

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

<i>In millions of CZK</i>	Note	2016	2015
Interest and similar income	7	2,299	2,401
Interest expense and similar charges	7	(491)	(591)
Net interest income		1,808	1,810
Dividend income		1	2
Fee and commission income	8	219	233
Fee and commission expense	8	(55)	(50)
Net fee and commission income		164	183
Net trading income	9	476	482
Other operating income	10	2	1
<i>Operating income</i>		<i>2,451</i>	<i>2,478</i>
General administrative expenses	11	(760)	(714)
Impairment (loss)/reversal	24	(38)	(73)
Other operating expenses	12	(180)	(108)
<i>Operating expenses</i>		<i>(978)</i>	<i>(895)</i>
Profit before income tax		1,473	1,583
Income tax expense	21	(269)	(288)
Net profit for the year		1,204	1,295

Other comprehensive income
Items that are or may be reclassified to profit or loss

Fair value reserve (AFS financial assets):	214	231
Net change in fair value	369	169
Net amount transferred to profit or loss	(155)	62
<i>Related tax</i>	(41)	(44)
Other comprehensive income for the period	173	187
Total comprehensive income for the period	1,377	1,482

The notes on pages 8 to 87 are an integral part of these financial statements.
The financial statements were approved by the Board of Directors on 31 March 2017.

Signed on behalf of the Board of Directors by:

Petr Jirásko

Miroslav Hudec

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

In millions of CZK

	Note	31.12. 2016	31.12. 2015	1.1. 2015
Assets				
Cash and balances with the central bank	13	60,032	31,952	32,129
Trading assets	14	9,987	13,622	13,841
Financial assets available for sale	15	31,080	26,176	26,755
Loans and advances to banks	16	5,437	4,632	11,555
Loans and advances to customers	17	29,632	25,807	23,461
Investments in subsidiaries	18	71	57	57
Income tax receivables		-	-	44
Property, plant and equipment	19	29	30	26
Intangible assets	20	57	53	52
Other assets	23	300	755	317
Total assets		136,625	103,084	108,237
Liabilities				
Deposits from banks	25	6,819	1,659	3,439
Deposits from customers	26	103,060	58,528	78,908
Debt securities issued	27	2,622	19,552	8,793
Trading liabilities	28	10,546	8,066	7,327
Income tax liabilities	29	36	109	-
Deferred tax liabilities	21	164	132	83
Other liabilities and provisions	30	3,172	6,209	2,340
Subordinated liabilities	31	1,458	1,456	1,455
Total liabilities		127,877	95,711	102,345
Shareholders' equity				
Issued capital	33	769	769	769
Share premium	33	412	412	412
Retained earnings		6,899	5,697	4,404
Fair value reserve	34	668	495	307
Total shareholders' equity		8,748	7,373	5,892
Total liabilities and shareholders' equity		136,625	103,084	108,237

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of CZK

	2016	2015
Cash flows from operating activities		
Profit before income tax	1,473	1,583
Adjustments for:		
Depreciation and amortisation	27	32
Foreign exchange gain/loss	38	(180)
Net impairment loss on investment securities	-	15
Net impairment loss on loans and advances	38	73
Net interest income	(1,808)	(1,810)
Revaluation of financial assets and liabilities through profit and loss	65	(436)
Net gain/loss on the sale of available-for-sale securities	(155)	68
Dividends on trading securities	(1)	(2)
Other adjustments	173	188
	(150)	(469)
Changes in:		
Balances with Central bank	(69)	171
Trading assets	5,265	1,132
Loans and advances to banks	(1,577)	7,722
Loans and advances to customers	(3,836)	(2,040)
Other assets	455	(438)
Trading liabilities	785	(239)
Deposits from banks	5,160	(1,780)
Deposits from customers	44,532	(20,380)
Other liabilities and provisions	(3,039)	3,869
	47,526	(12,452)
Interest received	2,224	2,401
Interest paid	(413)	(706)
Income taxes paid	(310)	(86)
Net cash used in operating activities	49,027	(10,843)
Cash flow from investing activities		
Acquisition of investment securities	(8,336)	(20,080)
Proceeds from sale of investment securities	3,629	20,967
Acquisition of property and equipment	(8)	(31)
Acquisition of intangible assets	(22)	(36)
Acquisition of subsidiaries	(15)	-
Net cash used in investing activities	(4,752)	821

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

Cash flow from financing activities

Proceeds from issue of debt securities	970	33,672
Repayment of debt securities	(17,984)	(22,831)
Net cash from financing activities	(17,014)	10,841

Net increase/(decrease) in cash and cash equivalents	27,261	819
Cash and cash equivalents at 1 January	31,440	30,647
Effect of exchange rate fluctuations on cash and cash equivalents held	(22)	(26)
Cash and cash equivalents at 31 December (see Note 39 (f))	58,679	31,440

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of CZK

	Issued capital	Share Premium	Fair value Reserve	Retained Earnings	Total Equity
Balance at 1 January 2016	769	412	495	5,697	7,373
Total comprehensive income for the period					
Profit for 2016	-	-	-	1,204	1,204
Other liabilities "social fund"	-	-	-	(2)	(2)
Other comprehensive income					
Changes in fair value on available-for-sale financial assets, net of tax	-	-	173	-	173
Total comprehensive income for the period	769	412	668	6,899	8,748
Transactions with owners, contribution and distribution to owners					
Dividends paid	-	-	-	-	-
Balance at 31 December 2016	769	412	668	6,899	8,748

PPF BANKA A.S.
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of CZK

	Issued capital	Share Premium	Fair value reserve	Retained Earnings	Total Equity
Balance at 1 January 2015	769	412	307	4,404	5,892
Total comprehensive income for the period					
Profit for 2015	-	-	-	1,295	1,295
Other liabilities "social fund"	-	-	-	(2)	(2)
Other comprehensive income					
Changes in fair value on available-for-sale financial assets, net of tax	-	-	-	-	-
Transfers	-	-	188	-	188
Total comprehensive income for the period	769	412	495	5,697	7,373
Transactions with owners, contribution and distribution to owners					
Dividends paid	-	-	-	-	-
Balance at 31 December 2015	769	412	495	5,697	7,373

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. INTRODUCTION

PPF banka a.s. ("the Bank") was established on 31 January 1995 as the successor to the former ROYAL BANKA CS,a.s. (operating on the market from 31 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 (CNB). 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

The Bank has not prepared a separate annual report, because the Bank includes the respective information in the consolidated annual report.

2. STATEMENT OF COMPLIANCE

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

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are presented in Czech Crowns, which is the Bank's functional currency, rounded to the nearest million. 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.

Individual financial statements have been prepared on the going concern principle.

The Bank firstly prepared financial statements in accordance with IFRS for the year ended 31 December 2016.

The Bank has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position as at 1 January 2015 and throughout all periods presented, as if these policies had always been in effect.

For periods up to and including the year ended 31 December 2015, the Bank prepared its statutory financial statements in accordance with Czech accounting legislation for banks as required by legislation of the Czech Republic (CZ GAAP) which were prepared as the Bank's statutory financial statements. For year ended 31 December 2015 only consolidated IFRS financial statements were prepared and presented.

Note 6 discloses the impact of the transition to IFRS on the Bank's reported financial position and financial performance in comparison to CZ GAAP.

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency

(i) Functional currency

The separate financial statements are presented in Czech Crown (CZK) which is the Bank's functional currency.

(ii) Foreign currency transactions

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.

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, designated by the Bank, or held to maturity, neither are they classified as loans and receivables. Available-for-sale financial instruments include money market placements and certain debt, equity and other investments.

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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

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.

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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".

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(vi) Specific financial 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 liabilities

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) Financial Derivatives

For presentation purposes derivatives are split into

- derivatives held for trading; and
- hedging derivatives.

Derivatives held for trading are those which are not designated as hedging instruments. They are presented in the item "Derivatives held for trading" in the footnotes. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

Hedging derivatives are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the footnotes, they are presented in the line item "Hedging derivatives".

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item "Net trading income".

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(viii) 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) 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.

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

The Bank does not recognize provisions on a portfolio basis.

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. The Bank mainly uses the financial statements of the client and the Bank's own analysis as the basis for assessment of the loan's collectability.

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.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 and provisions".

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations.

IFRS 9 *Financial Instruments* (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.) This Standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

Detailed description and explanation of implementation

The IFRS 9 implementation project currently taking place in the Bank primarily involves the areas of classification and impairment.

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4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE AND ARE RELEVANT FOR THE BANK'S FINANCIAL STATEMENTS (CONTINUED)

Classification and measurement

The standard changes the approach towards the classification of financial instruments. The existing model based on portfolios (FVTPL, AFS, L&R, HTM) will be abandoned. Under the new approach, financial assets will be classified based on the business model under which they are held, and the characteristics of contractual cash flows comprising solely payments of the principal and interest on the outstanding amount (SPPI test). According to these criteria, measurement categories are defined as:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at fair value through other comprehensive income (FVOCI)

Based on the result of the SPPI test, credits can be classified either as AC, or as FVTPL. Portfolio analysis is currently in process; however, the bank expects that a major portion of its credit portfolio will pass the SPPI test and will thus be classified as AC, i.e., presented in a manner that practically will not change from the current presentation under IAS 39.

Other financial instruments, namely securities, are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (held to collect and held to collect and sell). For these assets, some minor changes in presentation may occur as a result of changes in classification in individual cases.

Impairment

IFRS 9 brings a fundamental change in the approach to determining credit losses: the current 'incurred loss' concept under IAS 39 is being replaced by a new 'expected credit loss' concept. The bank expects the new concept to accelerate the recognition of impairment losses for financial assets, and to increase the level of allowances at the date of initial recognition.

IFRS 9 also requires that, apart from historical information, current and forecast macroeconomic or other information specific to the bank should be taken into account when calculating impairment. The methodology of using such information is currently subject to internal analyses and specification.

Under the approach in IFRS 9, a new segmentation of financial assets for the purposes of presentation and establishment of allowances will be introduced – in three stages:

- Receivables and other financial assets without default will be divided into:
 - Stage 1, where, according to the bank's assumption, a majority of standard receivables and other financial assets not past due will be included;
 - Stage 2, where financial assets will be included for which a credit risk has increased significantly since initial recognition and at the same time a low credit risk exemption cannot be applied (this will be assessed using both a quantitative approach based on the number of days past due, and a qualitative approach; exact setting of the methodology is yet subject to analyses and model development).
- Receivables and other financial assets in default will be included in Stage 3.

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4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE AND ARE RELEVANT FOR THE BANK'S FINANCIAL STATEMENTS (CONTINUED)

This new segmentation subsequently determines the manner of calculation of allowances, which is as follows:

- The allowance to Stage 1 receivables equals to the expected loss on the relevant instrument following from 12-month expected credit losses resulting from the default of the borrower.
- As for Stage 2, a new term – a lifetime expected credit loss – is newly introduced, representing the modelled expected loss reflecting the entire period of maturity of the instrument. This calculation includes parameters corresponding to the period of the remaining maturity of the asset which are now subject to development and calibration. In accordance with this concept, the bank reflects the available information in developing the models
- As for Stage 3, the Bank does not expect to implement any significant changes to the calculation logic compared to the existing establishment of allowances to receivables in default (the split into an individual and collective calculation of allowances will be preserved).

Hedge accounting

In general, the standard extends and simplifies options for the application of hedge accounting. It enables e.g. more non-financial items or derivatives to be included into hedged items and simplifies the assessment of hedge accounting effectiveness. The Bank thus expects hedge accounting to be more generally used after the application of the standard.

Implementation timetable

The Bank is not planning an early application of IFRS 9. It will thus apply the requirements of IFRS 9 effective from 1 January 2018.

Expected implementation timetable:

<i>2016 – first quarter of 2017</i>	<i>Completion of the impact analysis of the new standard.</i>
<i>second quarter of 2017</i>	<i>Development of impairment model under the new standard. Establishment of internal and group methodologies and parameter calculation</i>
<i>third quarter of 2017</i>	<i>User testing</i>
<i>fourth quarter of 2017</i>	<i>Parallel coexistence of the run-out model under IAS 39 and the new model under IFRS 9</i>

The Bank is not going to revalue the prior period. It plans to establish and disclose the following reconciliation:

- Reconciliation of the financial assets under the portfolios defined in IAS 39 as at 31 December 2017 and financial assets under the new portfolios defined in IFRS 9 as at 1 January 2018
- Reconciliation of the allowances as defined in IAS 39 as at 31 December 2017 and allowances as defined in the new standard IFRS 9 as at 1 January 2018 according to individual categories of financial assets

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4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE AND ARE RELEVANT FOR THE BANK'S FINANCIAL STATEMENTS (CONTINUED)

Quantification of effects

Due to the comprehensive nature of the change connected with the new standard and to the ongoing implementation projects, the Bank currently does not quantify the expected impact of the initial application of IFRS 9 on the financial statements.

Impact-related qualitative information

The bank expects the main impact to have the form of an increase in allowances, as the new standard requires the loss allowances to be established also to those assets for which there is no objective proof of impairment available as at the balance sheet date. The Bank expects the increase to be significant.

Upon the initial recognition as at 1 January 2018, the effect of a change in impairment of financial assets will be recorded to equity on a one-off basis. The ongoing changes after 1 January 2018 resulting from the new requirements on the establishment of allowances will already be recognised in the income statement.

In terms of regulatory capital planning under Basel III standards having the form of the CRR Regulation (EU), a one-off decrease in the regulatory capital is expected as at 1 January 2018 because of an one-off decrease in the value of retained earnings, which is one of the main components of the common equity Tier 1 (CET1) capital.

Based on the documents issued by the Basel Committee on Banking Supervision (BCBS) issued in October 2016, the effect of the impact of the new standard IFRS 9 on the CET 1 regulatory capital is expected to be spread over several years. The new CRR 2 draft from November 2016 expects the impact of the additional allowances resulting from the application of IFRS 9 to be spread over five years.

IFRS 15 *Revenue from contracts with customers* (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.) The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Bank assessed the new standard to have no major impact on its financial statements.

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4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE AND ARE RELEVANT FOR THE BANK'S FINANCIAL STATEMENTS (CONTINUED)

Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture* (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.) The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank assessed the new standard to have no major impact on its financial statements.

Annual improvements

Improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are effective for annual periods beginning on or after 1 January 2017, or for annual periods beginning on or after 1 January 2018; to be applied retrospectively.

The Bank assessed the annual improvements to have no major impact on its financial statements.

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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 least 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.

The Bank classifies the loans to individual customers into several classes where the significant ones are all loans to corporate customers. As the Bank's consumer loan portfolio (i.e. Consumer loan receivables and Cash loan receivables) consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any individually significant items.

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.

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;
- deterioration of the borrower's competitive position;
- cash flow difficulties;
- breach of loan covenants;
- initiation of bankruptcy proceedings.

A collective component of the total impairment (loss "incurred but not reported" or IBNR) is not established for corporate customers due to the high fragmentation of the portfolio and thus unavailability of sufficient and reliable statistical information on default history. Due to the small number of corporate exposures, timely identification of impairment loss occurs with subsequent shift to the Work-out Committee.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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(i) Impairment of loans and receivables (continued)

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 and back-tested, if possible, by the Bank to reduce any differences between loss estimates and actual loss experience.

(ii) Change in accounting policy

There were no changes in accounting policies during the year 2016 and 2015.

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

In 2016 and 2015 the Bank did not identify any changes of financial reporting standards that would affect the Bank's financial statements.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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6. EXPLANATION OF TRANSITION TO IFRS

Significant accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2016, the comparative information presented in these financial statements for the year ended 31 December 2015 and in the preparation of an opening IFRS statement of financial position at 1 January 2015 (the Bank's date of transition).

In preparing its opening IFRS statement of financial position, the Bank has reclassified amounts reported previously in financial statements prepared in accordance with Czech accounting legislation for banks (CZ GAAP).

An explanation of how the transition from previous CZ GAAP to IFRSs has affected the Bank's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The Bank was not required to prepare a statement of cash flows and a statement of other comprehensive income under CZ GAAP. Therefore, no explanation of impact of the transition to IFRSs on cash flows and other comprehensive income is included.

Based on IFRS 1 since the transition date Bank decided to account for Investments in subsidiaries at cost less impairment, if any. Accounting at cost matches the previous carrying amount under CZ GAAP.

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RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 2015

Assets	CZ GAAP as at 1.1.2015	Notes to reclasses	FS caption CZ GAAP to IFRS reclasses	IFRS as at 1.1.2015
Cash and balances with central bank	27,429	I	4,700	32,129
Trading assets	10,546	a, d	3,295	13,841
Financial assets available for sale	26,755	d	-	26,755
Loans and advances to banks	16,255	I	(4,700)	11,555
Loans and advances to customers	23,461		-	23,461
Investment in subsidiaries	57		-	57
Income tax receivables	-	c	44	44
Property, plant and equipment	26		-	26
Intangible assets	52		-	52
Other assets	3,656	a, b, c	(3,339)	317
Total assets	108,237		-	108,237
Liabilities	CZ GAAP as at 1.1.2015	Notes to reclasses	FS caption CZ GAAP to IFRS reclasses	IFRS as at 1.1.2015
Deposits from banks	3,439		-	3,439
Deposits from customers	78,908		-	78,908
Debt securities issued	14,376	g	(5,583)	8,793
Trading liabilities	-	a, g	7,327	7,327
Income tax liabilities	-	c	-	-
Deferred tax liabilities	-	c	83	83
Other liabilities and provisions	4,165	a, c, e, f	(1,825)	2,340
Subordinated liabilities	1,455		-	1,455
Total liabilities	102,343		2	102,345
Shareholders' equity				
Issued capital	769		-	769
Share premium	412		-	412
Retained earnings	4,404		-	4,404
Fair value reserve	307		-	307
Reserve funds and other funds from profit	2	f	(2)	-
Total shareholders' equity	5,894		(2)	5,892
Total liabilities and shareholders' equity	108,237		-	108,237

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

Assets	CZ GAAP as at 31 Dec 2015	Notes to reclass es	FS caption CZ GAAP to IFRS reclasses	IFRS as at 31 Dec 2015
Cash and balances with central bank	31,952		-	31,952
Trading assets	12,100	a, d	1,522	13,622
Financial assets available for sale	26,176	d	-	26,176
Loans and advances to banks	4,632		-	4,632
Loans and advances to customers	25,807		-	25,807
Investment in subsidiaries	57		-	57
Income tax receivables	-	c	-	0
Property, plant and equipment	30		-	30
Intangible assets	53		-	53
Other assets	2,277	a, b, c	(1,522)	755
Total assets	103,084		-	103,084
Liabilities	CZ GAAP as at 31 Dec 2015	Notes to reclasses	FS caption CZ GAAP to IFRS reclasses	IFRS as at 31 Dec 2015
Deposits from banks	1,659		-	1,659
Deposits from customers	58,528		-	58,528
Debt securities issued	26,405	g	(6,853)	19,552
Trading liabilities	-	a, g	8,066	8,066
Income tax liabilities	-	c	109	109
Deferred tax liabilities	-	c	132	132
Other liabilities and provisions	7,661	a, c, e, f	(1,452)	6,209
Subordinated liabilities	1,456		-	1,456
Total liabilities	95,709		2	95,711
Shareholders' equity				
Issued capital	769		-	769
Share premium	412		-	412
Retained earnings	5,697		-	5,697
Fair value reserve	495		-	495
Reserve funds and other funds from profit	2	f	(2)	-
Total shareholders' equity	7,375		(2)	7,373
Total liabilities and shareholders' equity	103,084		0	103,084

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TOTAL COMPREHENSIVE INCOME RECONCILIATION FOR THE YEAR ENDED 31 DECEMBER 2015

	CZ GAAP for the year ended 31 Dec 2015	Notes to reclasses	FS caption CZ GAAP to IFRS reclasses	IFRS for the year ended 31 Dec 2015
Interest and similar income	2,365	h, i	36	2,401
Interest expense and similar charges	(625)	i	34	(591)
Net interest income	1,740		70	1,810
Dividend income	2		-	2
Fee and commission income	303	h	(70)	233
Fee and commission expense	(50)		-	(50)
Net fee and commission income	253		(70)	183
Net trading income	482		-	482
Other operating income	1		-	1
Operating income	2,478		-	2,478
General administrative expenses	(714)		-	(714)
Impairment (loss)/reversal	(73)	k	-	(73)
Other operating expenses	(108)	j	-	(108)
Operating expenses	(895)		-	(895)
Profit before income tax	1,583		-	1,583
Income tax expense	(288)		-	(288)
Net profit for the year	1,295		-	1,295
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Fair value reserve (AFS financial assets):	-		231	231
Net change in fair value	-		169	169
Net amount transferred to profit or loss	-		62	62
<i>Related tax</i>	-		(44)	(44)
Other comprehensive income for the period	-		187	187
Total comprehensive income for the period	1,295		187	1,482

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Notes to FS caption CZ GAAP-IFRS reclasses

a) *Derivatives*

Under CZ GAAP the Bank reported the positive fair value of derivatives in "Other assets" and negative fair value of derivatives in "Other liabilities". At the date of transition to IFRS the Bank is required to classify all financial assets/liabilities into one of the four categories as outlined in the Bank's accounting policies (note 3) c) i). The Bank classifies all derivatives as either a financial asset at fair value through profit or loss or a financial liability at fair value through profit or loss. Financial assets/liabilities classified as at fair value through profit or loss must be disclosed separately. The Bank has reclassified its derivatives to reflect the separate disclosure requirements. Reclassification between the line "Financial assets at fair value through profit or loss" and the line "Other assets" in assets and between the line "Financial liabilities at fair value through profit or loss" and the line "Other liabilities" in liabilities.

b) *Other assets*

Line "Other assets" contains "Other assets" and "Prepaid expenses and accrued income" reported under CZ GAAP.

c) *Taxation*

In CZ GAAP deferred tax assets and liabilities are reported in "Other assets" and "Other liabilities". IFRS requires deferred tax assets and liabilities to be reported separately. The Bank has reclassified its current tax and its deferred tax assets/liabilities to reflect this requirement.

In terms of current tax assets, there was a reclassification between the line "Other assets" and the line "Income tax receivables". In terms of deferred tax assets, there was a reclassification between the line "Other assets" and the line "Deferred tax receivables".

In terms of current tax liability, there was a reclassification between the line "Provisions" and "Income tax liabilities". In terms of deferred tax liabilities, there was a reclassification between the line "Other liabilities" and the line "Deferred tax liabilities".

d) *Financial instruments*

Under CZ GAAP financial instruments are reported in the following lines "State zero coupon bonds and other securities eligible for refinancing with the central bank", "Debt securities" and "Shares, units and other investments". At the date of transition to IFRS the Bank is required to classify all financial assets/liabilities into one of the four categories as outlined in the Bank's accounting policies (note 3) c) i). The Bank classified all financial instruments as either a financial asset at fair value through profit or loss or financial assets available for sale.

e) *Provisions - off-balance sheet exposures*

The Bank provides certain financial guarantees and loan commitments to its customers.

In CZ GAAP and in accordance with CNB decree the Bank was required to create provisions for off balance sheet exposures using a coefficient prescribed by the CNB decree.

IFRS requires a provision to be recorded when it is more likely than not that a present obligation exists at balance sheet date. The Bank has reviewed its off balance sheet exposures and it has determined that no additional provision was required.

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f) Social fund

In CZ GAAP the social fund is reported in line "Reserve funds and other funds from profit". Under IFRS it is reported in line "Other liabilities and provisions".

g) Short sells

Under CZ GAAP the short sells are reported in line "Payables from debt securities". Under IFRS they are reported in line "Trading liabilities".

h) Origination loan fees

Origination loan fees, which are under IFRS an integral part of the effective interest rate of a financial instrument were reclassified from line "Commission and fee income" under CZ GAAP to line "Interest and similar income" under IFRS.

i) Premium over face value of debt securities

Premium over face value of debt securities was reclassified from line "Interest expense and similar charges" into line "Interest and similar income".

j) Other operating expenses

Line "Other operating expenses" contains "Other operating expenses" and "Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets" reported under CZ GAAP.

k) Impairment (loss)/reversal

Line "Impairment (loss)/reversal" under IFRS contains lines „Release of adjustments and provisions to receivables and guarantees, income from written-off receivables" and "Write-offs, additions and use of adjustments and provisions to receivables and guarantees" under CZ GAAP.

l) Repo deal with CNB

Reverse repo deal with CNB was reported in line "Receivables from banks and credit unions" under CZ GAAP. Under IFRS it was reported in line "Cash and balances with central bank" as at 1 January 2015.

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7. NET INTEREST INCOME

	2016 MCZK	2015 MCZK
Interest and similar income		
Interest and similar income arise from:		
Cash and balances with the central bank	23	18
Loans and advances to banks	64	121
Loans and advances to customers	1,480	1,429
Of which:		
Not paid interest income from impaired loans	3	116
Not paid interest income from loans with forbearance	1	42
Debt securities	732	833
	2,299	2,401
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks	(21)	(9)
Deposits from customers	(160)	(199)
Debt securities issued and short sales	(218)	(290)
Subordinated liabilities	(92)	(93)
	(491)	(591)
Net interest income	1,808	1,810

The Bank did not waive any interest on late payment during years 2016 and 2015.

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8. NET FEE AND COMMISSION INCOME

	2016 MCZK	2015 MCZK
Fee and commission income		
Transaction fee with clients	146	150
Fees from guarantees provided	24	32
Fees from administration of shares/bonds issue	4	7
Transaction fee with banks	4	4
Other	41	40
	219	233
Fee and commission expense		
Transaction fee with clients	(41)	(31)
Transaction fee with banks	(14)	(19)
	(55)	(50)
Net fee and commission income	164	283

9. NET TRADING INCOME

	2016 MCZK	2015 MCZK
Net profit/(loss) from securities/FX trading	576	1 080
Of which:		
Securities	346	417
FX trading	230	664
Net profit/(loss) from derivatives	(100)	(599)
	476	482

10. OTHER OPERATING INCOME

Other operating income is earned from re-invoicing and other similar income.

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11. GENERAL ADMINISTRATIVE EXPENSES

	2016 MCZK	2015 MCZK
Personal expenses		
Wages and salaries	(218)	(185)
Social expenses	(73)	(64)
Responsibility insurance, Pension insurance	(2)	(2)
Remuneration paid to		
Board of Directors	(28)	(26)
Supervisory Board	(6)	(5)
Executives	(26)	(21)
	(353)	(303)
Other general operating expenses	(407)	(411)
	(760)	(714)

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2016 and 2015 was as follows:

	2016	2015
Board of Directors	3	3
Supervisory Board	6	6
Executives	4	5
Employees	210	196

12. OTHER OPERATING EXPENSES

	2016 MCZK	2015 MCZK
Payment to Resolution Fund	(148)	-
Depreciation of fixed assets	(27)	(32)
Payment to Deposit Insurance Fund	(2)	(74)
Payment to Guarantee Fund of Securities dealers	(1)	(2)
Other	(2)	-
	(180)	(108)

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13. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Cash on hand	70	59
Balances with the central bank	65	
1,864	1,762	1,693
Term deposits with the central bank	50,500	30,200
25,500		
Reverse repo with the central bank	7,700	-
4,700		
	60,032	31,952
32,129		

At 31 December 2016 cash and balances with the central bank included balances with the central bank amounting to MCZK 1,762 (31.12.2015: MCZK 1,693, 1.1.2015: MCZK 1,863) representing the obligatory minimum reserves. Compliance with the requirement to hold a certain level of obligatory minimum reserve is measured using the monthly average of daily closing balances. These funds are not available for the Bank's daily business.

14. TRADING ASSETS

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

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Bonds and notes issued by:		
Government	7,513	11,016
7,680		
Other issuers	615	772
2,865		
Shares and other equity instruments issued by:		
Other issuers	-	311
-		
Positive fair value of derivatives:		
Interest rate contracts	958	559
502		
Currency contracts	901	964
2,794		
Of which:		
Listed instruments	8,266	12,172
10,617		

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Unlisted instruments	1,721	1,450
3,224		
<hr/>		
	9,987	13,622
13,841		
<hr/>		

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

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15. FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Bonds and notes issued by:		
Government	15,125	15,528
18,682		
Other issuers	15,900	10,590
7,511		
Shares and other equity instruments issued by:		
Other issuers	55	58
562		
Of which:		
Listed instruments	27,891	23,867
24,817		
Unlisted instruments	3,189	2,309
1,938		
	31,080	26,176
26,755		

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.

16. LOANS AND ADVANCES TO BANKS

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Loans to banks	247	302
924		
Money market transactions	4,782	3,149
10,249		
Other (nostro / current account balances)	409	1,181
382		
Net loans and advances to banks	5,437	4,632
11,555		

During 2016 and 2015 the Bank did not create or release any impairment to loans and advances to banks.

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17. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2016 1.1.2015 MCZK MCZK	31.12.2015 MCZK	
Corporate customers:			
Financial institutions	1,545	1,479	712
Non-financial institutions	12,223	7,390	
	8,531		
Individuals - entrepreneurs	44	54	57
Public sector	21	4	471
Resident individuals	192	213	142
Non-residents:			
Corporate	16,558	17,607	
	14,816		
Individuals	86	86	64
Total loans and advances to customers	30,669 24,793	26,833	
Impairment loss on loans and advances to customers	(1,037) (1,332)	(1,026)	
Net loans and advances to customers	29,632 23,461	25,807	
Specific allowances for impairment:			
	2016 MCZK	2015 MCZK	
As at 1 January	1,026	1,332	
Impairment losses recognised in the statement of comprehensive income	330	346	
Reversal of impairment of loans to customers	(292)	(302)	
Use of impairment on loans and receivables	(35)	(374)	
Exchange difference	8	24	
	11	(306)	
As at 31 December	1,037	1,026	

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18. INVESTMENTS IN SUBSIDIARIES

The Bank held 100% shares in following subsidiaries:

	31.12.2016 MCZK	31.12.2015 MCZK	1.1.2015 MCZK
Ruconfin B.V.	51.3	51.3	51.3
PPF Financial Consulting, s.r.o.	5.0	5.0	5.0
PPF Co3 B.V.	14.9	-	-
Airline Gate, s.r.o.*	-	-	-
Net Gate, s.r.o.	-	0.2	0.2
Majtkové účasti	71.2	56.5	56.5

* The investment in Airline Gate, s.r.o. was held at CZK 1 as at 31 December 2015 and 1 January 2015.

In 2016 the Bank sold the following subsidiaries Net Gate, s.r.o. and Airline Gate, s.r.o.

The Bank established its subsidiary 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. In 2016 Bank purchased 100% shares of PPF Co3 B.V. with the aim of entering the consumer credit segment in Asia.

The Bank also purchased PPF Financial Consulting, s.r.o. and Net Gate, s.r.o. for the purpose of entering the segment of municipal client consultations and established Airline Gate, s.r.o., for the purpose of maintaining a collateral before its realization. Companies Airline Gate, s.r.o. and Net Gate, s.r.o. were sold in 2016.

The Bank held no interest participation with significant influence in 2016 and 2015.

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19. PROPERTY, PLANT AND EQUIPMENT

MCZK Total	Low value fixed assets	Building	Furniture and fittings	Equipment	Fixed assets not yet in use	
Cost						
At 1 January 2015	3	16	16	133	1	169
Additions	-	-	-	16	15	31
Transfers	-	-	-	-	-	-
Disposals	-	-	-	(41)	(16)	(57)
At 31 December 2015	3	16	16	108	-	143
At 1 January 2016	3	16	16	108	-	143
Additions	2	-	-	6	-	8
Transfers	-	-	-	-	-	-
Disposals	-	-	-	(13)	-	(13)
At 31 December 2016	5	16	16	101	-	138
Depreciation						
At 1 January 2015	3	-	16	124	-	143
Additions	-	1	-	10	-	11
Disposals	-	-	-	(41)	-	(41)
At 31 December 2015	3	1	16	93	-	113
At 1 January 2016	3	1	16	93	-	113
Additions	-	1	-	8	-	9
Disposals	-	-	-	(13)	-	(13)
At 31 December 2016	3	2	16	88	-	109
Net book value						
At 31 December 2015	-	15	-	15	-	30
At 31 December 2016	2	14	-	13	-	29

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20. INTANGIBLE ASSETS

MCZK	Software	Total
Cost		
At 1 January 2015	314	314
Additions	36	36
Disposals	(19)	(19)
At 31 December 2015	331	331
At 1 January 2016	331	331
Additions	22	22
Disposals	-	-
At 31 December 2016	353	353
Amortisation		
At 1 January 2015	262	262
Additions	21	21
Disposals	(5)	(5)
At 31 December 2015	278	278
At 1 January 2016	278	278
Additions	18	18
Disposals	-	-
At 31 December 2016	296	296
Net book value		
At 31 December 2015	53	53
At 31 December 2016	57	57

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21. 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 taxes the Bank uses the income tax rate applicable in the periods in which deferred taxes are expected to be utilised, i.e. 19% for the following years (in 2016 and 2015 the tax rate in the Czech Republic was 19%).

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

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Deferred tax assets		
Deferred tax asset from financial assets available for sale	-	-
2		
Deferred tax asset from wages and unpaid social and health insurance	16	11
10		
Deferred tax assets	16	11
12		
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	(157)	(116)
(74)		
Deferred tax liability from penalty interest not yet collected	(23)	(27)
(21)		
Deferred tax liabilities	(180)	(143)
(95)		
Net deferred tax assets (liabilities)	(164)	(132)
(83)		

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is MCZK 0 (2015: MCZK 0). There was no unrecognized item related to deferred tax.

At 31 December 2016 the Bank recorded receivables from customers of penalty interest not yet collected of MCZK 118 (31.12.2015: MCZK 143, 1.1.2015: MCZK 113), where the relevant income is not taxable. Therefore, the Bank created a deferred tax liability of MCZK 23 (31.12.2015: MCZK 27, 1.1.2015: MCZK 21), all of which was recognised.

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A change in deferred tax from financial assets available for sale disclosed as at 31 December 2016 in the amount of MCZK 41 (31.12.2015: MCZK 44, 1.1.2015: MCZK 15) was included in Bank's equity through an adjustment to "Fair value reserve".

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21. DEFERRED TAX AND CURRENT TAX (CONTINUED)

Income tax reconciliation:				
	2016 2015	2016	2015	
	Tax basis	Tax	Tax basis	
	MCZK	MCZK	MCZK	
Tax rate		19.0%		19.0%
Profit from operations (before taxation)	1,473		1,583	
Computed taxation using applicable tax rate		280		301
Tax non-deductible expenses	378	72	232	44
Non-taxable income	(252)	(48)	(295)	(56)
Other items	(137)	(26)	-	-
Deferred tax	(48)	(9)	26	5
Tax for 2014		-		(6)
Total income tax (expense)/income		(269)		(288)
Effective tax rate		18.3%		19.8%

22. OPERATING LEASING

Non-cancellable operating lease rentals are payable as follows:

	2016 MCZK	2015 MCZK
Less than one year	39	23
Between one and five years	44	39
More than five years	-	-
Total	83	62

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 26 in 2016 (2015: MCZK 25).

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23. OTHER ASSETS

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Clearing with securities market	48	13
83		
Prepayments and deferred expenses	20	24
25		
Cash collateral to payment cards	188	192
177		
Receivables resulting from decrease in issued capital of AFS shares	-	484
-		
Other	44	42
32		
Impairment loss on Other assets	-	-
-		
	300	755
317		

24. IMPAIRMENT LOSSES

	Loans and advances to customers (note 17)	Total
As at 1 January 2016	1,026	1,026
Impairment of loans to customers	330	330
Reversal of impairment of loans to customers	(292)	(292)
Release of impairment losses on written off items	(35)	(35)
FX difference	8	8
As at 31 December 2016	1,037	1,037
As at 1 January 2015	1,332	1,332
Impairment of loans to customers	346	346
Reversal of impairment of loans to customers	(302)	(302)
Release of impairment losses on written off items	(374)	(374)
FX difference	24	24
As at 31 December 2015	1,026	1,026

25. DEPOSITS FROM BANKS

	31.12.2016 1.1.2015 MCZK MCZK	31.12.2015 MCZK
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Deposits from banks	5,938	1,290
2,392		
Other (loro account balances)	881	369
1,047		
<hr/>		
	6,819	1,659
3,439		
<hr/>		

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26. DEPOSITS FROM CUSTOMERS

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Payable on demand		
Corporate customers:		
Financial services	1,111	103
574		
Non-financial institutions	7,909	6,234
6,674		
Insurance institutions	120	491
161		
Non-profit organisations	311	347
236		
Self-employed	65	106
76		
Public sector	26,601	11,343
13,830		
Resident individuals	1,773	1 177
1,704		
Non-residents:		
Corporate	37,468	20,614
32,969		
Individuals	2,427	787
1,072		
Total payable on demand	77,785	41,202
57,296		
Term deposits		
Corporate customers:		
Financial services	3,494	-
1,399		
Non-financial institutions	6,154	7,166
10,593		
Insurance institutions	1,907	409
5,288		
Non-profit organisations	11	36
41		
Self-employed	141	141
299		
Public sector	12,270	8,381
2,551		
Resident individuals	45	112
179		
Non-residents:		
Corporate	355	-
1,096		
Individuals	898	1,081
166		
Total term deposits	25,275	17,326
21,612		

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78,908	103,060	58,528
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Interest is recognised in item Interest expense and similar charges.

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27. DEBT SECURITIES ISSUED

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Financial institutions 126	2,313	1,456
Non-financial institutions 1,525	277	740
Public sector 4,403	29	17,166
Non-resident individuals 779	-	-
Resident individuals 1,960	3	190
	2,622	19,552
8,793		

The debt securities of a single issuer in the public sector totalling to MCZK 17,165 as at 31 December 2015 matured in 2016.

28. TRADING LIABILITIES

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

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Negative fair value of derivatives:		
Interest rate contracts 665	830	655
Currency contracts 1,080	1,025	559
Liabilities from short sales of securities 5,582	8,691	6,852
	10,546	8,066
7,327		

29. INCOME TAX LIABILITIES

As of 31 December 2016 a tax liability of MCZK 277 (31.12.2015: MCZK 289; 1.1.2015: MCZK 176) is offset against income tax advances totalling MCZK 213 (31.12.2015: MCZK 168; 1.1.2015: MCZK 197) and tax paid abroad amounting to MCZK 28 (31.12.2015: MCZK 12; 1.1.2015: MCZK 23).

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30. OTHER LIABILITIES AND PROVISIONS

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Blocked accounts 1,708	2,309	5,958
Liabilities from clearing 117	534	1
Payables to suppliers 51	149	47
Other liabilities to employees 15	15	18
Accrued expenses and deferred income 17	14	18
Social and health insurance 5	6	6
Liabilities from securities transactions 119	1	-
Deposits insurance fund 17	-	18
Other payables 239	116	86
Provisions 52	28	57
	3,172	6,209
2,340		

Blocked accounts chiefly consist of funds at a tied account, which are intended to redeem shares of minority shareholders of Česká telekomunikační infrastruktura a.s. in zero amount as at 31 December 2016 (31.12.2015: MCZK 2,732) and collateral deposits for derivatives totalling MCZK 2,195 (31.12.2015 MCZK 3,040; 1.1.2015: MCZK 1,512).

The following table shows a roll-forward of provisions:

MCZK	Provisions for provided guarantees	Total
Provisions at 1 January 2016		57
Creation	8	
Use	-	
Release	(13)	
Effect on profit for the year		(5)
Provisions at 31 December 2016		52
Provisions at 1 January 2015		28
Creation	75	
Use	-	
Release	(46)	
Effect on profit for the year		29

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Provisions 31 December 2015

57

Provisions for provided guarantees recorded are created to cover losses arising on off balance sheet exposures according to accounting policy described in note 3 (o).

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31. SUBORDINATED LIABILITIES

The terms and conditions of the subordinated liabilities are as follows.

MCZK	Year of maturity	31.12.2016	31.12.2015	1.1.2015
CZK 1,400 million subordinated debt with a mandatory fixed payment of 6.5%	2023	1,458	1,456	1,455
		1,458	1,456	
		1,455		

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 2016 and 2015.

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32. REPURCHASE AND RESALE AGREEMENTS

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

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

	Carrying amounts of receivables MCZK	Fair value of assets held as collateral MCZK
<hr/>		
Loans and advances at 31 December 2016:		
to banks	8,563	8,404
to clients	1,598	2,263
Loans and advances at 31 December 2015:		
to banks	1,822	1,826
to clients	689	1,040
Loans and advances at 1 January 2015:		
to banks	10,118	10,057
to clients	1,449	1,821

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:

	Carrying amounts of liabilities MCZK	Fair value of assets given as collateral MCZK
<hr/>		
Deposits at 31 December 2016:		
from banks	5,204	6,341
from clients	1,599	1,567
Deposits at 31 December 2015:		
from banks	488	489
from clients	5,811	5,847
Deposits at 1 January 2015:		
from banks	-	-
from clients	1,849	1,965

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33. ISSUED CAPITAL

	Number of shares	Nominal value CZK	Registered capital MCZK
As at 31 December 2016:			
	192,131	2,602.5	500
	384,262	700.0	269
	576,393		769
As at 31 December 2015:			
	192,131	2,602.5	500
	384,262	700.0	269
	576,393		769
As at 31 December 2014:			
	192,131	2,602.5	500
	384,262	700.0	269
	576,393		769

The shareholder structure as at 31 December 2016 was as follows:

Name	Residence	Number of shares	Share MCZK	Share %
PPF Financial Holdings B.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%

As at 30 June 2015, the shares representing a total of 92.96% of the voting rights of the Bank were transferred from PPF Group N.V. to PPF Financial Holdings B.V.

No members of the management, the Board of Directors or the Supervisory Board held any shares of the Bank as at 31 December 2016, 31 December 2015 or as at 1 January 2015.

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. Share premium amounts to MCZK 412 (31.12.2015: MCZK 412; 1.1.2015: MCZK 412).

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34. NATURE AND PURPOSE OF RESERVES

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

35. DIVIDENDS PAID

No dividends were paid by the Bank in 2016 and 2015.

36. PROPOSED ALLOCATION OF NET PROFIT FOR THE YEAR

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

<hr/>	
MCZK	Net profit for the year
<hr/>	
Net profit for the year 2016	1,204
Proposed allocation of profit for 2016:	
Transfer to social funds	(2)
Transfer to retained earnings	(1,202)
<hr/>	
-	

Social fund is part of Other liabilities and provisions.

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37. 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.

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Guarantees issued 3,726	2,380	2,934
Undrawn credit commitments 7,223	5,566	7,991
Letters of credit 59	35	24
	7,981	10,949
11,008		

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

	Notional value			Fair value		
	31.12. 1.1. 2016 2014	31.12. 2015	1.1. 2014	31.12. 2016	31.12. 2015	
<i>Derivatives</i>						
Interest Rate Swaps	88,861 45,298 20,802		(10)	(166) (124)	(234) 406	1,714
Foreign Exchange derivatives						
Purchase	144,027					
127,000						
66,588						
Sale	144,151					
126,594	64,874					
Options	1,432 1,277 1,152	-		--		
Other derivatives				138	69	72
Purchase	528					
679	1,221					

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Sale	533		
674	1,222		
		4	309
1,552			

Other derivatives consisted of futures (2015: futures, IR CAPs and IR forwards).

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37. OFF BALANCE SHEET ITEMS (CONTINUED)

(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 years	Unspecified	Total
As at 31 December 2016						
<i>Derivatives held for trading</i>						
Interest Rate Swaps	1,906	8,324	51,674	26,957	-	88,861
FX derivatives (purchase)	58,823	78,115	7,089	-	-	144,027
FX derivatives (sale)	58,828	78,122	7,201	-	-	144,151
Options	-	-	1,432	-	-	1,432
Other derivatives (purchase)	528	-	-	-	-	528
Other derivatives (sale)	533	-	-	-	-	533
As at 31 December 2015						
<i>Derivatives held for trading</i>						
Interest Rate Swaps	10,916	12,942	10,611	10,829	-	45,298
FX derivatives (purchase)	53,902	16,012	54,384	-	-	124,298
FX derivatives (sale)	53,902	15,920	54,170	-	-	123,992
Options	-	-	1,277	-	-	1,277
Other derivatives (purchase)	-	-	-	679	-	679
Other derivatives (sale)	674	-	-	-	-	674
<i>Hedging derivatives</i>						
Other derivatives (purchase)	959	1,230	513	-	-	2,702
Other derivatives (sale)	878	1,171	553	-	-	2,602
As at 1 January 2015						
<i>Derivatives held for trading</i>						
Interest Rate Swaps	-	-	8,691	12,111	-	20,802
FX derivatives (purchase)	34,672	24,826	-	-	-	59,498
FX derivatives (sale)	34,574	24,348	-	-	-	58,922
Options	-	-	1,152	-	-	1,152
Other derivatives (purchase)	141	981	-	-	-	1,122
Other derivatives (sale)	140	982	-	-	-	1,122
<i>Hedging derivatives</i>						
Other derivatives (purchase)	2,227	4,863	-	-	-	7,090
Other derivatives (sale)	1,531	4,421	-	-	-	5,952

The Bank obtained a derivative license from the CNB in 2006.

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38. 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.

As at 31 December 2016

MCZK	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and balances with the central bank	-	60,032	-	60,032	60,032
Loans and advances to banks	-	5,437	-	5,437	5,437
Loans and advances to customers	-	-	29,564	29,564	29,632
Financial liabilities					
Deposits from banks	-	6,819	-	6,819	6,819
Deposits from customers	-	103,060	-	103,060	103,060
Debt securities issued	-	2,622	-	2,622	2,622
Subordinated liabilities	-	1,498	-	1,498	1,458

As at 31 December 2015

MCZK	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and balances with the central bank	-	31,952	-	31,952	31,952
Loans and advances to banks	-	4,632	-	4,632	4,632
Loans and advances to customers	-	17,300	8,374	25,674	25,807
Financial liabilities					
Deposits from banks	-	1,659	-	1,659	1,659
Deposits from customers	-	58,528	-	58,528	58,528
Debt securities issued	-	19,552	-	19,552	19,552
Subordinated liabilities	-	1,579	-	1,579	1,456

38. FAIR VALUE DISCLOSURES (CONTINUED)

As at 1 January 2015

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MCZK	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and balances with the central bank	-	32,129	-	32,129	32,129
Loans and advances to banks	-	11,555	-	11,555	11,555
Loans and advances to customers	-	19,010	4,350	23,360	23,461
Financial liabilities					
Deposits from banks	-	3,439	-	3,439	3,439
Deposits from customers	-	78,908	-	78,908	78,908
Debt securities issued	-	8,793	-	8,793	8,793
Subordinated liabilities	-	1,490	-	1,490	1,455

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.

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38. FAIR VALUE DISCLOSURES (CONTINUED)

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 banks

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

Deposits from customers

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

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

Debt securities issued

For issued debt securities the fair value is deemed to be equal to the carrying value.

Subordinated liabilities

The estimated fair value of subordinated liabilities represents the discounted amount of the future cash flows expected to be paid.

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38. FAIR VALUE DISCLOSURES (CONTINUED)

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):

	Level 1	Level 2	Level 3	Total
MCZK				

As at 31 December 2016

Financial assets

Financial assets at fair value through profit or loss

Securities held for trading	8,127	-	-	8,127
Derivatives held for trading	138	1,722	-	1,860
Available-for-sale securities	24,194	6,831	55	31,080

Financial liabilities

Financial assets at fair value through profit or loss

Securities held for trading	8,691	-	-	8,691
Derivatives held for trading	-	1,855	-	1,855

	Level 1	Level 2	Level 3	Total
MCZK				

As at 31 December 2015

Financial assets

Financial assets at fair value through profit or loss

Securities held for trading	10,233	1,866	-	12,099
Derivatives held for trading	73	1,450	-	1,523
Available-for-sale securities	21,532	4,644	-	26,176

Financial liabilities

Financial assets at fair value through profit or loss

Securities held for trading	6,853	-	-	6,853
Derivatives held for trading	-	1,213	-	1,213

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38. FAIR VALUE DISCLOSURES (CONTINUED)

	Level 1	Level 2	Level 3	Total
MCZK				
As at 1 January 2015				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	9,931	614	-	10,545
Derivatives held for trading	72	3,224	-	3,296
Available-for-sale securities	16,188	8,082	2,485	26,755
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	5,583	-	-	5,583
Derivatives held for trading	-	1,744	-	1,744

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38. FAIR VALUE DISCLOSURES (CONTINUED)

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

	Loans and Total advances to customers	AFS securities	
MCZK			
Balance as at 1 January 2016	8,374	-	8,374
Profit and loss from revaluation	-	-	-
In profit or loss	-	-	-
In other comprehensive income	-	-	-
Purchases	3,958	-	3,958
Sales/ maturity	-	-	-
Transfers into Level 3	17,300	55	17,355
Transfers out of Level 3	-	-	-
Transfers between portfolios	-	-	-
Balance as at 31 December 2016	29,632	55	29,687

During 2016, certain available-for-sale assets were transferred out of Level 2 of the fair value hierarchy into level 3. 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.

In 2016, the Loans and advances to customers were reclassified from Level 2 to Level 3. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years.

	Loans and Total advances to customers	AFS securities	
MCZK			
Balance as at 1 January 2015	4,350	2,485	
6,835			
Profit and loss from revaluation	-	-	-
In profit or loss	-	-	-
In other comprehensive income	-	-	-
Purchases	4,024	-	
4,024			
Sales/ maturity	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	(2,485)	
(2,485)			
Transfers between portfolios	-	-	-
Balance as at 31 December 2015	8,374	-	
8,374			

During 2015, certain available-for-sale assets were transferred out of Level 3 of the fair value hierarchy due to the change in valuation model, when significant inputs used in their fair value measurements, such as certain credit spreads, that were not previously used are observable.

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39. 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.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk

Credit risk management

The Bank is exposed to credit risks in relation to its business activities. Credit risks are managed at the individual business case, client and the entire portfolio level. The Credit Risk Management Department, part of the Risk Management Division, is primarily responsible for the management of credit risks. The Credit Risk Management Department is independent of the Sales Division in terms of organisation and directly responds to the member of the board of directors in charge of the Risk Management Division.

The Bank's strategy, risk appetite and other internal standards define the general principles, objectives and methods of its credit risk management. In its internal norms, the Bank also defines competences for the approval of credit exposures and for the Credit Committee.

Managing credit risk at individual level

At the individual client level, credit risk is managed by assessing and evaluating such risk through credit analysis and the determination of a client's creditworthiness. To assess a client's risk and credit status, the Bank applies a comprehensive set of tools, models and methods, which make up the Bank's rating scheme. When determining the creditworthiness of individual clients, the Bank assesses financial and non-financial aspects as well as its economic position. An entity's creditworthiness is defined as its ability and will to meet its short-term and long-term liabilities. The aim of the analysis is to prevent any losses the Bank may incur as a result of the client's failure. In practice, this means estimating the risk arising from the ability to meet short-term and long-term liabilities and assessing the long-term financial stability of the client.

When determining creditworthiness, the Bank also specifies the likelihood of a client's default and what the expected loss relating to the Bank's potential engagement in respect to the client may be.

An internal rating level is attributed to each client representing a credit risk to the Bank, representing the exposure both in terms of the investment and business portfolio. Assessed exposures include both balance sheet and off-balance sheet exposures. The internal rating system comprises 14 rating levels (A1-A4, B1-B6, C1-C4). Clients with doubtful receivables must always be assigned a C2-C4 level.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

Credit risk management at the portfolio level

This credit risk management level primarily comprises credit portfolio reporting, including analyses and monitoring of trends in individual credit portfolios. The Bank closely monitors its overall credit risk exposure and thus considers all its balance sheet and off-balance sheet exposures. The Bank regularly monitors its credit exposure in individual industries, segments, countries and economically connected groups of debtors. The Bank regularly measures the credit portfolio concentration risk and, where necessary, sets concentration limits for individual segments, countries and economically connected groups of debtors.

Classification of receivables, accounting for impairment losses and establishment of provisions

The Bank recognises the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off this amount, i.e. part of the loan receivable corresponding to the loss from the loan's carrying amount. The Bank assesses the impairment of the carrying amount 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.

To determine the impairment loss, the Bank applies the method of discounting estimated future cash flows. The loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset. The original effective interest rate is the effective interest rate ascertained upon the establishment of the receivable. The Bank classifies its receivables from financial activities on a monthly basis in line with the relevant decree of the CNB.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

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

	31.12.2016		31.12.2015		1.1.2015	
MCZK	Gross	Net	Gross	Net	Gross	Net
Not impaired						
<i>Standard</i>	5,437	5,437	4,632	4,632	11,555	11,555
Total	5,437	5,437	4,632	4,632	11,555	11,555

There was no accrued interest to individually impaired loans and advances to banks as at 31 December 2016 and 2015.

Loans and advances to customers (individually impaired)

	31.12.2016		31.12.2015		1.1.2015	
MCZK	Gross	Net	Gross	Net	Gross	Net
<i>Standard</i>	25,600	25,600	18,251	18,251	19,111	19,111
<i>Watched</i>	769	769	3,898	3,840	1,627	1,601
<i>Sub-standard</i>	1,965	1,890	2,091	2,061	1,126	1,063
<i>Doubtful</i>	100	39	97	55	883	436
<i>Loss loans</i>	2,235	1,334	2,496	1,601	2,047	1,250
Total	30,669	29,632	26,833	25,807	24,794	23,461

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2016 MCZK 23 (31.12.2015: MCZK 34; 1.1.2015: MCZK 13).

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

As at 31 December 2015 the Bank reported Loans and advances to customers amounting to MCZK 364 as “Past due, but not impaired” (31.12.2015: MCZK: 9; 1.1.2015: MCZK 0).

As at 31 December 2016 the Bank reported MCZK 5 of Other assets as “Past due, but not impaired” (31.12.2015: MCZK: 26; 1.1.2015: MCZK 0).

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

Evaluation of collateral

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

- pledge on the pledgor's bank account
- mortgage on immovables
- pledge on receivables arising from supplier-customer relations
- pledge on securities and ownership interest in a corporation
- pledge on trademarks and other industrial property institutes
- pledge on an establishment
- pledge on movables.

The net realisable value of the collateral assessed by the Bank is usually based on an opinion prepared by an expert acceptable to the Bank. The net realisable value of the collateral is determined using this value and a coefficient reflecting the Bank's ability to realise the collateral when necessary.

Loans with renegotiated terms and the Bank's forbearance policy

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

In 2014, the Bank implemented a new forbearance methodology according to the EBA regulation. Exposures with forbearance are exposures where the debtor is considered unable to comply with the contract due to financial difficulties and the Bank decided to grant a concession to a debtor. A forbearance measure can be either a modification of terms and conditions or the refinancing of the contract. The modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

The following table shows Loans and advances to customers with forbearance:

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Not impaired 19,111	26,369	18,251
Of which: Loans and advances to customers with forbearance	-	-
-		
Impaired 4,350	3,263	7,557
Of which: Loans and advances to customers with forbearance	2,004	2,066
683		
Total	29,632	25,807
23,461		

The following table shows Loans and advances to customers with forbearance split by sectors:

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Loans and advances to customers without forbearance:	27,628	23,741
22,778		
Corporate customers:		
Financial institutions	1,545	706
712		
Non-financial institutions	11,477	7,360
7,343		
Individuals - entrepreneurs	44	54
57		
Public sector	21	4
486		
Resident individuals	192	213
142		

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Non-residents 14,038	14,349	15,404
Loans and advances to customers with forbearance: 683	2,004	2,066
Corporate costumers: Financial institutions	-	-
-	-	-
Non-financial institutions 83	31	34
Individuals - entrepreneurs	-	-
-	-	-
Public sector	-	-
-	-	-
Resident individuals	-	-
-	-	-
Non-residents: Non-financial institutions 600	1,973	2,032
Total 23,461	29,632	25,807

39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(a) Credit risk (continued)

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:

	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK	
MCZK			
Bank guarantees 6,093	3,579	5,230	
Property 7,705	7,970	6,525	
Unsecured 9,663	18,093	14,052	
Total	29,632	25,807	23,461

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

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	31.12.2016 1.1.2015 MCZK	31.12.2015 MCZK
MCZK		
Bank guarantees 1,992	3,282	3,678
Property 883	635	2,524
Unsecured 1,824	115	1,355
Total 4,699	4,032	7,557

The Bank did not record any collateral for loans and advances to customers past due, but not impaired as at 31 December 2016, 2015 and as at 1 January 2015.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

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 its 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 end of the accounting period, the Bank did not record any significant concentration of credit risks with respect to any individual debtor. The Bank did not exceed any limits toward individual debtors or related parties.

Since 2014, the Bank has been calculating the capital requirement for credit risk of the investment portfolio using a standardised approach in accordance with the Basel III standard under the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

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 16 and 17.

ii) Concentration of credit risks according to geographical sectors

Loans and advances to customers

	31.12.2016 MCZK	31.12.2015 MCZK	1.1.2015 MCZK
Czech Republic	13,311	8,370	8,822
Slovak Republic	477	1,946	158
Russia	2,973	5,194	6,449
Cyprus	2,228	1,073	733
Vietnam	604	727	814
Netherlands	2,685	1,526	168
Bulgaria	-	1,840	2,084
The Republic of Maldives	1,201	1,245	1,118
Georgia	429	453	478
Hungary	692	789	573
Romania	1,197	1,180	1,085
Luxembourg	541	556	572
Other	3,294	907	407
Total	29,632	25,807	23,461

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

Concentration of credit risks (continued)

ii) Concentration of credit risks according to geographical sectors (continued)

Loans and advances to banks

	31.12.2016 MCZK	31.12.2015 MCZK	1.1.2015 MCZK
Czech Republic	1,996	1,944	7,637
Slovak Republic	-	405	-
Russia	678	147	860
United Kingdom	1,116	1,387	1,046
Netherlands	132	-	859
Kazakhstan	43	38	304
Belarus	247	302	367
United States of America	557	65	208
Hungary	2	1	31
Germany	126	254	93
Poland	16	4	115
France	477	22	-
Other	77	63	35
Total	5,437	4,632	11,555

Debt securities

	31.12.2016 MCZK	31.12.2015 MCZK	1.1.2015 MCZK
Czech Republic	27,355	29,832	29,192
Luxembourg	1,981	1,760	1,147
Slovakia	-	-	232
United Kingdom	1,019	374	554
France	135	135	2,770
Russia	316	-	266
Netherlands	2,821	2,286	1,495
Ireland	578	428	1,083
United States of America	1,002	776	-
Germany	392	693	-
Other	3,554	1,622	-
Total	39,153	37,906	36,739

39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

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(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 liquidity 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.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(b) Liquidity risk (continued)

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 2016						
Cash and balances with the central bank	60,032	-	-	-	-	60,032
Trading assets	607	527	1,471	7,952	-	10,557
Financial assets available for sale	512	5,130	14,986	12,316	55	32,999
Loans and advances to banks	5,226	28	192	-	-	5,446
Loans and advances to customers	3,360	5,365	20,433	5,291	-	34,449
Property, plant and equipment	-	-	-	-	29	29
Intangible assets	-	-	-	-	57	57
Other assets	-	-	-	-	300	300
Total	69,737	11,050	37,082	25,559	441	143,869
Deposits from banks	4,164	2,666	-	-	-	6,830
Deposits from customers	84,535	15,849	2,727	-	-	103,111
Debt securities issued	-	286	2,551	-	-	2,837
Trading liabilities	502	347	3,183	6,514	-	10,546
Tax and other liabilities and provisions	2,978	36	-	-	358	3,372
Subordinated liabilities	-	91	364	1,607	-	2,062
Shareholders' equity	-	-	-	-	8,748	8,748
Total	92,179	19,275	8,825	8,121	9,106	137,506
Gap	(22,442)	(8,225)	28,257	17,438	(8,665)	6,363
Cumulative gap	(22,442)	(30,667)	(2,410)	15,028	6,363	-
At 31 December 2015						
Cash and balances with the central bank	31,952	-	-	-	-	31,952
Trading assets	847	2,202	8,122	2,623	69	13,863
Financial assets available for sale	171	3,953	10,672	11,667	308	26,771
Loans and advances to banks	4,447	4	24	308	-	4,783
Loans and advances to customers	3,689	2,762	15,239	6,875	-	28,565
Hmotný majetek	-	-	-	-	30	30
Intangible assets	-	-	-	-	53	53
Other assets	14	-	-	-	741	755
Total	41,120	8,921	34,057	21,473	1,201	106,772
Deposits from banks	1,659	-	-	-	-	1,659
Deposits from customers	50,807	6,971	775	-	-	58,553
Debt securities issued	5,455	12,801	1,323	-	-	19,579
Trading liabilities	395	204	431	7,036	3	8,069
Tax and other liabilities and provisions	5,950	10	-	-	489	6,449
Subordinated liabilities	-	91	364	1,673	-	2,128
Shareholders' equity	-	-	-	-	7,373	7,373
Total	64,266	20,077	2,893	8,709	7,865	103,810
Gap	(23,146)	(11,156)	31,164	12,764	(6,664)	2,962
Cumulative gap	(23,146)	(34,302)	(3,138)	9,626	2,962	-

The liquidity gap up to one year comes essentially from Deposits from customers, which are expected to be prolonged as shown by historical evidence.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(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.

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.

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%. That means that there is a 1% probability that the Bank will lose more than the certain amount over a one-day period.

MCZK	31 December 2016	Average for 2016	31 December 2015	Average for 2015
VaR of interest instruments	11	13	18	14
VaR of currency instruments	1	4	4	2
VaR of equity instruments	-	2	7	1

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.

PPF BANKA A.S.
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(c) Market risk (continued)

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.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(c) Market risk (continued)

Interest sensitivity 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 interest sensitivity.

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2015						
Cash and balances with the central bank	60,032	-	-	-	-	60,032
Trading assets	610	651	1,471	7,825	-	10,557
Financial assets available for sale	3,653	3,993	13,170	12,128	55	32,999
Loans and advances to banks	5,446	-	-	-	-	5,446
Loans and advances to customers	5,042	4,249	19,867	5,291	-	34,449
Property, plant and equipment	-	-	-	-	29	29
Intangible assets	-	-	-	-	57	57
Other assets	-	-	-	-	300	300
Total	74,783	8,893	34,508	25,244	441	143,869
Deposits from banks	4,164	2,666	-	-	-	6,830
Deposits from customers	84,535	15,849	2,727	-	-	103,111
Debt securities issued	-	286	2,551	-	-	2,837
Trading liabilities	502	347	3,183	6,514	-	10,546
Tax and other liabilities and provisions	2,978	36	-	-	358	3,372
Subordinated liabilities	-	91	364	1,607	-	2,062
Shareholders' equity	-	-	-	-	8,748	8,748
Total	92,179	19,275	8,825	8,121	9,106	137,506
Gap	(17,396)	(10,382)	25,683	17,123	(8,665)	6,363
Cumulative gap	(17,396)	(27,778)	(2,095)	15,028	6,363	-
At 31 December 2015						
Cash and balances with the central bank	31,952	-	-	-	-	31,952
Trading assets	1,642	2,361	7,538	2,254	68	13,863
Financial assets available for sale	3,613	15,399	7,046	403	310	26,771
Loans and advances to banks	4,783	-	-	-	-	4,783
Loans and advances to customers	18,672	5,718	2,861	1,314	-	28,565
Property, plant and equipment	-	-	-	-	30	30
Intangible assets	-	-	-	-	53	53
Other assets	14	-	-	-	741	755
Total	60,676	23,478	17,445	3,971	1,202	106,772
Deposits from banks	1,659	-	-	-	-	1,659
Deposits from customers	50,807	6,971	775	-	-	58,553
Debt securities issued	5,455	12,801	1,323	-	-	19,579
Trading liabilities	710	512	240	6,604	3	8,069
Tax and other liabilities and provisions	5,950	10	-	-	489	6,449
Subordinated liabilities	-	91	364	1,673	-	2,128
Shareholders' equity	-	-	-	-	7,373	7,373
Total	64,581	20,385	2,702	8,277	7,865	103,810
Gap	(3,905)	3,093	14,743	(4,306)	(6,663)	2,962
Cumulative gap	(3,905)	(812)	13,931	9,625	2,962	-

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(c) Market risk (continued)

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.

Expected maturities differ from contracted ones as historical evidence shows that most short-term loans and deposits are prolonged.

Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Bank as at 31 December 2016 and 2015 were as follows:

In %	2016	2015
<i>Financial assets</i>		
Cash and balances with the central bank	0.05	0.05
Trading assests	2.14*	0.41*
Financial assets available for sale	2.23*	0.29*
Loans and advances to banks	0.94	0.38
Loans and advances to customers	4.99	5.51
<i>Financial liabilities</i>		
Deposits from banks	0.30	0.75
Deposits from customers	0.16	0.13
Debt securities issued	0.05	0.79
Trading liabilities	1.80	-0.02

Note:

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

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(c) Market risk (continued)

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 interest rate yield curves.

Basis point value

Basis point value measures how much monetary positions of the Bank will gain or lose 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 2016 BPVs for individual currencies were as follows:

MCZK Currency	Banking Book BPV	Trading book BPV
CZK	6	74
EUR	(35)	9
USD	(216)	(54)
RUB	1	-
JPY	-	-
KZT	-	-
UAH	-	-
GBP	-	(1)
VND	-	-
Total BPV (absolute)	258	138

As at 31 December 2015 BPVs for individual currencies were as follows:

MCZK Currency	Banking Book BPV	Trading book BPV
CZK	125	94
EUR	(59)	(21)
USD	(115)	(10)
RUB	1	-
JPY	-	-
KZT	-	-
UAH	-	-
GBP	-	-
VND	-	-
Total BPV (absolute)	300	125

39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

(c) Market risk (continued)

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:

MCZK	2016		2015	
	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
At 31 December	329	238	121	129
Average for the period	186	112	142	124
Maximum for the period	329	238	241	217
Minimum for the period	27	51	32	29

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.

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(d) Operational risk

Operational risks

The Security and Operational Risk Management department is responsible for managing operational risks, i.e. risks resulting from losses caused by deficiencies in or failures of internal processes, human factor or systems, or from losses caused by external factors, including legal risks. Operational risks exclude strategic and reputational risks.

Operational risks are usually the cause of increases in the Bank's expenses, decreases in the Bank's income, the incurrance of fines, penalties, damages, or losses of the Bank's tangible and intangible assets.

The Security and Operational Risk Management department prepares an operational risk management methodology, identifies, monitors, measures and assesses operational risks, and proposes measures for mitigating operational risks. As part of the Bank's operational risk management, it is further responsible for the security management system of the Bank's information systems. The department also monitors, measures and assesses information security, prepares the methodology for managing this security and organises operational risk trainings for Security and Operational Risk Management department personnel.

After having identified an operational risk, the manager or employee in charge of managing operational risks within a division or department proposes and arranges the implementation of operational, controlling or organisational measures to mitigate or eliminate the operational risk.

In connection with this procedure, the Security and Operational Risk Management department manages the access of employees, clients and other authorised persons to tangible and intangible assets, and manages the risk in terms of arranging supplies of banking services, launching new products, utilising outsourcing by the Bank. In proposing the measures to mitigate operational risk, the Bank assesses their impact on its expenses and income.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(d) Operational risk (continued)

Other risks

Legal risk management consists in minimising the uncertainties relating to the enforceability of contracts, insufficient documentation, changes in the regulatory environment including accepted court decisions and uncertainties in the actions of counterparties. The aim is to reduce the risk of loss, risk of claims against the Bank or penalties including damage to the Bank's reputation. The Compliance department contributes to reduce these risks.

The Compliance department performs activities whose purpose is the compliance of the Bank's internal policies and processes with external regulations. Main compliance activities involve ensuring the compliance of internal guidelines with external standards, the mutual compliance of internal guidelines, the compliance of Bank's activities with internal guidelines and external standards and the ongoing monitoring of the Bank's compliance to legal obligations and responsibilities arising from the internal regulations of the Bank, to establish preconditions for achieving this accord, to establish preconditions for the fair provision of services to customers and to refrain from giving preferential treatment to the Bank and its employees over customers, to prevent conflicts of interest, and to mitigate acts which could result in market abuse. The Compliance department further performs and monitors anti-money laundering and combatting financial terrorism (AML-CFT) activities and handles claims and complaints.

Where some of the compliance activities are not performed directly by the Compliance department but delegated to another department of the Bank, its managers or other employees, the Compliance department shall act as coordinator.

The Bank's managers are responsible for creating conditions for the adherence to external regulations. They are also responsible for issuing internal policies governing the activities they are in charge of and are obliged to check whether external regulations and internal policies are observed by subordinates.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(e) Capital management

Regulatory capital

The Bank's lead regulator, the CNB, 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 CNB 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.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(e) Capital management (continued)

The Bank's reconciliation between regulatory capital and equity calculated was as follows:

MCZK	Regulatory capital	Equity
At 31 December 2016		
Issued capital	769	769
Share premium	412	412
Retained earnings	5,695	6,899
Other comprehensive income	668	668
Other reserves	-	-
Less value adjustment due to the requirements for prudent valuation	(51)	-
Less intangible assets	(57)	-
Tier 1 capital	7,436	
Total Equity		8,748
Tier 2 capital		
Qualifying subordinated liabilities	1,391	
Total regulatory capital	8,827	
At 31 December 2015		
Issued capital	769	769
Share premium	412	412
Retained earnings	4,402	5,697
Other comprehensive income	298	495
Other reserves	-	-
Less value adjustment due to the requirements for prudent valuation	(48)	-
Less intangible assets	(53)	-
Tier 1 capital	5,780	
Total Equity		7,373
Tier 2 capital		
Qualifying subordinated liabilities	1,390	
Total regulatory capital	7,170	

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(e) Capital management (continued)

Capital adequacy ratios are following:

%	2016	2015
Tier 1 common capital ratio	13.36%	11.97%
Tier 1 capital ratio	13.36%	11.97%
Total capital ratio	15.86%	14.85%

Exposures and capital requirements for credit risk related to the following institutions:

MCZK	Exposure	Capital requirement
At 31 December 2016		
Central Government	228	19
Local Government	7	1
Institutions	4,088	327
Businesses	39,179	3,134
Retail sector	16	1
Exposures pledged by properties	143	11
Exposures in default	251	20
High risk exposures	2,097	168
Collective investments	-	-
Equities	126	10
Other exposures	348	28
Total	46,483	3 719
At 31 December 2015		
Central Government	184	15
Local Government	3	-
Institutions	3,856	309
Businesses	30,745	2,460
Retail sector	-	-
Exposures pledged by properties	190	15
Exposures in default	212	17
High risk exposures	1,859	149
Collective investments	4	-
Equities	111	9
Other exposures	449	35
Total	37,613	3,009

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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(e) Capital management (continued)

MCZK	2016	2015
Capital requirements for credit risk	3,719	3,009
Capital requirements for market risks	340	464
- for general interest rate risks of trading portfolio	318	375
- for general equity risks of trading portfolio	-	50
- for foreign exchange risks	22	39
Capital requirements for settlement risks	-	-
Capital requirements for operational risks	330	311
Capital requirements for credit valuation adjustment risk	63	79
Total	4,452	3,863

CNB requires each bank or banking group:

- a. to hold a minimum level of registered capital (MCZK 500), and
- b. to maintain a ratio of the capital to risk-weighted assets:
 1. The ratio of equity CET 1 capital at least 4.5%
 2. The ratio of Tier 1 capital at least 6%
 3. The ratio of total capital (Tier 1 and Tier 2) 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.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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39. RISK MANAGEMENT DISCLOSURE (CONTINUED)

(f) Components of cash flow statement

Cash and cash equivalents include cash in hand and account balances with the CNB, 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	31.12.2016 1.1.2015	31.12.2015
Cash on hand	70	59
65		
Unrestricted balances with the central bank	50,500	30,200
25,500		
Nostro account balances	409	1,181
382		
Reverse repo with the central bank	7,700	-
4,700		
Total	58,679	31,440
30,647		

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40. RELATED PARTY TRANSACTIONS

The Bank's parent is PPF Financial Holdings B.V. The ultimate controlling entity is PPF Group N.V.

The Bank has a related party relationship with its parent company, PPF Financial Holdings B.V. and the ultimate controlling entity, 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:

	31.12.2016 MCZK*	31.12.2015 MCZK*	1.1.2015 MCZK**
Deposits from customers	(5,068)	(3,184)	(20,215)
Trading liabilities	-	-	(2)
Total	(5,068)	(3,184)	(20,217)

(*) Balances with PPF Financial Holdings B.V. as at 31 December 2015

(**) Balances with PPF Group N.V. as at 31 December 2015

As at 30 June 2015, the shares representing a total of 92.96% of the voting rights of the Bank were transferred from PPF Group N.V. to PPF Financial Holdings B.V.

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

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transaction with the parent company (continued)

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

	2016 MCZK	2015 MCZK*	2015 MCZK **
Interest expense and similar charges	-	-	(55)
Fee and commission income	2	-	1
Net trading income	-	-	(1)
Total	2	-	(55)

Note:

(*) Transactions with PPF Financial Holdings B.V. for period from 1 July 2015 until 31 December 2015

(**) Transactions with PPF Group N.V. for period from 1 January 2015 until 30 June 2015

PPF BANKA A.S.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transaction with other related parties

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

	31.12.2016 MCZK	31.12.2015 MCZK	1.1.2015 MCZK
Trading assets	745	573	757
Financial assets available for sale	2,112	2,079	1,706
Loans and advances to banks	146	56	2,021
Loans and advances to customers	5,561	5,144	4,168
Other assets	8	9	7
Deposits from customers	(17,473)	(8,597)	(11,812)
Deposits from banks	(552)	(379)	(548)
Trading liabilities	(107)	(332)	(606)
Debt securities issued	-	(333)	-
Other liabilities	(847)	(3,038)	(198)
Total	(10,407)	(4,818)	(4,505)

In 2016 the Bank provided a guarantee amounted to MCZK 100 (31.12.2015: MCZK 8, 1.1.2015: MCZK 12). It accepted no guarantee related to the above mentioned transactions in the years 2016 and 2015.

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

	2016 MCZK	2015 MCZK
Interest expense and similar income	575	855
Interest expense and similar charges	(39)	(19)
Fee and commission income	60	50
Fee and commission expense	-	-
Net trading income	(699)	415
Net impairment losses on financial assets	(17)	(41)
Other operating income	1	-
General administrative expenses	(112)	(111)
Total	(231)	1,149

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FOR THE YEAR ENDED 31 DECEMBER 2016

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(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:

MCZK	Board of Directors			Supervisory Board			Executives		
	31.12. 2016	31.12. 2015	1.1. 2015	31.12. 2016	31.12. 2015	1.1. 2015	31.12. 2016	31.12. 2015	1.1. 2015
Trading assets	-	-	-	-	-	12	-	-	-
Deposits from customers	(10)	(13)	(10)	(22)	(21)	(208)	(2)	(6)	(5)

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

The Bank did not report related expenses and income for its Supervisory Board members, Directors and Executive as at 31 December 2016 and 2015, these figures are considered to be not material.

(d) Off balance sheet items

As a related party transaction, as at 31 December 2016 the Bank provided a credit commitment to related parties of MCZK 1,456 (31.12.2015: MCZK 2,772; 1.1.2015: MCZK 1,911) and guarantee in the amount of MCZK 0 (31.12.2015: MCZK 0; 1.1.2015: MCZK 12).

41. SUBSEQUENT EVENTS

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

Date:	Stamp and signature of the statutory body of the Bank:	Individual responsible for accounting:	Individual responsible for financial statements:
31 March 2017		Růžena Šuserová	Miroslav Hudec