PPF banka a.s.

Report on Business Activities 2014

PPF Banka

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Letter from the Chairman

Dear shareholders, customers, business partners, and colleagues,

The PPF banka consolidated group continued to grow last year at a rate that substantially outpaced the overall Czech Republic banking market. Consolidated net income was up 52% in 2014, year-on-year, to CZK 827 million. Total assets grew nearly 4% compared to the previous year, reaching a new record level of CZK 109 billion. Return on equity increased to 14.27%.

Last year brought several interesting developments for PPF banka. In the summer, PPF banka arranged the O2 Czech Republic a.s. ("O2 CR") mandatory tender offer, in which the majority shareholder acquired a total of 22,596,351 shares of O2 CR. In May 2014 we successfully placed a CZK 920 million bond issue of City Tower Holding a.s. amongst our private banking clients.

During the past year we had to deal with the crisis in Russia. Although PPF banka has considerable exposure to Russia, thanks to our conservative approach and fast response, we managed to keep losses ensuing from this exposure at acceptable levels and achieve major growth in overall net income.

Last year we continued to streamline processes inside the Bank. We implemented a new fund price transfer system, which is bringing more effective management and allocation of resources, and the lending process itself underwent some important changes. As a result, PPF banka is now fully prepared to capitalize on the Czech Republic's anticipated further economic recovery.

Last year, PPF banka continued to provide high-quality services to its demanding enterprise, private, and municipal customers, and reaffirmed itself as a credible partner in the financial world. For this, I would like to thank both our shareholders for their support and strategic direction and, even more importantly, our employees for their hard work during the past year.

Prague, 27 April 2015

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

Consolidated Financial Highlights

According to International Financial Reporting Standards

Assets

In millions of CZK	2014	2013	2012
Financial assets	40,597	27,241	22,450
Loans and advances to banks	11,579	22,195	19,613
Loans and advances to customers	24,140	31,635	25,513
Other assets	32,568	23,977	10,488
Total assets	**108,880**	**105,047**	**77,064**

Liabilities and Shareholders' Equity

In millions of CZK	2014	2013	2012
Deposits from banks	3,437	1,743	765
Deposits from customers	78,808	75,117	54,222
Debt securities issued	8,793	11,593	3,730
Trading liabilities	7,328	7,180	5,333
Subordinated liabilities	2,118	2,522	673
Total shareholders' equity	5,972	5,098	5,935
Other liabilities	2,428	1,793	6,407
Total liabilities and shareholders' equity	**108,880**	**105,047**	**77,064**

Profit and Loss Statement

In millions of CZK	2014	2013	2012
Net interest income	3,859	2,636	2,106
Dividend income	–	8	11
Net fee and commission income	243	203	534
Net trading income	(236)	(125)	318
Other operating income	2	2	15
Operating income	3,868	2,724	2,983
Operating expenses	(2,845)	(1,966)	(1,837)
Net gain (loss) from associates	–	–	–
Income from associates	–	–	–
Profit before income tax	1,022	757	1,146
Income tax expense	(195)	(213)	(199)
Net profit for the year	**827**	**544**	**947**

Basic Ratios

%	2014	2013	2012
ROE	14.27	12.34	18.98
ROA	0.76	0.57	1.31
Operating expenses/operating income	73.55	72.20	61.60

Corporate Profile

General Information

Name	PPF banka a.s.
Legal form	joint stock company
Seat	Evropská 2690/17, Prague 6, Post Code 160 41, Czech Republic
ID No.	47116129
Registry court	Municipal Court in Prague, part B, insert 1834
Date of incorporation	**31 December 1992**
Registered capital	**CZK 769 million**
Shareholders' equity	**CZK 5,972 million**
Total assets	**CZK 108,884 million**
Shares	**unlisted, registered ordinary, recorded in the Central Securities Depository Prague**

Note: figures as at 31 December 2014

Core Businesses

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

PPF banka Is a Member of:

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

Shareholder Structure

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

Precise web address of Bank`s Mandatory Disclosures:
http://www.ppfbanka.cz/cz/servis-pro-investory-a-analytiky/povinne-uverejnovane-informace/udaje-uverejnovane-ctvrtletne.html

Governing Bodies

as at 31 December 2014

Board of Directors

Petr Jirásko

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

Pavel Fuchs

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

Jaroslava Studenovská

Member of the Board of Directors of PPF banka
Managing Director, Operations

Supervisory Board

Martin Štefunko

Chairman of the Supervisory Board of PPF banka

Miroslav Tutter

Vice Chairman of the Supervisory Board of PPF banka

Martin Dlouhý

Member of the Supervisory Board of PPF banka

Bohuslav Samec

Member of the Supervisory Board of PPF banka

Lenka Baramová

Member of the Supervisory Board of PPF banka

Martin Hýbl

Member of the Supervisory Board of PPF banka

Audit Committee

Jitka Mašátová

Valdemar Linek

Bohuslav Samec

Senior Management

Petr Jirásko
Chief Executive Officer since 14 October 2013

Pavel Fuchs
Managing Director, Risk Management since 8 October 2013

Jaroslava Studenovská
Managing Director, Operations since 1 May 2007

Karel Tregler
Managing Director, Financial Markets since 1 January 2014

Tomáš Hadžega
Managing Director, Corporate Banking since 1 April 2012

Miroslav Hudec
Chief Financial Officer since 1 January 2014

Břetislav Tichánek
Managing Director, Export & Structured Finance since 1 September 2010

Tomáš Janota
Managing Director, ITC since 1 August 2013

Report of the Board of Directors

Bank Financial Performance in 2014

PPF banka continued to grow last year, in terms of both total assets and net income. Total assets were up CZK 3.9 billion in 2014, to CZK 108.9 billion. The 2014 net income was CZK 827 million, up CZK 283 million from 2013.

Despite a loss from financial operations, operating income grew substantially compared to 2013, exceeding CZK 3 billion. The loss from financial operations compared to 2013 is attributable to hedging of interest revenues as well as a decline in the securities trading result in conjunction with high volatility in the Russian market.

A CZK 41 million (+6.6%) increase in general administrative expenses compared to 2013 was attributable to a number of factors. Factors increasing general administrative expenses included an increase in the limit on tax deductable gifts and an increased contribution to the deposit insurance fund in conjunction with higher liabilities to clients. Lower payroll expenses, on the other hand, caused general administrative expenses to decrease. Expressed as a percentage of net banking income (not including valuation allowances), administrative expenses fell to 21%, from 31% in 2013.

The non-performing loans ratio was up 9.54% in 2014 and the volume of non-performing loans rose to 4,974 milion at year-end 2014. Thanks to PPF banka's very conservative approach to loan classification and creation of allowances, the Bank's "impairment to customers" allowance rose to CZK 2,075 million at year-end 2014. The growth compared to 2013 is attributable primarily to the consumer loans segment.

Despite that, PPF banka posted a pre-tax profit of CZK 1.022 billion in 2014, up CZK 265 million from 2013. PPF banka paid CZK 195 million in income tax last year.

Loans and advances to customers were down 24% year-on-year, to CZK 24.1 billion or 22% of total assets. The principal reason for the decline is lower consumer lending volume in conjunction with developments in the Russian market.

Cash and balances with central banks reached CZK 32.1 billion in 2014, up from CZK 23.6 billion in 2013, and loans and advances to banks fell from CZK 11.6 billion from CZK 22.2 billion at year-end 2013.

Deposits from customers continued to be the primary source of financing, growing by CZK 3.7 billion to CZK 78.8 billion and accounting for 72% of total assets at year-end.

Return on equity (ROE) and return on average assets (ROAA) were 14.27% and 0.76% in 2014, respectively. Overall capital adequacy at 31 December 2014 was 14.25%, up nearly 2.7% from year-end 2013.

PPF banka continued in its charity projects in 2014, and sees social responsibility as one of its fundamental values.

Capital and Capital Adequacy

In millions of CZK	2014	2013	2012
Capital adequacy	14.25%	11.57%	10.83%
Tier 1	4,751	4,188	4,632
Tier 2 and Tier 3	1,388	1,387	–
Sum of deductible items	–	–	–
Total capital	6,139	5,575	4,632
Capital requirements for investment portfolio	2,420	2,908	2,705
Capital requirements fro trading portfolio	602	519	497
Capital requirements for operational risks	425	429	220
Risk weighted assets	30,256	36,995	34,563

Business Operations in 2014

PPF banka Operations in the Financial Markets

PPF banka was an active player in the financial and capital markets last year, and in most areas we succeeded in expanding our range of services and increase trading volumes.

In the securities area, PPF banka continued to be one of the most active market makers for Czech government bonds, which we list on the MTS and Bloomberg platforms, among others. According to a Ministry of Finance evaluation for Czech Republic bonds, PPF banka ranked third on the secondary market and fourth for trading on the primary market. In addition to government bonds, we are a market maker for selected corporate bond issues in the Bloomberg trading system.

The following table presents a breakdown of PPF banka's securities trading volumes:

CZK millions	2014	2013	2012
Domestic bonds	153,232	204,683	150,680
Foreign bonds	77,526	78,643	93,040
Bonds, total	**230,759**	**283,326**	**243,720**
Domestic equities	**723**	**6,384**	**1,376**
Foreign equities	21,714	33,313	93,881
Equities, total	22,438	39,697	95,257
Total	**253,197**	**323,023**	**338,977**

Like every year, PPF banka participated in bond issues. In 2014, PPF banka acted as lead manager, arranger, and administrator of the CITY TOWER Holding bond issue (face value CZK 920 million) and the Air Bank subordinated debt offering (face value CZK 2 billion).

PPF banka continued to ramp up its operations in the foreign exchange (FX) market, with 2014 transaction volumes reaching the equivalent of CZK 173 billion (spot) and CZK 469 billion (currency derivatives), for 17% growth in volumes over 2013. The following table shows a breakdown of FX trading over the past three years:

CZK billions	2014	2013	2012
Spot	173.0	185.1	119.3
Derivatives	469.3	364.7	1,083.0
Total	**642.3**	**549.8**	**1,202.3**

Moreover, as a new service, PPF banka began offering its customers the possibility to make payments in lesser known East Asian currencies.

Among other material changes in financial markets regulation, 2014 saw the promulgation of EMIR, a regulation that brings a new treatment of reporting, settlement and risk management of over-the-counter (OTC) derivatives. Here, PPF banka successfully adapted its processes to the new regulation and newly provides its customers the option of delegating reporting of closed derivatives to us.

Municipal Banking

In 2014, the Bank built upon the very successful preceding years 2011–2013 and continued to reinforce its position and engage in business development in the core segment, consisting of regional and state governmental institutions. The Bank's stability, backed by the entire PPF Group, and its personal approach to customer needs earned us customers' trust and demand for new, highly individualized products. The diversification of customer deposits was bolstered by new acquisitions in the regions as well as of a number of major research institutions, thereby further improving the Bank's liquidity.

The newly established, highly specialized Churches Desk overcame initial customer misgivings and is steadily building up a stable structure of customers with a big appetite for opportunities in structured deposits and joint projects. The strength of this highly specialized group, with its appetite for sophisticated products, will likely manifest itself in the years to come, as these customers are obviously not afraid to turn to less conventional investments in a time of extraordinarily low interest rates.

Corporate Banking

In 2014, the Bank managed to renew the flow of new transactions in the segments we intend to specialize in over the long term. These include energy projects in the Czech Republic and abroad, industrial machinery, and foreign trade. In addition to these segments, new business was done in real estate, an area we expect will become ever more important in the future. Great emphasis was placed on maintaining a clean loan book. Going forward, we intend to focus on streamlining the lending process and expand the list of target segments. To this end, employees will undergo training in these areas.

Export & Structured Finance

In the Export & Structured Finance area, 2014 saw PPF banka focus on target customer groups in countries of the Commonwealth of Independent States (CIS) and in Central & Eastern Europe. In the second half of the year, exposures in this territory were reduced in conjunction with developments in the Russian Federation. Going forward, PPF banka will continue to pursue a selective approach to risk in the CIS region, seeking new opportunities for low-risk business transactions with attractive returns. In the structured finance area, PPF banka will continue to focus on seeking out M&A and project finance opportunities in the Czech Republic and abroad.

Private Banking for Corporate and Individual Clients

The Private Banking Department provides specialized services to both small and medium enterprises (SMEs) and private individuals who are members of SME governance bodies.

2014 was once again the best business year ever for the Private Banking Department in terms of corporate clients. We continue to grow the sales result (exceeding plan), although – due to external influences – growth in assets lagged somewhat behind expectations. During 2014 we clarified our lending strategy, stipulating preferred segments and subsequently identifying and reaching out to potential clients in these segments. The commercial focus continues to espouse the original values: know the client, take an individualized approach, offer tailored solutions – and thereby achieve stipulated targets over the long term.

The private banking for individuals segment fills out PPF banka's mosaic of services with a specialization in banking services for the most discerning private individuals. Once again, 2014 saw dynamic growth both in the number of satisfied customers and the volume of their assets under our management. Despite interest rates at historic lows, our private bankers came out with several new products that captured customers' attention by being unique in the Czech market. The positive response our approach has received and our high degree of customer satisfaction give reason to anticipate that this area will continue to see positive developments in the years to come. As demand for our private banking products grows, we feel more and more honour-bound to seek out additional ways to provide the greatest variety of services of the highest possible quality.

Information Technologies and Security Policy

In the information and telecommunications technology area, 2014 was a year in which we completed the internal IT department changes initiated in 2013, and defined priorities for developing information technologies and IT management processes at PPF banka, as reflected in the IT strategy for the years 2014–2017.

In 2014, we undertook an analysis to commence a project to replace the current system for tracking customer information and products with a new, more efficient system encompassing administration of customer data, products, and electronization of the document store, built on Microsoft products. In the payments processing area, we implemented a new system for processing SWIFT messages. In the Anti Money Laundering (AML) area, we began implementing a new, standardized system for evaluating detection scenarios. The Bank's lending business development activities were directed toward a new way of processing negative-balance facilities, unifying the system used to track these with the systems used for other types of lending operations. In addition, a new scoring model for approving loans was chosen and implemented. In the area of electronic payment systems, we completed a project to roll out two new payment services functions: electronic processing of bill-pay consent, and SWIFT confirmations. In the compliance area, the ongoing Regulatory Reporting project focused on implementing the CNB's new reporting methodology and changing the data source to "data from DWH". In the DWH area, 2014 saw continued development of the data outputs of profitability reports and an expansion of structures to include data from the lending business. In terms of operational infrastructure, the most significant development last year was the migration of terminal equipment to its target regime, without access to Bank data, thereby completing the terminal equipment virtualization project.

In the Information Systems Security area, we focused on reinforcing the use of existing security technologies and implemented elements of reinforced protection against data leaks. The information security department received additional human resources to address the growing importance of cyber threat prevention in the banking sector.

Human Resources and Personnel Strategy

Human resources are managed in full accordance with the plans and goals of PPF banka, as well as with the overall strategy of PPF Group, of which we are a member.

We place emphasis on open communication at all levels, mutual trust among employees, and a corporate culture of professionalism. We consider these to be important factors influencing employee performance.

In 2014 we continued to be a highly sought-after employer among job seekers. The recruitment process is designed to select reliable, pro-active employees and thereby help keep PPF banka agile and successful.

Through a system of benefits and bonuses and by adhering to equal opportunity principles, we endeavour to motivate employees to work efficiently, be loyal, and work together as a team.

The average number of employees in 2014 was 199, and the head count at 31 December was 204 employees.

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

The remuneration principles are set in accordance with applicable laws and regulations. All remuneration principles are stipulated by the Board of Directors and approved by the Supervisory Board. They reflect the commercial performance results of PPF banka as well as any potential risks. Compliance with these principles is vetted once per year by the Internal Audit Department, which reports the results of this vetting to the Supervisory Board and the Board of Directors.

Only approved cash remuneration was paid in relation to the year 2014, and no in-kind income was provided.

Fees Paid to Auditors

Fees paid to the external auditor for services rendered in 2014 totalled CZK 6 million (2013: CZK 6 million). All external auditor services relate to auditing and vetting of the financial statements, the annual report, the materials for consolidation, and the MiFID report.

Directions of Further Growth and Outlook for 2015

Among PPF banka's principal objectives for 2015 is an update of the Bank's strategy to enable us to adapt quickly to the changing environment in the banking sector and make the best use of our potential for further successful development in the years to come, during which we expect the economy to recover and the situation in the corporate market to improve. For this reason, we will focus on:
— the strategy update
— streamlining processes
— leveraging synergies within PPF Group

Public Benefit Projects

2014 was PPF banka's biggest year yet in terms of its participation in supporting education and science through THE KELLNER FAMILY FOUNDATION, one of the most active and important entities of its kind in the Czech Republic. Its activities span from supporting primary school students from underprivileged social backgrounds, extraordinarily talented secondary school and university students, and educating school teachers, through support for the environment and protection of heritage sites, to providing financial grants to scientific research teams.

The Bank is also a traditional financial supporter of the Bilingual Nursery School for the Hearing Impaired.

In the arts, the Bank – together with PPF Group – supported the Summer Shakespeare Festival and operation of the Jára Cimrman Theater in Prague's Žižkov district.

Other Information

During 2014 and 2013, the company incurred no expenditures for R&D or environmental protection.

The company has no organizational units abroad.

Prague, 27 March 2015

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

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

Financial Section

Independent Auditor’s Report

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

We have audited the accompanying consolidated financial statements of PPF banka a.s., which comprise the consolidated statement of financial position as of 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about PPF banka a.s. is set out in Note 1 to these consolidated financial statements.

Statutory Body‘s Responsibility for the Consolidated Financial Statements

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

Auditor‘s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor‘s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity‘s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity‘s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of PPF banka a.s. as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague, 10 April 2015

KPMG Česká republika Audit

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

Ing. Pavel Závitkovský
Partner
Registration number 69

Consolidated Financial Statements

For the Year Ended 31 December 2014

According to International Financial Reporting Standards (IFRS)

Consolidated Statement of Comprehensive Income

In millions of CZK	Note	2014	2013
Interest and similar income	6	4,643	3,463
Interest expense and similar charges	6	(784)	(827)
Net interest income		**3,859**	**2,636**
Dividend income	7	–	8
Fee and commission income	8	299	358
Fee and commission expense	8	(56)	(155)
Net fee and commission income		**243**	**203**
Net trading income	9	(236)	(125)
Other operating income	11	2	3
Operating income		3,868	2,725
General administrative expenses	12	(658)	(617)
Impairment (loss)/reversal	25	(2,075)	(1,241)
Other operating expenses	13	(113)	(110)
Operating expenses		(2,845)	(1,968)
Profit before income tax		**1,022**	**757**
Income tax expense	22	(195)	(213)
Net profit for the year		**827**	**544**
Other comprehensive income items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(17)	(1)
Fair value reserve (AFS financial assets):		81	31
Net change in fair value		185	36
Net amount transferred to profit or loss		(104)	(5)
Related tax		(17)	(6)
Other comprehensive income for the period		**47**	**24**
Total comprehensive income for the period		**874**	**568**

The notes on pages 24 to 65 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 10 April 2015.

Signed on behalf of the Board of Directors by:

Petr Jirásko

Pavel Fuchs

Consolidated Statement of Financial Position

In millions of CZK	Note	2014	2013
Assets			
Cash and balances with the central bank	14	32,129	23,591
Trading assets	15	13,842	8,134
Financial assets available for sale	16	26,755	19,106
Loans and advances to banks	17	11,579	22,195
Loans and advances to customers	18	24,140	31,635
Income tax receivable		44	–
Property, plant and equipment	20	26	42
Intangible assets	21	52	69
Other assets	24	317	275
Total assets		**108,884**	**105,047**
Liabilities			
Deposits from banks	26	3,437	1,743
Deposits from customers	27	78,808	75,117
Debt securities issued	28	8,793	11,593
Trading liabilities	29	7,328	7,180
Income tax provision	30	2	18
Deferred tax liabilities	22	83	53
Other liabilities	31	2,343	1,723
Subordinated liabilities	32	2,118	2,522
Total liabilities		**102,912**	**99,949**
Shareholders` equity			
Issued capital	34	769	769
Share premium	34	412	412
Statutory reserve fund	35	–	154
Retained earnings		4,484	3,520
Fair value reserve		307	243
Total shareholders` equity		**5,972**	**5,098**
Total liabilities and shareholders` equity		**108,884**	**105,047**

Consolidated Statement of Cash Flows

In millions of CZK	2014	2013
Cash flows from operating activities		
Profit before income tax	1,022	757
Adjustments for:		
Depreciation and amortisation	47	55
Foreign exchange gain/loss	(2,170)	190
Net impairment loss on loans and advances	2,075	1,241
Net interest income	(3,859)	(2,636)
Net loss on debt securities issued at fair value through profit or loss	(468)	(260)
Net loss on the sale of available-for-sale securities	232	66
Dividends on available-for-sale securities	–	8
	(3,121)	**(579)**
Changes in:		
Balances with Central bank	(357)	(724)
Trading assets	(5,708)	2,586
Loans and advances to banks	(10,616)	(5,329)
Loans and advances to customers	6,610	(7,240)
Other assets	(42)	23
Trading liabilities	148	1,847
Deposits from banks	1,694	978
Deposits from customers	3,691	20,894
Other liabilities and provisions	(622)	(4,558)
	14,687	7,898
Interest received	4,392	2,792
Interest paid	(632)	(585)
Income taxes paid	(211)	(243)
Net cash used in operating activities	**18,416**	**9,862**
Cash flow from investing activities		
Acquisition of investment securities	(8,773)	(7,229)
Proceeds from sale of investment securities	1,449	364
Acquisition of property and equipment	(5)	(18)
Acquisition of intangible assets	(34)	(73)
Net cash used in investing activities	**(7,363)**	**(6,956)**
Cash flow from financing activities		
Proceeds from issue of debt securities	26,464	38,278
Repayment of debt securities	(29,540)	(30,566)
Proceeds from issue of subordinated liabilities	–	1,789
Dividends paid	–	(1,400)
Net cash from financing activities	**(3,076)**	**8,101**
Net increase/(decrease) in cash and cash equivalents	7,977	11,007
Cash and cash equivalents at 1 January	22,665	11,603
Effect of exchange rate fluctuations on cash and cash equivalents held	29	55
Cash and cash equivalents at 31 December (see Note 40 (f))	**30,671**	**22,665**

Consolidated Statement of Changes in Equity

In millions of CZK	Issued capital	Share Premium	Statutory Reserve Fund	Translation reserve	Fair value reserve	Retained Earnings	Total Equity
Balance at 1 January 2014	**769**	**412**	**154**	**(1)**	**243**	**3,521**	**5,098**
Total comprehensive income for the period							
Profit for 2014	–	–	–	–	–	827	827
Other comprehensive income							
Foreign currency translation differences for foreign operations	–	–	–	(17)	–	–	–
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	–	64	–	64
Transfers	–	–	(154)	–	–	154	–
Total comprehensive income for the period	**769**	**412**	**–**	**(18)**	**307**	**4,502**	**5,972**
Transactions with owners, contribution and distribution to owners							
Dividends paid	–	–	–	–	–	–	–
Balance at 31 December 2014	**769**	**412**	**–**	**(18)**	**307**	**4,502**	**5,972**
Balance at 1 January 2013	**769**	**412**	**154**	**–**	**218**	**4,382**	**5,935**
Total comprehensive income for the period							
Profit for 2013	–	–	–	–	–	544	544
Other comprehensive income							
Foreign currency translation differences for foreign operations	–	–	–	(1)	–	–	(1)
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	–	25	–	25
Transfers	–	–	–	–	–	(5)	(5)
Total comprehensive income for the period	**769**	**412**	**154**	**(1)**	**243**	**4,921**	**6,498**
Transactions with owners, contribution and distribution to owners							
Dividends paid	–	–	–	–	–	(1,400)	(1,400)
Balance at 31 December 2013	**769**	**412**	**154**	**(1)**	**243**	**3,521**	**5,098**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. Introduction

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

The Bank is registered in the Commercial Register as a joint-stock company, with the following scope of business:
— execution of banking transactions and provision of banking services in the Czech Republic as well as overseas, to the extent permitted by relevant legislation and the license granted by the Czech National Bank. The Bank can acquire an interest in other companies both in the Czech Republic and abroad including non-financial service companies.

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

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

The registered office of the Bank:

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

2. Statement of Compliance

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

3. Significant Accounting Policies

(a) Basis of preparation

The financial statements are presented in Czech crowns, which is the 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.

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

In 2009 the Bank acquired two subsidiaries: PPF B1 B.V. and PPF B2 B.V. In 2012 the Bank sold these participations. On 21 May 2012 the Bank established the subsidiary Ruconfin B.V., in which it holds 100% ownership; on 13 February 2012, the subsidiary PPF Financial Consulting, s.r.o., in which it also has 100% ownership; and on 25 June 2012 the Bank acquired a 100% stake in Net Gate, s.r.o. On 6 May 2014 the Bank established the subsidiary Airline Gate, s.r.o., in which it holds 100% ownership. Therefore, the Bank prepares consolidated financial statements.

(b) Foreign currency

(i) 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.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Czech crowns at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated to Czech crowns at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the currency translation reserve in equity.

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial consolidated statements of foreign operations.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

(iv) Fair value measurement principles

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

Valuation models

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

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.
- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes Risk Management, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:
- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models;
- calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Risk Management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:
- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank Audit Committee.

(v) Gains and losses on subsequent measurement

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

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

(vi) Specific instruments

Cash and balances with the central bank

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

Loans and advances to banks and customers

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

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

Debt securities issued (Other liabilities supported by paper evidence)

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

Subordinated debt

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

(vii) Embedded Derivatives

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

— the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

— a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

— the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognised in the statement of financial position.

(d) Derecognition

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

A financial liability is derecognised when it is terminated.

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

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

(e) Repurchase transactions

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

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

(f) Offsetting

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

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

(g) Impairment

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

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

Loans and advances and held-to-maturity investments

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

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

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

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

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

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

(h) Interest income and expense

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

(i) Fee and commission income

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

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

(j) Penalty fees

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

(k) Gains/losses from financial operations

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

(l) Dividend income

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

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

(m) Property, plant and equipment

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

Buildings	10 – 30 years
Other	1 – 5 years

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

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

(n) Intangible assets

Software and other intangible assets

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

(o) Provisions

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

Provisions are recognised when:
— there is a legal or constructive obligation as a result of past events,
— it is probable, and the probability exceeds 50%, that an outflow of resources will be required to settle the obligation,
— a reliable estimate of the amount of the obligation can be made.

(p) Income taxes

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

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

(q) Financial guarantees

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

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

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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt this pronouncement when it becomes effective. The Company is in the process of analyzing the likely impact on its financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018) 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. It deals with classification and measurement of financial assets. 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 would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

IFRS 15 Revenue from contracts with customers (effective from 1 January 2017) 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 is currently assessing the impact of these standards on its financial statements.

5. Critical Accounting Estimates and Judgements

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

Critical accounting estimates and assumptions

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

(i) Impairment of loans and receivables

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

Objective evidence that a loan or receivable, or a group of loans and receivables, is impaired includes observable data that comes to the attention of the Bank about the following loss events:
— significant financial difficulty of the debtor;
— a breach of contract, such as default in the payment of interest or principal payments;
— the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

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

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

(ii) Change in accounting policy

There were no changes in accounting policies during the year 2014 and 2013.

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

In 2014 and 2013 the Bank did not identify any changes of financial reporting standards that would affect the Bank’s financial statements.

6. Net Interest Income

MCZK	2014	2013
Interest and similar income		
Interest and similar income arise from:		
Cash and balances with the central bank	14	7
Loans and advances to banks	234	345
Loans and advances to customers	3,672	2,304
Debt securities	723	807
	4,643	**3,463**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks	(3)	(3)
Deposits from customers	(289)	(347)
Debt securities issued and short sales	(276)	(315)
Other – subordinated debt	(216)	(162)
	(784)	**(827)**
Net interest income	**3,859**	**2,636**

The Bank dispensed no interest on late payment during years 2014 and 2013.

7. Dividend Income

In 2014 the Bank received dividend payments amounting to MCZK 0 (2013: MCZK 8, all from ownership of trading securities).

8. Net Fee and Commission Income

MCZK	2014	2013
Fee and commission income		
Transaction fee with banks	8	6
Transaction fee with clients	183	211
Fees from guarantees provided	37	37
Fees from administration of shares/bonds issue	29	61
Other	42	43
	299	**358**
Fee and commission expenses		
Transaction fee with banks	(26)	(27)
Transaction fee with clients	(30)	(128)
	(56)	**(155)**
Net fee and commission income	**243**	**203**

9. Net Trading Income

MCZK	2014	2013
Net profit/(loss) from securities/FX trading	(29)	(132)
Net profit/(loss) from derivatives	(207)	7
	(236)	**(125)**

10. Net Income from Other Instruments Carried at Fair Value

The Bank did not gain any net income from other instruments carried at fair value for the years 2014 and 2013.

11. Other Operating Income

MCZK	2014	2013
Reinvoicing and other similar income	2	2
Advisory services	–	1
	2	**3**

12. General Administrative Expenses

MCZK	2014	2013
Personal expenses		
Wages and salaries	(167)	(164)
Social expenses	(59)	(66)
Responsibility insurance, Pension insurance	(2)	(2)
Remuneration paid to		
Board of Directors	(17)	(27)
Supervisory Board	(5)	(5)
Executives	(21)	(28)
	(271)	**(292)**
Other general operating expenses	(387)	(325)
	(658)	**(617)**

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2014 and 2013 was as follows:

	2014	2013
Board of Directors	3	3
Supervisory Board	6	6
Executives	6	5
Employees	188	187

13. Other Operating Expenses

MCZK	2014	2013
Depreciation of fixed assets	(47)	(55)
Payment to Deposit Insurance Fund	(63)	(52)
Payment to Guarantee Fund	(3)	(3)
	(113)	**(110)**

14. Cash and Balances with the Central Bank

MCZK	2014	2013
Cash on hand	65	70
Balances with the central bank	1,864	2,221
Nostro accounts with the central bank	–	–
Term deposits with the central bank	25,500	18,100
Repo with the central bank	4,700	3,200
	32,129	**23,591**

At 31 December 2014 cash and balances with the central bank included balances with the central bank amounting to MCZK 1,864 (2013: MCZK 2,221) representing the obligatory minimum reserves. These funds are not available for the Bank's daily business.

15. Trading Assets

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

MCZK	2014	2013
Bonds and notes issued by:		
Government	7,681	3,837
Other issuers	2,865	2,756
Shares and other equity instruments issued by:		
Other issuers	–	–
Positive fair value of derivatives:		
Other counterparties	3,296	1,541
Of which:		
Listed instruments	10,546	6,593
Unlisted instruments	3,296	1,541
	13,842	**8,134**

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

16. Financial Assets available for Sale

MCZK	2014	2013
Bonds and notes issued by:		
Government	18,682	14,434
Other issuers	7,511	4,111
Shares and other equity instruments issued by:		
Other issuers	562	561
Of which:		
Listed instruments	24,817	16,926
Unlisted instruments	1,938	2,180
	26,755	**19,106**

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

17. Loans and Advances to Banks

MCZK	2014	2013
Loans to banks	924	1,458
Money market transactions	10,249	19,442
Other (nostro / current account balances)	406	1,295
Net loans and advances to banks	**11,579**	**22,195**

During 2014 and 2013 the Bank did not create or release any impairment to loans and advances to banks.

18. Loans and Advances to Customers

MCZK	2014	2013
Corporate customers:		
Financial institutions	712	1,560
Non-financial institutions	8,531	11,225
Individuals – entrepreneurs	57	69
Public sector	471	8
Resident individuals	142	179
Non-residents	16,543	20,025
Total loans and advances to customers	26,456	33,066
Impairment loss on loans and advances to customers	(2,316)	(1,431)
Net loans and advances to customers	**24,140**	**31,635**

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

MCZK	2014	2013
As at 1 January	855	277
Impairment losses recognised in the statement of comprehensive income	559	802
Reversal of impairment of loans to customers	(89)	(167)
Use of impairment on loans and receivables	–	(37)
Exchange difference	7	(20)
	477	578
As at 31 December	**1,332**	**855**

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

MCZK	2014	2013
As at 1 January	576	36
Impairment losses recognised in the statement of comprehensive income	1,615	606
Amount related to loans written off	(728)	(58)
Exchange difference	(479)	(8)
	408	540
As at 31 December	**984**	**576**

19. Subsidiaries

The Bank held 100% shares in Ruconfin B.V. in the amount of MCZK 51.3 as at the end of 2014 (2013: MCZK 51.3), PPF Financial Consulting, s.r.o. in the amount of MCZK 5 (2013: MCZK 5), Net Gate, s.r.o. in the amount of MCZK 0.2 (2013: MCZK 0.2) and Airline Gate, s.r.o. in the amount of CZK 1 (2013: CZK 0). 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.

The Bank also acquired 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.

The full method of consolidation is used.

The Bank held no interest participation with significant influence in 2014 and 2013.

20. Property, Plant and Equipment

MCZK	Low value fixed assets	Building	Furniture and fittings	Equipment	Fixed assets not yet in use	Total
Cost						
At 1 January 2013	3	16	16	152	5	192
Additions	–	–	–	12	8	20
Transfers	–	–	–	–	–	–
Disposals	–	–	–	(30)	(12)	(42)
At 31 December 2013	**3**	**16**	**16**	**134**	**1**	**170**
At 1 January 2014	3	16	16	134	1	170
Additions	–	–	–	1	4	5
Transfers	–	–	–	–	–	–
Disposals	–	–	–	(2)	(4)	(6)
At 31 December 2014	3	16	16	133	1	169
Depreciation						
At 1 January 2013	3	–	14	118	–	135
Additions	–	–	1	22	–	23
Disposals	–	–	–	(30)	–	(30)
At 31 December 2013	3	–	15	110	–	128
At 1 January 2014	3	–	15	110	–	128
Additions	**–**	**–**	**1**	**16**	**–**	**17**
Disposals	–	–	–	(2)	–	(2)
At 31 December 2014	3	–	16	124	–	143
Net book value						
At 31 December 2014	–	16	–	9	1	26
At 31 December 2013	–	16	1	24	1	42

21. Intangible Assets

MCZK	Software	Total
Cost		
At 1 January 2013	276	276
Additions	73	73
Disposals	(46)	(46)
At 31 December 2013	303	303
At 1 January 2014	303	303
Additions	34	34
Disposals	(23)	(23)
At 31 December 2014	314	314
Depreciation		
At 1 January 2013	202	202
Additions	32	32
Disposals	–	–
At 31 December 2013	234	234
At 1 January 2014	234	234
Additions	28	28
Disposals	–	–
At 31 December 2014	262	262
Net book value		
At 31 December 2013	69	69
At 31 December 2014	52	52

22. Deferred Tax and Current Tax

Deferred taxes are calculated from all temporary differences between the tax and accounting value of assets and liabilities. To determine the recognised deferred tax asset the Bank uses the income tax rate applicable in the periods in which the losses carried forward are expected to be utilised, i.e. 19% for the following years (in 2014 and 2013 the tax rate in the Czech Republic was 19%).

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

MCZK	2014	2013
Deferred tax assets		
Deferred tax asset from financial assets available for sale	2	1
Deferred tax asset from wages and unpaid social and health insurance	10	9
Deferred tax assets	**12**	**10**
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	(74)	(58)
Deferred tax liability from penalty interest not yet collected	(21)	(5)
Deferred tax liabilities	**(95)**	**(63)**
Total deferred tax assets (liabilities)	**(83)**	**(53)**

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is MCZK 0 (2013: MCZK 0). There was no unrecognized item related to deferred tax.

At 31 December 2014 the Bank recorded receivables from customers of penalty interest not yet collected of MCZK 113 (2013: MCZK 25), where the relevant income is not tax deductible. Therefore, the bank created a deferred tax liability of MCZK 21 (2013: MCZK 5), all of which was recognised.

A change in deferred tax from financial assets available for sale disclosed as at 31 December 2014 in the amount of MCZK 15 (2013: MCZK 6) and was included in Bank's equity through an adjustment to "Fair value reserve".

Income tax reconciliation:

MCZK	2014 Tax basis	2014 Tax	2013 Tax basis	2013 Tax
Tax rate		**19.0%**		**19.0%**
Profit from operations (before taxation)	1,022		757	
Computed taxation using applicable tax rate		194	144	
Tax non-deductible expenses	270	51	497	94
Non-taxable income	(234)	(44)	(112)	(21)
Other items	(111)	(21)	–	–
Deferred tax	79	15	(21)	(4)
Total income tax (expense)/income		**(195)**		**(213)**

23. Operating Leasing

Non-cancellable operating lease rentals are payable as follows:

MCZK	2014	2013
Less than one year	23	24
Between one and five years	58	80
More than five years	–	–
Total	**81**	**104**

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 24 in 2014 (2013: MCZK 35).

24. Other Assets

MCZK	2014	2013
Clearing with securities market	83	57
Prepayments and deferred expenses	25	34
Cash collateral to payment cards	177	155
Other	32	29
Impairment loss on Other assets	–	–
	317	**275**

25. Impairment Losses

MCZK	Receivables to clients (note 18)	Total
As at 1 January 2014	1,431	1,431
Impairment of loans to customers	2,174	1,687
Reversal of impairment of loans to customers	(89)	(89)
Release of impairment losses on written off items	(728)	(728)
FX difference	(472)	(472)
As at 31 December 2014	**2,316**	**2,316**
As at 1 January 2013	313	313
Impairment of loans to customers	1,400	1,400
Reversal of impairment of loans to customers	(225)	(225)
Use of impairment on loans and receivables	(37)	(37)
FX difference	(20)	(20)
As at 31 December 2013	**1,431**	**1,431**

26. Deposits from Banks

MCZK	2014	2013
Other deposits from banks	877	972
Other (loro account balances)	2,560	771
	3,437	**1,743**

27. Deposits from Customers

MCZK	2014	2013
Payable on demand		
Corporate customers:		
Financial services	574	416
Non-financial institutions	6,674	5,042
Insurance institutions	161	280
Non-profit organisations	236	165
Self-employed	76	222
Public sector	13,830	8,829
Resident individuals	1,704	895
Non-residents	33,941	27,222
Total payable on demand	57,196	43,071
Term deposits		
Corporate customers:		
Financial services	1,399	5,771
Non-financial institutions	10,593	7,006
Insurance institutions	5,288	2,956
Non-profit organisations	41	63
Self-employed	299	314
Public sector	2,551	15,247
Resident individuals	179	102
Non-residents	1,262	587
Total term deposits	**21,612**	**32,046**
	78,808	**75,117**

Interest is recognised in item Interest expense and similar charges.

28. Debt Securities Issued

MCZK	2014	2013
Financial institutions	126	135
Non-financial institutions	1,525	1,607
Public sector	4,403	6,347
Non-resident individuals	779	983
Resident individuals	1,960	2,521
	8,793	**11,593**

29. Trading Liabilities

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

MCZK	2014	2013
Negative fair value of derivatives:		
Interest rate contracts	665	703
Currency contracts	1,080	727
Liabilities from short sales of securities	5,583	5,750
	7,328	**7,180**

30. Income Tax Assets and Provision

As of 31 December 2014 a tax provision of MCZK 176 (2013: MCZK 217) is offset against income tax advances totalling MCZK 220 (2013: MCZK 199).

31. Other Liabilibies

MCZK	2014	2013
Payables to suppliers	51	47
Accrued expenses and deferred income	17	7
Cash deposited as pledge	1,702	1,271
Social and health insurance	5	6
Other liabilities to employees	15	16
Liabilities from securities transactions	119	20
Deposits insurance fund	17	14
Liabilities from clearing	117	56
Other liabilities	300	286
	2,343	**1,723**

32. Subordinated Debt

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

MCZK	Year of maturity	2014	2013
CZK 1,400 million subordinated debt with a mandatory fixed payment of 6.5%	2023	1,455	1,453
RUB 1,700 million subordinated debt with a mandatory fixed payment of 14% *	2015	663	1,069
		2,118	**2,522**

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

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated debt during the years ended 31 December 2014 and 2013.

33. Repurchase and Resale Agreements

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

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

MCZK	Carrying amounts of receivables	Fair value of assets held as collateral
Loans and advances at 31 December 2014:		
to banks	10,118	10,057
to clients	1,449	1,821
Loans and advances at 31 December 2013:		
to banks	9,179	9,520
to clients	2,180	2,760

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

Assets sold under repurchase agreements were as follows:

MCZK	Carrying amounts of liabilities	Fair value of assets given as collateral
Deposits at 31 December 2014:		
from banks	–	–
from clients	1,849	1,965
Deposits at 31 December 2013:		
from banks	–	–
from clients	10,698	10,684

34. Issued Capital

	Number of shares	Nominal value CZK	Registered capital MCZK
As at 31 December 2014:	192,131	2,602.5	500
	384,262	700.0	269
	576,393		769
As at 31 December 2013:	192,131	2,602.5	500
	384,262	700.0	269
	576,393		769

The shareholder structure as at 31 December 2014 was as follows:

Name	Residence	Number of shares	Share MCZK	Share %
PPF Group N.V.	The Netherlands	554,711	715	92.96
Hlavní město Praha	Czech Republic	19,882	52	6.73
Other (less than 1%)		1,800	2	0.31
		576,393	**769**	**100.00**

No members of the management, the Board of Directors or the Supervisory Board held any shares of the Bank as at 31 December 2014 or as at 31 December 2013.

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

All shares of the Bank were fully paid resulting in share premium amounting to MCZK 412 (2013: MCZK 412).

35. Nature and Purpose of Reserves

(a) Statutory reserve fund

The Annual General Meeting held on 30 April 2014, in connection with the newly effective legislation (in particular the Business Corporations Act), cancelled the reserve fund and transferred the fund to the retained earnings.

(b) 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.

(c) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of Ruconfin B.V.

36. Dividend Paid

No dividends were paid by the Bank in 2014. The following dividends were declared and paid by the Bank for the year ended 31 December 2013.

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

37. Proposed Allocation of Net Profit for the Year

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

MCZK	Net profit for the year
Net profit for the year 2014	827
Proposed allocation of profit for 2014:	
Transfer to social funds	(2)
Transfer to retained earnings	(825)
	–

38. Off Balance Sheet Items

(a) Commitments and contingent liabilities

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

MCZK	2014	2013
Guarantees issued	3,726	3,877
Undrawn credit commitments	7,223	8,734
Letters of credit	59	162
	11,008	**12,773**

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

(b) Off-balance sheet financial instruments

MCZK	Notional value 2014	Notional value 2013	Fair value 2014	Fair value 2013
Derivatives held for trading				
Interest Rate Swaps	20,802	62,349	(234)	(137)
Interest Forwards	–	–	–	–
Purchase	–	–	–	–
Sale	–	–	–	–
Foreign Exchange derivatives			1,714	175
Purchase	66,588	87,404		
Sale	64,874	87,229		
Equity derivatives			–	–
Purchase	–	–		
Sale	–	–		
Options	1,152	808	–	–
Other derivatives	72	73		
Purchase	1,121	2,311		
Sale	1,122	2,311		
			1,552	**111**

Other derivatives consisted of futures.

(c) Residual maturity of derivatives

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

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 year	Unspecified	Total
As at 31 December 2014						
Derivatives held for trading						
Interest Rate Swaps	–	–	8,691	12,111	–	20,802
FX derivatives (purchase)	36,899	29,689	–	–	–	66,588
FX derivatives (sale)	36,105	28,769	–	–	–	64,874
Options	–	–	1,152	–	–	1,152
Other derivatives (purchase)	141	980	–	–	–	1,121
Other derivatives (sale)	140	982	–	–	–	1,122
As at 31 December 2013						
Derivatives held for trading						
Interest Rate Swaps	–	54,850	4,458	3,041	–	62,349
FX derivatives (purchase)	59,186	28,031	186	–	–	87,403
FX derivatives (sale)	59,041	28,002	186	–	–	87,229
Options	495	313	–	–	–	808
Other derivatives (purchase)	2,311	–	–	–	–	2,311
Other derivatives (sale)	2,311	–	–	–	–	2,311

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

39. Fair Value Disclosures

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

MCZK	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
As at 31 December 2014					
Financial assets					
Cash and balances with the central bank	–	32,129	–	32,129	32,129
Loans and advances to banks	–	11,579	–	11,579	11,579
Loans and advances to customers	–	15,138	9,002	24,140	24,140
Financial liabilities					
Deposits from banks	–	3,437	–	3,437	3,437
Deposits from customers	–	78,808	–	78,808	78,808
Debt securities issued	–	8,793	–	8,793	8,793
Subordinated debt	–	2,118	–	2,118	2,118
As at 31 December 2013					
Financial assets					
Cash and balances with the central bank	–	23,591	–	23,591	23,591
Loans and advances to banks	–	22,195	–	22,195	22,195
Loans and advances to customers	–	19,878	11,757	31,635	31,635
Financial liabilities					
Deposits from banks	–	1,743	–	1,743	1,743
Deposits from customers	–	75,117	–	75,117	75,117
Debt securities issued	–	11,593	–	11,593	11,593
Subordinated debt	–	2,522	–	2,522	2,522

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

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

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

Cash and balances with the central bank

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

Loans and advances to banks

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

Loans and advances to customers

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

Deposits from customers

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

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

Debt securities issued and Subordinated debt

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

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

MCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	9,932	614	–	10,546
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	5,584	–	–	5,584
Derivatives held for trading	–	1,744	–	1,744
As at 31 December 2013				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	6,001	592	–	6,593
Derivatives held for trading	73	1,468	–	1,541
Available-for-sale securities	16,130	259	2,717	19,106
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	5,750	–	–	5,750
Derivatives held for trading	–	1,430	–	1,430

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

MCZK	Available-for-sale securities	Total
Balance as at 1 January 2014	**2,717**	**2,717**
Profit and loss from revaluation		
In profit or loss	95	95
In other comprehensive income	6	6
Purchases	1,379	1,379
Sales/ maturity	(1,712)	(1,712)
Transfers into Level 3	–	–
Transfers out of Level 3	–	–
Transfers between portfolios	–	–
Balance as at 31 December 2014	**2,485**	**2,485**

Profit of MCZK 92 is included in Interest and similar income and profit of MCZK 3 in Net trading income.

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

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

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

40. Risk Management Disclosure

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control risk. The most important types of financial risk to which the Bank is exposed are:
(a) credit risk
(b) liquidity risk
(c) market risks
(d) operational risks.

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

Trading

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

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

(a) Credit risk

Management of credit risk

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

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

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

Exposure to credit risk

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

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

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

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

Impairment of individual loans

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

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

Collectively impaired portfolio of loans

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

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

Loans and advances to banks

	2014		2013	
MCZK	Gross	Net	Gross	Net
Not impaired				
Standard	11,579	11,579	22,195	22,195
Total	**11,579**	**11,579**	**22,195**	**22,195**

There was no accrued interest to individually impaired loans and advances to banks as at 31 December 2014 and 2013.

Loans and advances to customers (individually impaired)

	2014		2013	
MCZK	Gross	Net	Gross	Net
Not impaired				
Standard	15,138	15,138	19,878	19,878
Impaired				
Watched	1,626	1,600	1,303	1,271
Sub-standard	1,126	1,063	1,130	763
Doubtful	883	436	1,724	1,423
Loss loans	2,047	1,251	207	52
Total	**20,820**	**19,488**	**24,242**	**23,387**

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2014 MCZK 13 (2013: MCZK 94).

Loans and advances to customers (collectively impaired)

MCZK	2014	2013
Collectively impaired		
Gross amount	5,465	8,824
Due	4,081	7,650
Past due 1 – 90 days	466	596
Past due 91 – 360 days	918	578
Past due more than 360 days	–	–
Allowances for impairment	(984)	(576)
Net amount	4,481	8,248
Premium of purchased receivables	170	–
Carrying amount	4,651	8,248
Total	**4,651**	**8,248**

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

As at 31 December 2014 and 2013 the Bank did not report any loans and advances to customers as "Past due, but not impaired".

As at 31 December 2014 and 2013 the Bank did not report any other assets as "Past due, but not impaired".

Evaluation of collateral

The Bank generally requires collateral before providing loans to certain debtors. To reduce the gross credit exposure and for the purpose of calculating adjustments, the Bank considers the following to be acceptable types of collateral:
— Cash
— Securities
— First-class receivables
— Bank guarantees
— Guarantees provided by a reputable third party
— Real estate
— Machinery and equipment

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

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 a 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.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its 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.

The forbearance policy is stipulated by decree 163/2014 coll.

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

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

MCZK	2014	2013
Bank guarantees	6,093	5,636
Property	7,705	12,309
Unsecured	10,342	13,690
Total	**24,140**	**31,635**

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:

	2014 MCZK	2013 MCZK
Bank guarantees	1,992	1,688
Property	883	742
Unsecured	1,824	1,079
Total	**4,699**	**3,509**

The Bank did not record any collateral for loans and advances to customers past due, but not impaired as at 31 December 2014 and 2013.

Concentration of credit risks

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

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

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

ii) Concentration of credit risks according to geographical sectors

Loans and advances to customers

MCZK	2014	2013
Czech Republic	8,822	12,238
Slovak Republic	158	111
Russia	7,128	9,811
Cyprus	733	968
Vietnam	814	1,113
Netherlands	168	309
Bulgaria	2,084	2,779
The Republic of Maldives	1,118	1,020
Georgia	478	503
Hungary	573	679
Romania	1,085	638
Luxembourg	572	972
Other	407	494
Total	**24,140**	**31,635**

Loans and advances to banks

MCZK	2014	2013
Czech Republic	7,637	11,635
Slovak Republic	–	1,293
Russia	884	4,674
Austria	–	38
United Kingdom	1,046	1,605
Netherlands	859	184
Kazakhstan	304	1,039
Belarus	367	618
United States of America	208	42
Hungary	31	133
Germany	93	845
Poland	115	5
France	–	64
Other	35	20
Total	**11,579**	**22,195**

Debt securities

MCZK	2014	2013
Czech Republic	29,192	21,391
Luxembourg	1,147	1,602
Slovakia	232	273
United Kingdom	554	–
France	2,770	–
Poland	–	3
Russia	266	–
Netherlands	1,495	1,000
Ireland	1,083	870
Total	**36,739**	**25,139**

(b) Liquidity risk

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

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

Residual maturity of the Bank's assets and liabilities

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

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2014						
Cash and balances with the central bank	32,129	–	–	–	–	32,129
Trading assets	1,493	1,840	8,480	2,029	–	13,842
Financial assets available for sale	3,780	4,228	7,008	11,177	562	26,755
Loans and advances to banks	8,551	800	–	365	1,863	11,579
Loans and advances to customers	5,651	2,513	6,780	9,196	–	24,140
Property, plant and equipment	–	–	–	–	25	25
Intangible assets	–	–	–	–	52	52
Tax and other assets	289	–	–	–	73	362
Total	**51,893**	**9,381**	**22,268**	**22,767**	**2,575**	**108,884**
Deposits from banks	3,118	319	–	–	–	3,437
Deposits from customers	68,291	10,160	357	–	–	78,808
Debt securities issued	4,446	2,885	1,462	–	–	8,793
Trading liabilities	456	700	2,725	3,447	–	7,328
Tax and other liabilities	2,164	3	–	–	261	2,428
Subordinated debt	–	729	–	1,389	–	2,118
Shareholders' equity	–	–	–	–	5,972	5,972
Total	**78,475**	**14,796**	**4,544**	**4,836**	**6,233**	**108,884**
Gap	**(26,582)**	**(5,415)**	**17,724**	**17,931**	**(3,658)**	**–**
Cumulative gap	**(26,582)**	**(31,997)**	**(14,273)**	**3,658**	**–**	**–**
At 31 December 2013						
Cash and balances with the central bank	23,591	–	–	–	–	23,591
Trading assets	1258	1019	2,655	3,202	–	8,134
Financial assets available for sale	1,798	1,311	5,710	9,726	561	19,106
Loans and advances to banks	20,018	1,230	530	416	–	22,195
Loans and advances to customers	6,050	3,899	11,338	10,348	–	31,635
Property, plant and equipment	–	–	–	–	42	42
Intangible assets	–	–	–	–	69	69
Other assets	240	–	–	–	35	275
Total	**52,955**	**7,459**	**20,233**	**23,693**	**707**	**105,047**
Deposits from banks	1,109	634	–	–	–	1,743
Deposits from customers	65,601	7,143	2,373	–	–	75,117
Debt securities issued	7,228	3,018	1,347	–	–	11,593
Trading liabilities	3	111	1,905	3,731	1,430	7,180
Tax and other liabilities	1,591	6	–	–	197	1,794
Subordinated debt	–	1,135	–	1,387	–	2,522
Shareholders' equity	–	–	–	–	5,098	5,098
Total	**75,532**	**12,047**	**5,625**	**5,118**	**6,725**	**105,047**
Gap	**(22,577)**	**(4,588)**	**14,608**	**18,575**	**6,018**	**–**
Cumulative gap	**(22,577)**	**(27,165)**	**(12,577)**	**6,018**	**–**	**–**

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

(c) Market risk

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

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

Value at risk

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

MCZK	31 December 2014	Average for 2014	31 December 2013	Average for 2013
VaR of interest instruments	13	9	6	8
VaR of currency instruments	2	2	6	1
VaR of equity instruments	–	2	–	2

Stress testing

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

i) Currency risk

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

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

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

ii) Interest rate risk

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

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

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

Interest sensitivity of the Bank's assets and liabilities

MCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2014						
Cash and balances with the central bank	32,129	–	–	–	–	32,129
Trading assets	1,834	2,320	7,997	1,691	–	13,842
Financial assets available for sale	6,858	15,496	3,452	387	562	26,755
Loans and advances to banks	8,916	800	–	–	1,863	11,579
Loans and advances to customers	15,000	4,735	3,245	1,160	–	24,140
Property, plant and equipment	–	–	–	–	25	25
Intangible assets	–	–	–	–	52	52
Tax and other assets	289	–	–	–	73	362
Total	**65,027**	**23,351**	**14,694**	**3,238**	**2,575**	**108,884**
Deposits from banks	3,117	320	–	–	–	3,437
Deposits from customers	68,191	10,160	457	–	–	78,808
Debt securities issued	4,446	2,885	1,462	–	–	8,793
Trading liabilities	787	1,203	2,535	2,803	–	7,328
Tax and other liabilities	2,164	3	–	–	261	2,428
Subordinated debt	–	729	–	1,389	–	2,118
Shareholders' equity	–	–	–	–	5,972	5,972
Total	**78,705**	**15,300**	**4,454**	**4,192**	**6,233**	**108,884**
Gap	**(13,679)**	**8,051**	**10,240**	**(954)**	**(3,658)**	**–**
Cumulative gap	**(13,679)**	**(5,628)**	**4,612**	**3,658**	**–**	**–**
At 31 December 2013						
Cash and balances with the central bank	23,591	–	–	–	–	23,591
Trading assets	748	679	1,983	3,182	1,542	8,134
Financial assets available for sale	4,889	10,920	2,144	593	560	19,106
Loans and advances to banks	20,416	1,248	531	–	–	22,195
Loans and advances to customers	15,367	8,905	6,696	667	–	31,635
Property, plant and equipment	–	–	–	–	42	42
Intangible assets	–	–	–	–	69	69
Other assets	240	–	–	–	35	275
Total	**65,251**	**21,752**	**11,354**	**4,442**	**2,248**	**105,047**
Deposits from banks	1,109	634	–	–	–	1,743
Deposits from customers	65,601	7,143	2,373	–	–	75,117
Debt securities issued	7,228	3,018	1,347	–	–	11,593
Trading liabilities	436	922	1,472	2,920	1,430	7,180
Tax and other liabilities	1,591	6	–	–	197	1,793
Subordinated debt	–	1,135	–	1,387	–	2,522
Shareholders' equity	–	–	–	–	5,098	5,098
Total	**75,965**	**12,858**	**5,192**	**4,307**	**6,725**	**105,047**
Gap	**(10,714)**	**8,894**	**6,162**	**135**	**(4,477)**	**–**
Cumulative gap	**(10,714)**	**(1,820)**	**4,342**	**4,477**	**–**	**–**

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

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

Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Bank as at 31 December 2014 and 2013 were as follows:

In %	2014	2013
Financial assets		
Cash and balances with the central bank	0.05	0.05
Trading assests	3.85*	2.60*
Financial assets available for sale	1.23*	2.22*
Loans and advances to banks	0.44	1.25
Loans and advances to customers	11.87	5.35
Financial liabilities		
Deposits from banks	0.06	0.52
Deposits from customers	0.15	0.31
Debt securities issued	2.01	1.38
Trading liabilities	0.35	1.35

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

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

Basis point value

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

As at 31 December 2014 BPVs for individual currencies were as follows:

MCZK Currency	Banking book BPV	Trading book BPV
CZK	58	53
EUR	(67)	(20)
USD	(10)	(15)
RUB	(2)	(2)
JPY	–	10
KZT	–	–
UAH	–	–
GBP	–	–
VND	–	–
Total BPV (absolute)	**137**	**101**

As at 31 December 2013 BPVs for individual currencies were as follows:

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

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:

	2014		2013	
MCZK	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
At 31 December	148	67	184	184
Average for the period	201	181	193	193
Maximum for the period	278	278	216	216
Minimum for the period	136	67	177	177

iii) Equity risk

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

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

iv) Settlement risk

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

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

(d) Operational risk

Operational risks

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

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

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

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

Legal and other risks

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

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

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

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

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

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

(e) Capital management

Regulatory capital

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

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

The Bank's regulatory capital is analysed into two tiers:
— Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve funds and retained earnings after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
— Tier 2 capital, which includes qualifying subordinated liabilities.

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

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

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

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

The Bank's reconciliation between regulatory capital and equity calculated in compliance with Czech National Bank requirements was as follows:

MCZK	Regulatory capital	Equity
At 31 December 2014		
Issued capital	769	769
Share premium	412	412
Retained earnings	3,675	4,484
Oher comprehensive income	–	307
Other reserves	–	–
Less value adjustment due to the requirements for prudent valuation	(53)	–
Less intangible assets	(52)	–
Tier 1 capital	4,751	
Total Equity		5,972
Tier 2 capital		
Qualifying subordinated liabilities	1,388	
Total regulatory capital	**6,139**	
At 31 December 2013		
Issued capital	769	769
Share premium	412	412
Retained earnings	2,979	3,520
Other comprehensive income	(57)	243
there of negative change in FV from equity instruments	(57)	(57)
Statutory reserve fund	154	154
Less intangible assets	(69)	–
Tier 1 capital	4,188	
Total Equity		5,098
Tier 2 capital		
Qualifying subordinated liabilities	1,387	
Total regulatory capital	**5,575**	

Capital adequacy ratios are following:

%	2014	2013
Equity capital adequacy ratio	11.03	10.64
Tier 1 capital adequacy ratio	11.03	10.64
Total capital adequacy ratio	**14.25**	**11.57**

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

MCZK	Exposure	Capital requirement
At 31 December 2014		
Institutions	5,888	471
Businesses	14,217	1,137
Retail sector	3,953	316
Exposures pledged by properties	104	8
Exposures in default	828	66
High risk exposures	4,192	335
Collective investments	7	1
Equities	555	44
Other exposures	512	41
Total	**30,256**	**2,420**
At 31 December 2013		
Central governments	160	13
Institutions	8,245	660
Businesses	18,729	1,498
Retail sector	6,040	483
Exposures pledged by properties	2,376	190
Exposures in default	487	39
Other exposures	958	77
Total	**36,995**	**2,960**

MCZK	2014	2013
Capital requirements for credit risk	2,420	3,181
Capital requirements for market risks	530	246
for general interest rate risks of trading portfolio	508	197
for general equity risks of trading portfolio	–	–
for foreign exchange risks	22	49
Capital requirements for settlement risks	–	–
Capital requirements for operational risks	425	429
Capital requirements for credit valuation adjustment risk	72	–
Total	**3,447**	**3,856**

The regulatory agencies require 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.

(f) Components of cash flow statement

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

MCZK	2014	2013
Cash on hand	65	70
Balances with the central bank	25,500	18,100
Nostro account balances	406	1,295
Repo with the central bank	4,700	3,200
Total	**30,671**	**22,665**

41. Related Party Transactions

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

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

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

(a) Transaction with the parent company

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

MCZK	2014	2013
Trading assets	–	514
Deposits from customers	(20,215)	(16,926)
Trading liabilities	(2)	(22)
Subordinated debt	(663)	(1,067)
Other liabilities	–	(548)
Total	**(20,880)**	**(18,049)**

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

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

MCZK	2014	2013
Interest expense and similar charges	(135)	(103)
Fee and commission income	1	2
Net trading income	240	294
Total	**106**	**193**

(b) Transaction with other related parties

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

MCZK	2014	2013
Cash and balances with the central bank	–	2
Trading assets	757	1,333
Financial assets available for sale	1,706	2,901
Loans and advances to banks	2,058	3,667
Loans and advances to customers	240	1,955
Other assets	–	13
Deposits from customers	(11,713)	(9,648)
Deposits from banks	(548)	(649)
Trading liabilities	(606)	(94)
Other liabilities	(203)	(754)
Total	**(8,309)**	**(1,274)**

In 2014 the Bank provided a guarantee amounted to MCZK 12 (2013: MCZK 14). It accepted no guarantee related to the above mentioned transactions in the years 2014 and 2013.

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

MCZK	2014	2013
Interest expense and similar income	139	344
Interest expense and similar charges	(15)	(736)
Fee and commission income	90	124
Fee and commission expense	(1)	(1)
Net trading income	(286)	766
Other operating income	1	2
General administrative expenses	(131)	(137)
Total	**(203)**	**362**

(c) Supervisory Boards members, Directors and Executives

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

	Board of Directors		Supervisory Board		Executives	
MCZK	2014	2013	2014	2013	2014	2013
Loans and advances to customers	–	–	–	–	–	2
Trading assets	–	–	12	–	–	–
Deposits from Customers	(10)	(2)	(208)	(79)	(5)	(4)

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

The above receivables consist of positive value of derivatives.

The Bank did not report related expenses and income for its Supervisory Board members, Directors and Executive as at 31 December 2014 and 2013 whereas these figures are considered to be not material.

(d) Off balance sheet items

As a related party transaction, as at 31 December 2014 the Bank provided a credit commitment to related parties of MCZK 614 (2013: MCZK 167) and guarantee in the amount of MCZK 12 (2013: MCZK 14).

42. Subsequent Events

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

10 April 2015

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

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

Individual responsible
for financial statements:

Miroslav Hudec
Chief Financial Officer

Individual responsible
for accounting:

Růžena Šuserová
Chief Accountant

Contacts

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

IČ (Company Identification Number): 47116129
DIČ (Tax ID): CZ47116129
Registered in the Commercial Registry maintained by the Municipal Court in Prague, file No. B 1834
Phone: +420 224 175 888
Fax: +420 224 175 980
E-mail: info@ppfbanka.cz
Telex: +420 212 1515 PM BD C
SWIFT CODE: PMBP CZPP
Website: www.ppfbanka.cz

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