	(37)
FX difference	(20)	(20)
As at 31 December 2013	**1,431**	**1,431**

26. Deposits from Banks

MCZK	2013	2012
Other deposits from banks	972	632
Other (loro account balances)	771	133
	1,743	**765**

27. Deposits from Customers

MCZK	2013	2012
Payable on demand		
Corporate customers		
Financial services	416	3,268
Non-financial institutions	5,042	4,660
Insurance institutions	280	237
Non-profit organisations	165	209
Self-employed	222	321
Public sector	8,829	12,711
Resident individuals	895	736
Non-residents	27,222	15,211
Total payable on demand	43,071	37,353
Term deposits		
Corporate customers		
Financial services	5,771	2,971
Non-financial institutions	7,006	7,368
Insurance institutions	2,956	2,804
Non-profit organisations	63	71
Self-employed	314	277
Public sector	15,247	1,570
Resident individuals	102	233
Non-residents	587	1,575
Total term deposits	32,046	16,869
	75,117	**54,222**

Interest is recognised in item Interest expense and similar charges.

28. Debt Securities Issued

MCZK	2013	2012
Financial institutions	135	164
Non-financial institutions	1,607	1,321
Public sector	6,347	706
Non-resident individuals	983	46
Resident individuals	2,521	1,493
	11,593	**3,730**

29. Trading Liabilities

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

MCZK	2013	2012
Negative fair value of derivatives		
Interest rate contracts	703	1,227
Currency contracts	727	516
Liabilities from short sales of securities	5,750	3,590
	7,180	**5,333**

30. Income Tax Assets and Provision

As of 31 December 2013 a tax provision of MCZK 217 (2012: MCZK 214) is offset against income tax advances totalling MCZK 199 (2012: MCZK 139).

31. Other Liabilities

MCZK	2013	2012
Payables to suppliers	47	54
Accrued expenses and deferred income	7	11
Cash deposited as pledge	1,271	2,708
Social and health insurance	6	6
Other liabilities to employees	16	54
Liabilities from securities transactions	20	12
Deposits insurance fund	14	12
Liabilities from clearing	56	3,387
Other liabilities	286	35
	1,723	**6,280**

32. Subordinated Debt

The terms and conditions of the subordinated debt are as follows:

MCZK	Year of maturity	2013	2012
CZK 1,400 million subordinated debt with a mandatory fixed payment of 6.5%	2023	1,453	–
RUB 3,500 million subordinated debt with a mandatory fixed payment of 14%*	2014	1,069	673
		2,522	**673**

* 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.

The above liabilities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated debt during the years ended 31 December 2013 and 2012.

33. 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:

MCZK	Carrying amounts of receivables	Fair value of assets as held collateral
Loans and advances at 31 December 2013		
to banks	9,179	9,520
to clients	2,180	2,760
Loans and advances at 31 December 2012		
to banks	4,764	4,746
to clients	1,294	1,958

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:

MCZK	Carrying amounts of liabilities	Fair value of assets given as collateral
Deposits at 31 December 2013		
from banks	–	–
from clients	10,698	10,684
Deposits at 31 December 2012		
from banks	163	163
from clients	–	–

34. Issued Capital

	Number of shares	Nominal value CZK	Registered capital MCZK
As at 31 December 2013			
	192,131	2,602.5	500
	384,262	700.0	269
	576,393		**769**
As at 31 December 2012			
	192,131	2,602.5	500
	384,262	700.0	269
	576,393		**769**

The shareholder structure as at 31 December 2013 was as follows:

Name	Residence	Number of shares	Share (MCZK)	Share (%)
PPF Group N.V.	the Netherlands	554,711	715	92.96%
Hlavní město Praha	Czech Republic	19,882	52	6.73%
Other (less than 1%)		1,800	2	0.31%
		576,393	**769**	**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 2013 or as at 31 December 2012.

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 MCZK 412 (2012: MCZK 412).

35. 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 2012 nor 2013 profit were required.

36. Dividends Paid

The following dividends were declared and paid by the Bank for the year ended 31 December 2013.

MCZK	2013
CZK 4,736.55 per registered share with a nominal value of CZK 2,602.5 per share	910
CZK 1,274 per registered share with a nominal value of CZK 700 per share	490
	1,400

No dividends were declared nor paid for the year ended 31 December 2012.

37. Proposed Allocation of Net Profit for the Year

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

MCZK	Net profit for the year
Net profit for the year 2013	544
Proposed allocation of profit for 2013	
Transfer to social funds	(2)
Transfer to retained earnings	(542)
	–

38. 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.

MCZK	2013	2012
Guarantees issued	3,877	4,178
Undrawn credit commitments	8,734	11,075
Letters of credit	162	130
	12,773	**15,383**

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

MCZK	Notional value 2013	2012	Fair value 2013	2012
Derivatives held for trading				
Interest Rate Swaps	62,349	53,642	(137)	(172)
Interest Forwards	–	–	–	–
Purchase	–	–	–	–
Sale	–	–	–	–
Foreign Exchange derivatives			175	143
Purchase	87,404	96,719		
Sale	87,229	96,576		
Equity derivatives			–	–
Purchase	–	–		
Sale	–	–		
Options	808	655	–	1
Other derivatives			73	77
Purchase	2,311	646		
Sale	2,311	646		
			111	**49**

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.

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 year	Unspecified	Total
As at 31 December 2013						
Derivatives held for trading						
Interest Rate Swaps	–	54,850	4,458	3,041	–	62,349
FX derivatives (purchase)	59,186	28,031	186	–	–	87,403
FX derivatives (sale)	59,041	28,002	186	–	–	87,229
Options	495	313	–	–	–	808
Other derivatives (purchase)	2,311	–	–	–	–	2,311
Other derivatives (sale)	2,311	–	–	–	–	2,311
As at 31 December 2012						
Derivatives held for trading						
Interest Rate Swaps	–	105	51,779	1,758	–	53,642
FX derivatives (purchase)	71,350	22,426	2,943	–	–	96,719
FX derivatives (sale)	71,194	22,443	2,939	–	–	99,576
Options	503	152	–	–	–	655
Other derivatives (purchase)	–	646	–	–	–	646
Other derivatives (sale)	–	646	–	–	–	646

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

39. Fair Value Disclosures

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2013

MCZK	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and balances with the central bank	–	23,591	–	23,591	23,591
Loans and advances to banks	–	22,195	–	22,195	22,195
Loans and advances to customers	–	19,878	11,757	31,635	31,635
Financial liabilities					
Deposits from banks	–	1,743	–	1,743	1,743
Deposits from customers	–	75,117	–	75,117	75,117
Debt securities issued	–	11,593	–	11,593	11,593
Subordinated debt	–	2,522	–	2,522	2,522

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

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, LTV ratios, product and borrower type, prepayment and delinquency rates, and default probability.

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 and Subordinated debt

For debt securities issued and subordinated debt 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):

MCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	6,001	592	–	6,593
Derivatives held for trading	73	1,468	–	1,541
Available-for-sale securities	16,130	259	2,717	19,106
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	5,750	–	–	5,750
Derivatives held for trading	–	1,430	–	1,430
As at 31 December 2012				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	8,272	656	–	8,928
Derivatives held for trading	58	1,734	–	1,792
Available-for-sale securities	9,494	649	1,587	11,730
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	3,590	–	–	3,590
Derivatives held for trading	–	1,744	–	1,744

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		
MCZK	Securities for trading	Available-for-sale securities	Total
Balance as at 1 January 2013	**–**	**1,587**	**1,587**
Profit and loss from revaluation			
In profit or loss	–	136	136
In other comprehensive income	–	–	–
Purchases	–	994	994
Sales/ maturity	–	–	–
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	–	–
Transfers between portfolios	–	–	–
Balance as at 31 December 2013	**–**	**2,717**	**2,717**

Profit of MCZK 90 is included in Interest and similar income and profit of MCZK 46 in Net trading income.

During the current reporting period, due to changes in market conditions for certain shares, quoted prices in active market were no available for these securities, therefore the acquisition purchase price is the best indicator of fair value of shares.

40. 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 MCZK 2,908 (2012: MCZK 2,705).

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

		2013		2012
MCZK	Gross	Net	Gross	Net
Not impaired				
Standard	22,195	22,195	18,613	18,613
Total	**22,195**	**22,195**	**18,613**	**18,613**

There was no accrued interest to individually impaired loans and advances to banks as at 31 December 2013 and 2012.

Loans and advances to customers (individually impaired)

MCZK	2013 Gross	2013 Net	2012 Gross	2012 Net
Not impaired				
Standard	19,878	19,878	17,415	17,415
Impaired				
Watched	1,303	1,271	1,554	1,459
Sub-standard	1,130	763	1,474	1,343
Doubtful	1,724	1,423	35	10
Loss loans	207	52	42	16
Total	**24,242**	**23,387**	**20,520**	**20,243**

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2013 MCZK 94 (2012: MCZK 20).

Loans and advances to customers (collectively impaired)

MCZK	2013	2012
Collectively impaired		
Gross amount	8,824	4,659
Due	7,650	4,415
Past due 1–90 days	596	236
Past due 91–360 days	578	8
Past due more than 360 days	–	–
Allowances for impairment	(576)	(36)
Net amount	8,248	4,622
Premium of purchased receivables	–	648
Carrying amount	8,248	5,270
Total	**8,248**	**5,270**

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

As at 31 December 2013 and 2012 the Bank did not report any loans and advances to customers as “Past due, but not impaired”.

As at 31 December 2013 and 2012 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:

MCZK	2013	2012
Bank guarantees	5,636	4
Property	12,309	14,824
Unsecured	13,690	10,685
Total	**31,635**	**25,513**

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

MCZK	2013	2012
Bank guarantees	1,688	995
Property	742	1,031
Unsecured	1,079	802
Total	**3,509**	**2,828**

The Bank did not record any collateral for loans and advances to customers past due, but not impaired as at 31 December 2013 and 2012.

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

MCZK	2013	2012
Czech Republic	12,238	10,145
Slovak Republic	111	–
Russia	9,811	7,088
Cyprus	968	889
Vietnam	1,113	759
Netherlands	309	453
Bulgaria	2,779	3,360
The Republic of Maldives	1,020	968
United Kingdom	–	573
Georgia	503	128
Hungary	679	71
Romania	638	130
Luxembourg	972	504
Other	494	446
Total	**31,635**	**25,513**

Loans and advances to banks

MCZK	2013	2012
Czech Republic	11,635	3,957
Slovak Republic	1,293	876
Russia	4,674	4,980
Ukraine	–	–
Austria	38	55
United Kingdom	1,605	3,785
Netherlands	184	324
Kazakhstan	1,039	981
Belarus	618	679
United States of America	42	17
Hungary	133	181
Germany	845	2,745
Poland	5	23
France	64	–
Other	20	10
Total	**22,195**	**18,613**

Debt securities

MCZK	2013	2012
Czech Republic	21,391	15,846
Luxembourg	1,602	1,574
Slovakia	273	162
United Kingdom	–	184
Poland	3	–
Netherlands	1,000	1,246
Ireland	870	1,041
Total	**25,139**	**20,053**

(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 of their earliest possible contractual maturity.

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2013						
Cash and balances with the central bank	23,591	–	–	–	–	23,591
Trading assets	1,258	1,019	2,655	3,202	–	8,134
Financial assets available for sale	1,798	1,311	5,710	9,726	561	19,106
Loans and advances to banks	20,018	1,230	530	416	–	22,195
Loans and advances to customers	6,050	3,899	11,338	10,348	–	31,635
Property, plant and equipment	–	–	–	–	42	42
Intangible assets	–	–	–	–	69	69
Other assets	240	–	–	–	35	275
Total	**52,955**	**7,459**	**20,233**	**23,693**	**707**	**105,047**
Deposits from banks	1,109	634	–	–	–	1,743
Deposits from customers	65,601	7,143	2,373	–	–	75,117
Debt securities issued	7,228	3,018	1,347	–	–	11,593
Trading liabilities	3	111	1,905	3,731	1,430	7,180
Tax and other liabilities	1,591	6	–	–	197	1,794
Subordinated debt	–	1,135	–	1,387	–	2,522
Shareholders' equity	–	–	–	–	5,098	5,098
Total	**75,532**	**12,047**	**5,625**	**5,118**	**6,725**	**105,047**
Gap	**(22,577)**	**(4,588)**	**14,608**	**18,575**	**(6,018)**	**–**
Cumulative gap	**(22,577)**	**(27,165)**	**(12,577)**	**6,018**	**–**	**–**
At 31 December 2012						
Cash and balances with the central bank	8,561	–	–	–	1,497	10,058
Trading assets	542	1,154	6,820	2,129	75	10,720
Financial assets available for sale	50	683	6,165	4,301	531	11,730
Loans and advances to banks	16,291	1,527	500	295	–	18,613
Loans and advances to customers	4,127	3,089	9,012	8,280	1,005	25,513
Property, plant and equipment	–	–	–	–	57	57
Intangible assets	–	–	–	–	74	74
Other assets	146	–	–	–	152	299
Total	**29,718**	**6,453**	**22,497**	**15,006**	**3,391**	**77,064**
Deposits from banks	607	158	–	–	–	765
Deposits from customers	43,606	9,584	1,032	–	–	54,222
Debt securities issued	503	2,183	1,044	–	–	3,730
Trading liabilities	247	301	3,286	1,498	1	5,333
Tax and other liabilities	6,113	724	–	–	242	7,079
Shareholders' equity	–	–	–	–	5,935	5,935
Total	**51,076**	**12,950**	**5,362**	**1,498**	**6,178**	**77,064**
Gap	**(21,359)**	**(6,497)**	**17,135**	**13,507**	**(2,786)**	**–**
Cumulative gap	**(21,359)**	**(27,856)**	**(10,721)**	**2,786**	**–**	**–**

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%.

MCZK	31 December 2013	Average for 2013	31 December 2012	Average for 2012
VaR of interest instruments	6	8	5	6
VaR of currency instruments	6	1	1	1
VaR of equity instruments	–	2	2	–

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

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2013						
Cash and balances with the central bank	23,591	–	–	–	–	23,591
Trading assets	748	679	1,983	3,182	1,542	8,134
Financial assets available for sale	4,889	10,920	2,144	593	560	19,106
Loans and advances to banks	20,416	1,248	531	–	–	22,195
Loans and advances to customers	15,367	8,905	6,696	667	–	31,635
Property, plant and equipment	–	–	–	–	42	42
Intangible assets	–	–	–	–	69	69
Other assets	240	–	–	–	35	275
Total	**65,251**	**21,752**	**11,354**	**4,442**	**2,248**	**105,047**
Deposits from banks	1,109	634	–	–	–	1,743
Deposits from customers	65,601	7,143	2,373	–	–	75,117
Debt securities issued	7,228	3,018	1,347	–	–	11,593
Trading liabilities	436	922	1,472	2,920	1,430	7,180
Tax and other liabilities	1,591	6	–	–	197	1,793
Subordinated debt	–	1,135	–	1,387	–	2,522
Shareholders' equity	–	–	–	–	5,098	5,098
Total	**75,965**	**12,858**	**5,192**	**4,307**	**6,725**	**105,047**
Gap	**(10,714)**	**8,894**	**6,162**	**135**	**(4,477)**	**–**
Cumulative gap	**(10,714)**	**(1,820)**	**4,342**	**4,477**	**–**	**–**
At 31 December 2012						
Cash and balances with the central bank	10,058	–	–	–	–	10,058
Trading assets	243	1,152	7,314	144	1,867	10,720
Financial assets available for sale	2,711	4,852	3,635	–	532	11,730
Loans and advances to banks	18,109	504	–	–	–	18,613
Loans and advances to customers	17,226	6,045	340	887	1,015	25,513
Property, plant and equipment	–	–	–	–	57	57
Intangible assets	–	–	–	–	74	74
Other assets	146	–	–	–	153	299
Total	**48,493**	**12,553**	**11,289**	**1,031**	**3,698**	**77,064**
Deposits from banks	607	158	–	–	–	765
Deposits from customers	43,606	9,584	1,032	–	–	54,223
Debt securities issued	503	2,183	1,044	–	–	3,730
Trading liabilities	247	301	3,286	1,498	1	5,334
Tax and other liabilities	6,191	724	–	–	164	7,079
Shareholders' equity	–	–	–	–	5,935	5,935
Total	**51,154**	**12,950**	**5,362**	**1,498**	**6,100**	**77,064**
Gap	**(2,661)**	**(397)**	**5,927**	**(467)**	**(2,402)**	**–**
Cumulative gap	**(2,661)**	**(3,058)**	**2,869**	**2,402**	**–**	**–**

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 2013 and 2012 were as follows:

In %	2013	2012
Financial assets		
Cash and balances with the central bank	0.05	0.04
Trading assests	2.60*	2.42*
Financial assets available for sale	2.22*	0.52*
Loans and advances to banks	1.25	2.42
Loans and advances to customers	5.35	6.60
Financial liabilities		
Deposits from banks	0.52	0.87
Deposits from customers	0.31	0.46
Debt securities issued	1.38	2.54
Trading liabilities	1.35	0.68

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 2013 BPVs for individual currencies were as follows:

MCZK

Currency	Banking Book BPV	Trading book BPV
CZK	(8)	30
EUR	(137)	(44)
USD	(29)	(16)
RUB	(4)	–
JPY	–	10
KZT	(6)	–
UAH	–	–
GBP	–	–
VND	–	–
Total BPV (absolute)	184	100

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

MCZK

Currency	Banking Book BPV	Trading book BPV
CZK	(79)	7
EUR	(103)	(23)
USD	(28)	(19)
RUB	(6)	–
JPY	–	–
KZT	(5)	–
UAH	–	–
GBP	–	–
VND	–	–
Total BPV (absolute)	221	49

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:

		2013		2012
MCZK	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
At 31 December	184	184	221	221
Average for the period	193	193	140	140
Maximum for the period	216	216	221	221
Minimum for the period	177	177	63	63

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:

MCZK	2013	2012
Tier 1 capital	**4,188**	**4,632**
Issued capital	769	769
Share premium	412	412
Statutory reserve fund	154	154
Retained earnings	2,979	3,434
Negative change in fair value of financial assets available for sale	–	–
Less intangible assets	(69)	(74)
Negative value diff from the change in the FV of realised capital instruments	(57)	(63)
Tier 2 capital		
Qualifying subordinated liabilities	1,387	–
Total regulatory capital	**5,575**	**4,632**
Risk weigted assets	36,995	34,563
Capital requirements		
Capital requirement for credit risk of investment portfolio	2,908	2,705
Capital requirement for credit risk of trading portfolio	273	298
— for specific interest rate risk	221	232
— for specific equity risk	–	6
— for derivatives	52	60
Capital requirements for market risks	246	198
— for general interest rate risks of trading portfolio	197	178
— for general equity risks of trading portfolio	–	6
— for foreign exchange risks	49	14
Capital requirements for settlement risks	–	–
Capital requirements for operational risks	429	220
Total capital requirements	**3,856**	**3,421**
Capital adequacy ratio	**11.57%**	**10.83%**

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.

MCZK	2013	2012
Cash on hand	70	61
Balances with the central bank	18,100	8,500
Nostro account balances	1,295	3,042
Repo with the central bank	3,200	–
Total	**22,665**	**11,603**

41. 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:

MCZK	2013	2012
Trading assets	514	1,006
Other assets	–	–
Deposits from customers	(16,926)	(10,099)
Trading liabilities	(22)	–
Subordinated debt	(1,067)	(673)
Other liabilities	(548)	(1,101)
Total	**(18,049)**	**(10,867)**

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:

MCZK	2013	2012
Interest expense and similar charges	(103)	(47)
Fee and commission income	2	5
Net trading income	294	784
Total	**193**	**742**

(b) Transaction with other related parties

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

MCZK	2013	2012
Cash and balances with the central bank	2	31
Trading assets	1,333	1,178
Financial assets available for sale	2,901	2,038
Loans and advances to banks	3,667	1,940
Loans and advances to customers	1,955	28
Other assets	13	9
Deposits from customers	(9,648)	(10,653)
Deposits from banks	(649)	(111)
Trading liabilities	(94)	(267)
Other liabilities	(754)	(241)
Total	**(1,274)**	**(6,048)**

In 2013 the Bank provided a guarantee amounted to MCZK 14 (2012: MCZK 0). It accepted no guarantee related to the above mentioned transactions in the years 2013 and 2012.

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

MCZK	2013	2012
Interest expense and similar income	344	262
Interest expense and similar charges	(736)	(102)
Fee and commission income	124	147
Fee and commission expense	(1)	(4)
Net trading income	766	(107)
Other operating income	2	7
General administrative expenses	(137)	(99)
Total	**362**	**104**

(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	
MCZK	2013	2012	2013	2012	2013	2012
Loans and advances to customers	–	–	–	–	2	2
Trading assets	–	–	–	–	–	–
Deposits from customers	(2)	(5)	(79)	(59)	(4)	(2)

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 2013 and 2012 whereas these figures are considered to be not material.

(d) Off balance sheet items

As a related party transaction, as at 31 December 2013 the Bank provided a credit commitment to related parties of MCZK 167 (2012: MCZK 25) and guarantee in the amount of MCZK 14 (2012: MCZK 5).

42. 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, 16 April 2014

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

Pavel Fuchs
Vice Chairman of the Board of Directors of
PPF banka a.s.

Individual responsible for financial statements:

Miroslav Hudec
Chief Financial Officer

Individual responsible for accounting:

Růžena Šuserová
Chief Accountant

Notes

Contacts

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