# Annual Report 2019

PPF Banka

# PPF BANKA ANNUAL REPORT 2019

PPF Banka

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# CHAIRMAN'S STATEMENT

# Dear Shareholders, Clients and Business Partners, Dear Colleagues,

2019 was another successful year in PPF banka's history. We made a net profit of more than CZK 2 billion and significantly strengthened the Bank's capitalisation. We were also very active in the financial markets, where we again ranked among the top three dealers on the primary Czech government bond market and actively participated in the issues of many securities. Not least, we invested heavily in new technologies and projects to streamline the Bank's operations and benefit our customers and employees.

In 2019, profit after tax came to CZK 2.1 billion. Strong growth in net interest income, rising by 18% year on year to CZK 4.1 billion, contributed to the sound economic result. The Bank continued to engage in highly efficient management, with a cost-to-income ratio of just 33%. We paid CZK 541 million in income tax. Advances to customers increased by 7% to CZK 37 billion. The Bank also drastically improved both the risk profile of its loan portfolio and its non-performing loan ratio, reporting a fall by 5.35 percentage points to 7.54%, i.e. a 37% decline in the volume of NPLs to CZK 2.9 billion. In 2019, the Bank also significantly improved its capitalisation on the strength of a 23% increase in equity to CZK 14.3 billion and an increase in the total capital ratio to 18.27%.

In 2019, PPF banka remained very active on the financial markets. An evaluation by the Ministry of Finance ranked us among the top three dealers on the primary Czech government bond market. We were also involved in a number of securities issues. For example, we were the joint lead manager for an issue of PPF Telecom Group (formerly PPF Arena 1) bonds totalling EUR 1.05 billion, and the arranger and distributor for a CZK 1.5 billion Air Bank bond issue. In addition, we marketed investment certificates with underlying assets in the form of PPF Group members' debt totalling CZK 1.1 billion. PPF banka also placed on the market other private issues of bonds and investment certificates worth CZK 2.6 billion.

Our investments in new technologies and IT systems continued in 2019. In early October, we became one of the first Czech banks to launch instant payments, allowing our clients to make transfers within seconds, 24 hours a day, 7 days a week. Throughout the year, we also worked hard on a new CRM system, which we successfully launched at the beginning of 2020.

Our solid financial results enable us to continue and deepen our cooperation with the non-profit sector. As in previous years, we donated a large part of our profits to the support of education. In particular, I would like to mention our sponsorship of PIPAN, a bilingual nursery school for the hearing impaired, and The Kellner Family Foundation.

All of the achievements outlined above have been made possible by the strategic support of our shareholders and, especially, the honest work our employees do every day, for which I thank everyone.

As I write these lines, the world is experiencing a coronavirus pandemic and many countries, including the Czech Republic, are introducing unprecedented measures to stop the spread of the epidemic. Although everything is still in its infancy and we cannot be certain how the situation will play out in the weeks to come, it is already obvious that the economic impacts will be devastating. However, I firmly believe that, with strong shareholders to back us and with the diligent and responsible employees who work for us, we will be able to cope very well with this situation and to continue providing support to our customers, helping them to stabilise their financial management.

**Petr Jirásko**
Chairman of the Board of Directors
and Chief Executive Officer

# KEY NON-CONSOLIDATED FINANCIAL INDICATORS

until 2014: under Czech Accounting Standards
as of 2015: under International Financial Reporting Standards (IFRS)

## Profit before tax

| In millions of CZK | |
|---|---|
| 2010 | 804 |
| 2011 | 758 |
| 2012 | 1,144 |
| 2013 | 784 |
| 2014 | 893 |
| 2015 | 1,583 |
| 2016 | 1,473 |
| 2017 | 1,908 |
| 2018 | 2,689 |
| 2019 | 2,629 |

## Total assets

| In millions of CZK | |
|---|---|
| 2010 | 52,361 |
| 2011 | 65,718 |
| 2012 | 76,843 |
| 2013 | 104,818 |
| 2014 | 108,237 |
| 2015 | 103,084 |
| 2016 | 136,625 |
| 2017 | 232,941 |
| 2018 | 235,162 |
| 2019 | 226,958 |

# Key non-consolidated economic factors

under International Financial Reporting Standards (IFRS)

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | 156,713 | 165,640 |
| Financial assets at fair value through profit or loss | 7,166 | 9,605 |
| Financial assets at fair value through other comprehensive income | 17,551 | 18,784 |
| Debt instruments at amortised cost | 4,174 | 3,051 |
| Receivables from banks | 3,636 | 3,030 |
| Receivables from customers | 36,935 | 34,437 |
| Ownership interests | 132 | 135 |
| Other assets | 651 | 480 |
| **Total assets** | **226,958** | **235,162** |
| **Equity and liabilities** | | |
| Deposits from banks | 24,950 | 66,306 |
| Deposits from customers | 171,723 | 132,785 |
| Debt securities issued | 3,536 | 2,583 |
| Financial liabilities at fair value through profit or loss | 9,054 | 16,180 |
| Other liabilities | 3,400 | 5,688 |
| Registered capital | 769 | 769 |
| Other components of equity | 13,526 | 10,851 |
| **Total equity and liabilities** | **226,958** | **235,162** |
| **Income statement** | | |
| Net interest income | 4,112 | 3,468 |
| Net fee and commission income | 130 | 132 |
| Net gain on trading and dividend income | -433 | 363 |
| General administrative expenses | -907 | -979 |
| Impairment losses | 74 | -68 |
| Other operating profit or loss | -347 | -227 |
| Income tax expense | -541 | -487 |
| **Profit or loss for the year** | **2,088** | **2,202** |
| **Key ratios** | | |
| Non-performing client loans/total client loans | 7.54% | 12.89% |
| Total capital ratio | 18.27% | 16.26% |
| ROAA | 1.00% | 1.04% |
| ROAE | 16.00% | 20.35% |
| Assets per employee (in CZK million) | 966 | 1,000 |
| Administrative expenses per employee (in CZK million) | 4 | 4 |
| Net profit per employee (in CZK million) | 9 | 9 |

# COMPANY PROFILE

## General information

| | |
|---|---|
| Company name: | PPF banka a.s. |
| Legal form: | public limited company (akciová společnost) |
| Registered office: | Evropská 2690/17, Praha 6, 160 41, Czech Republic |
| Registration number: | 47116129 |
| Court of registration: | Municipal Court in Prague, Section B, File 1834 |
| Date of incorporation: | 31 December 1992 |

## Date and method of establishment

PPF banka was established by a deed of incorporation of 3 December 1992, without a share subscription, under the company name of ROYAL BANKA CS, a.s. On 14 December 1994, the general meeting decided to change the Company's name to První městská banka,a.s., which was accompanied by a change in the Company's registered office, and approved a one-off increase in registered capital, including a merger with Společnost pro založení První městské banky, a.s. with effect as of 31 January 1995. On 23 June 2004, the annual general meeting of První městská banka, a.s. decided to change the Company's name to PPF banka a.s. with effect as of 1 September 2004.

| | |
|---|---|
| Registered capital: | CZK 769 million |
| Equity: | CZK 14,295 million |
| Total assets | CZK 226,958 million |
| Shares: | registered, ordinary, dematerialised shares maintained in the Central Securities Depository Prague |

Note: figures valid as at 31 December 2019

## Objects of business

PPF banka's business objects comprise all types of banking transactions and the provision of banking and financial services together with related services, on both domestic and international markets. The Bank's services are primarily tailored to Czech clients in the municipal and corporate segments. The Bank specialises in trading on financial and capital markets in accordance with applicable legislation and on the basis of licences 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 Chamber of Commerce;
— Prague Stock Exchange;
— Chamber for Economic Relations with the CIS;
— Bank Card Association;
— International Swaps and Derivatives Association (ISDA).

## Shareholder structure

| | |
|---|---|
| PPF Financial Holdings B.V. | 92.96% |
| City of Prague | 6.73% |
| Other | 0.31% |

Precise web address containing the Bank's mandatory disclosures: http://www.ppfbanka.cz/cz/servis-pro-investory-a-analytiky/povinne-uverejnovane-informace/udaje-uverejnovane-ctvrtletne.html

# CORPORATE GOVERNANCE

# BOARD OF DIRECTORS

## Petr Jirásko

Chairman of the Board of Directors of PPF banka
since 14 October 2013
Chief Executive Officer

Born in 1973, Petr Jirásko graduated from the University of Economics, Prague. During his university studies, he was employed part-time by Budějovický Budvar, Investa Příbram a.s., Credit Lyonnais Bank Praha a.s. and Tabák Kutná Hora. In 1998, he started working full-time for Credit Lyonnais Bank Praha a.s. as an FX dealer. Between 2000 and 2002, he worked at Komerční banka, a.s. as an FX option dealer and later as the head of the Derivatives Desk. He joined PPF Group in 2002. He worked for PPF burzovní společnost (as a bond dealer and chief dealer) until 2004, when he started working for PPF banka a.s. as Managing Director of Financial Markets. In October 2013, he became the Chairman of the Board of Directors and Chief Executive Officer of PPF banka a.s.

## Jaroslava Studenovská

Vice-Chairwoman of the Board of Directors
since 9 December 2016
(member of the Board of Directors since 16 April 2012)
Managing Director of Operations

Born in 1968, Jaroslava Studenovská graduated in General Economic Theory from the University of Economics, Prague. Between 1992 and 1998, she worked for Česká spořitelna a.s. in various investment banking positions, her last position being the director of Back Office. Between 1999 and 2001, she worked as director of Back Office at IPB/ČSOB. From 2001 to 2005, she was the director of Back-office Treasury at Raiffeisenbank a.s. She has worked for PPF banka since 2006, initially as a specialist in the Group Treasury Division and from 2007 as the Managing Director of the Operations Division. She became a member of the Board of Directors in 2012, and the Vice-Chairwoman of the Board of Directors in December 2016.

## Miroslav Hudec

Member of the Board of Directors since 1 May 2016
Managing Director of Financial Management

Born in 1966, Miroslav Hudec graduated from the University of Chemistry and Technology in Pardubice, majoring in Industry Economics and Management. He headed the financial departments at Monokrystaly Turnov a.s. and Šroubárna Turnov a.s. Later, he worked for Česká spořitelna as the head of the internal bank and held various positions in the company's Finance Division. Prior to joining PPF banka a.s., he worked as the head of controlling and deputy chief financial officer at Credit Lyonnais bank Praha and held the same position at Credit Agricole bank Praha. He has worked for PPF banka since 1 September 2012, starting out as an adviser to the Chief Executive Officer. He became Managing Director of Financial Management in January 2014 and a member of the Board of Directors in May 2016.

## Gabriela Mošovská

Member of the Board of Directors since 2 November 2016
Managing Director of Risk Management

Born in 1972, Gabriela Mošovská was partly educated in Moscow and then graduated from the University of Economics in Economic Policy. While still a student, she worked as an analyst for Lifox a.s., an investment company, subsequently for the Česká pojišťovna a.s. Group as a senior analyst, and then as a member of the board of directors of Tesla Votice a.s. Between 1998 and 2004, she worked in the Risk Management Division of Raiffeisen Bank Praha a.s., before eventually being appointed head of Corporate Analysis. She obtained her MBA degree from Sheffield Hallam University in the UK in 2005. From 2004, she worked for Raiffeisen International Bank-Holding AG in Vienna, where she held various positions, ultimately being appointed the Deputy Head of Network Credit Management and Team Coordinator CIS until her maternity leave in 2007. From 2008, she worked for Raiffeisen Bank International AG as Director Credit Risk – Construction and Real Estate. She has been the Managing Director of Risk Management at PPF banka a.s. since January 2016. In November 2016, she became a member of the Board of Directors.

## Igor Kottman

Member of the Board of Directors since 2 November 2016
Managing Director of Sales

Born in 1965, Igor Kottman graduated from the Faculty of Economics of the University of Economics in Bratislava. He worked for ZOS Zvolen and then at the Ministry of Foreign Affairs of the Slovak Republic. From 1994, he held various positions in Citibank's corporate banking business in the Czech Republic, Slovakia, Uganda and the Russian Federation. From 2009, he worked as Citi Country Officer at the Slovak branch of Citibank Europe plc. He has been the Managing Director of Sales at PPF banka a.s. since January 2016. In November 2016 he became a member of the Board of Directors.

# SUPERVISORY BOARD

## Ladislav Chvátal

Chairman of the Supervisory Board
since 20 August 2015
(member of the Supervisory Board since 29 April 2015)

Born in 1963, Ladislav Chvátal graduated from the University of Economics, Prague, majoring in Automated Control Systems in Economics. He joined PPF Group in 1994. Within PPF Group, he has held a number of key managerial positions. Between 1998 and 2007, he managed Home Credit Group's development and international expansion as its CEO while serving as PPF Group's Executive Director for Retail Banking and Consumer Finance with responsibility for the strategic management of eBanka a.s. and ČP Leasing. Between 2009 and 2014, he was part of PPF Partners' management team. Since 2011, he has been responsible for building and developing the RAV agricultural group in the Russian Federation. He is also chairman of the supervisory board of CETIN.

## Petr Lachnit

Vice-Chairman of the Supervisory Board
from 20 August 2015 to 26 September 2019
(member of the Supervisory Board from 29 April 2015
to 26 September 2019)

Born in 1967, Petr Lachnit graduated from the Faculty of Law in 1990 and then worked as an articled clerk until 1993. Having passed his bar examinations, he practised from 1994, specialising in commercial law and securities law. Since 2000, he has served as an arbitrator of the permanent Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic. Between 1998 and 2002, he served on the Commercial Law Commission of the Government's Legislative Council. Since 1997, he has been a member of the Czech Bar Association's Commercial Law Commission.

## Tomáš Kaplan

Member of the Supervisory Board since 29 April 2015

Born in 1972, Tomáš Kaplan graduated from Charles University's Faculty of Law, majoring in Law and Jurisprudence. In 1997, he interned at a law firm in Germany. Since graduation in 1997, he has been engaged in the provision of legal services. In 2001, he passed his bar examinations and is a lawyer registered with the Czech Bar Association. In his legal practice, he focuses on legal relations with real estate, financial law, public procurement law, law in commercial relationships, and insolvency law.

## Bohuslav Samec

Member of the Supervisory Board since 16 January 2009

Born in 1959, Bohuslav Samec graduated from a two-semester Monetary Economics and Banking course at the University of Economics, Prague. Between 1985 and 1993, he held managerial positions in the services field. He has worked for PPF Group since 1994, in which time he has held various managerial positions. He has served as a member of the board of directors of PPF burzovní společnost and a member of the supervisory board of Slezan Frýdek-Místek a.s. and Gramofonové závody, a.s. He currently works for Česká pošta in Corporate Governance. He also served as a member of the Supervisory Board of PPF banka a.s. between 2006 and 2008. Since 2009, he has been a member of the Audit Committee of PPF banka a.s.

## Lenka Baramová

Member of the Supervisory Board since 7 January 2009

Born in 1965, Lenka Baramová graduated from the University of Economics and joined Komerční banka, a.s. in 1987 (when it was still an SBČS branch). Between 1993 and 1994, she worked in the Credit Risk Department of ABN AMRO Bank N.V. in Prague. Between 1994 and 2000, she worked for Calyon (then known as Credit Lyonnais Bank Praha a.s.), initially in the Corporate Banking Department and then in Corporate Finance. Between 2000 and 2002, she worked for the consultancy firm Celestis Finance s.r.o. Since 2002 she has worked for PPF banka a.s. and is currently a Senior Sales Consultant.

## Martin Hýbl

Member of the Supervisory Board since 2 June 2011

Born in 1974, Martin Hýbl graduated from the Faculty of Business and Management of the Silesian University, Karviná, majoring in Business Economics. In 1998, he joined ČP Leasing a.s. and progressively held the positions of financial analyst, head of financial management, chief financial officer and member of the board of directors. Between 2003 and 2005, he worked for PPF Group in various financial management positions. Since 2005, he has been with PPF banka a.s., initially heading the HC Treasury Department and now in charge of Institutional and Corporate Client Banking Services. He is not a member of a governing body of any other companies.

## Jiří Janoušek

Member of the Supervisory Board since 26 September 2019

Born in 1978. Graduated from the Faculty of Law of Charles University, Prague. In 2012, he passed the bar examination and he is now a lawyer registered with the Czech Bar Association. His wide-ranging experience began with stints as a corporate lawyer at financial institutions (Československá obchodní banka, a.s. and Českomoravská stavební spořitelna, a.s.), before he went on to practise at several law firms. In his legal practice, he specialises in insolvency law, commercial and civil law, civil procedural law, and arbitration, including related insolvency and enforcement legislation.

# AUDIT COMMITTEE

## Jitka Mašátová

Chairwoman of the Audit Committee since 29 April 2013

Born in 1978, Jitka Mašátová graduated from the University of Economics, Prague, where she studied Monetary and Economic Politics at the Faculty of Finance and Accounting. While still studying, she joined the Banking Supervision Section of the Czech National Bank, where she held various positions over the course of four years. Since 2005, she has worked for PPF a.s.'s Group Internal Audit Department. Since 2007, she has been the Head of Group Internal Audit. In 2011, she was a member of the supervisory board of SAZKA sázková kancelář, a.s. Since 2018, she has been a member of the Supervisory Board of PPF banka a.s.

## Valdemar Linek

Vice-Chairman of the Audit Committee since 13 April 2010 (member of the Audit Committee since 10 December 2009)

Born in 1971, Valdemar Linek graduated from the University of Economics, Prague, majoring in Corporate Economics and Accounting and Corporate Financial Management. He also completed a postgraduate two-semester course in Internationally Accepted Accounting Standards and is a certified balance sheet accountant and registered assistant auditor. In 1997–2003, he worked for HZ Praha, spol. s r.o. as auditing division director, where he was responsible for audit engagements, economic consulting, due diligence and forensic investigation. Since 1999, he has been a managing director of PRAGUE ACCOUNTING SERVICES s.r.o. (an expert institute in the field of economics), where he is responsible for the preparation of expert opinions on business combinations, accounting, taxes and valuations of assets and companies. Since 2005, he has been a director at PRAGUE TAX SERVICES a.s., where he is responsible for economic, accounting and tax consulting. Since 2003, he has been the board chairman, a director and a partner at NEXIA AP a.s., where he is responsible for forensic engagements and project consultancy contracts. In 2011–2018, he was a member of the audit committee of Air Bank a.s.

## Bohuslav Samec

Member of the Audit Committee since 10 December 2009

Born in 1959, Bohuslav Samec graduated from a two-semester Monetary Economics and Banking course at the University of Economics, Prague. Between 1985 and 1993, he held managerial positions in the services field. He has worked for PPF Group since 1994, in which time he has held various managerial positions. He has served as a member of the board of directors of PPF burzovní společnost and a member of the supervisory board of Slezan Frýdek-Místek a.s. and Gramofonové závody, a.s. He currently works for Česká pošta in Corporate Governance. Since 2009, he has been a member of the Supervisory Board of PPF banka a.s. He also served as a member of the Supervisory Board of PPF banka a.s. between 2006 and 2008.

# SENIOR MANAGEMENT

## Petr Jirásko

Chief Executive Officer since 14 October 2013

## Igor Kottman

Managing Director of Sales since 11 January 2016

## Gabriela Mošovská

Managing Director of Risk Management
since 1 January 2016

## Miroslav Hudec

Managing Director of Financial Management
since 1 January 2014

## Jaroslava Studenovská

Managing Director of Operations since 1 May 2007

## David Marek

Managing Director of IT since 1 December 2018

## Karel Tregler

Managing Director of Financial Markets
since 1 January 2014

# ORGANISATIONAL STRUCTURE OF PPF BANKA A.S.

as at 31 December 2019

Risk Committee

Supervisory Board

Audit Committee

Board of Directors

003 Compliance Department
004 Internal Audit Department

Chief Executive Officer

010 Office of CEO and HR
030 Concierge Department
040 Legal Department
090 Project Management Department

200 Financial Management Division
210 Accounting Department
240 Controlling and Reporting Department

300 Financial Markets Division
310 Investment Products and Analysis Department
320 Trading Department
330 Corporate and Municipal Client Sales Department
340 Treasury Department
350 Institutional and Corporate Client Banking Services Department
370 Institutional Client Sales Department
380 Private Banking Department

400 Sales Division
410 Export and Structured Financing Department
420 Transaction Service Department
430 Real Estate Financing Department
460 Corporate Banking Department
470 Public Sector Department

500 IT Division
520 IT Infrastructure Department
530 IT Applications Department
531 IT Helpdesk Unit

600 Operations Division
610 Customer Centre Department
620 Payment Service Management Department
630 Validation and Control Department
640 Payments Department
650 Back Office – Financial Markets
651 Back Office – Money Markets
652 Back Office – Capital Markets
660 Credit Administration Department
670 Custody Department
680 Middle Office
690 Electronic Payment Systems Department

700 Risk Management Division
710 Market Risk Management Department
720 Credit Risk Management Department
721 Analyses of Financial Institutions Unit
730 Restructuring and Recovery Department
750 Monitoring and Drawdown Department
760 Security and Operational Risk Management Department

# BOARD OF DIRECTORS REPORT ON THE COMPANY'S BUSINESS ACTIVITIES AND ASSETS

# MACROECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

For a long time, the Czech economy unexpectedly defied the slowdown being experienced by its biggest trading partner, Germany, and kept to growth of around 2.7% y/y in the first half of the year. However, a small open economy like the Czech one, with exports accounting for almost 80% of GDP, cannot withstand negative external effects for long, as borne out in the second half of the year. The last quarter of 2019 was particularly weak, reporting just 1.7% y/y growth. Overall, GDP grew by 2.4% y/y in 2019, which is still a very good result compared to our trading partners. On the demand side, growth was fuelled by household consumption, supported by the upbeat labour market with record low unemployment (2% according to the Czech Statistical Office) and, consequently, decent wage growth (average wages increased nominally by 6.9% y/y, and in real terms by 4%, in the third quarter of 2019). Investment contributed to growth only at the beginning of the year. As the situation in the euro area deteriorated, investment was inhibited by businesses' concerns about whether there would be sufficient demand. Lower investment, which is generally import-intensive, was accompanied by a downturn in imports and, with exports declining more moderately, external trade made a greater contribution to GDP growth in the second half of the year. Government consumption was another growth factor, contributing approximately 0.5 pp.

The supply side of the economy stuck to the trend witnessed in the previous year. Growth was driven primarily by the service sector, while industry was left lagging (compared to previous years). As in the year before, financial services, hospitality and retail were the most successful sectors.

The economic slowdown has not yet been reflected in the labour market (although unemployment has bottomed out, remaining at all-time lows of around 2% according to the Czech Statistical Office's methodology). The Czech Republic continues to report the lowest unemployment rate anywhere in the EU. In tandem with the fact that unemployment is no longer falling, the number of vacancies began to contract in the second half of the year. This is a result of the economic slowdown and is an omen that unemployment may gradually start to nudge up. Czech companies have registered this situation, with the Czech Statistical Office's business opinion survey indicating that they no longer perceive the biggest barrier to growth to be a scarcity of labour, but rather the lack of demand. Despite this shift, the slowdown in wage growth was negligible compared to the previous year.

The combination of wage growth and higher electricity and food prices prompted an uptick in inflation, which remained above the 2% inflation target all year and went on to rise above 3% in the last two months, thus taking it beyond the inflation band. Overall, consumer prices increased by 2.9% year on year in 2019. As the higher inflation was largely due to one-off factors and there were significant external risks, the CNB made only one rate hike – by 25 basis points to 2% – in 2019.

While the state's economic performance ended up better than the finance ministry had planned, the deficit was still CZK 28.5 billion. The originally planned deficit was projected to be CZK 11.5 billion higher. Despite being the worst result in the last four years, this deficit can be considered comparatively low relative to GDP and, given the economic growth, gives the Czech Republic room to continue reducing its overall debt ratio, which currently stands at 29% of GDP.

Lower investment activity was also reflected in the growth rate of loans to non-financial corporations, which grew by 3.7% year on year, i.e. by 2 pp less than in the previous year. As in 2018, corporations again used foreign-currency loans as a natural hedge against the appreciating Czech crown in 2019. The total volume of foreign-currency loans increased by 11% y/y and currently accounts for 33% of total loans to non-financial corporations. Growth in loans to households slowed less, mainly due to mortgages, which grew again by 9.2%, but also to consumer loans, which rose faster than in the previous year and were up by 7.1% y/y. On the other hand, bridging loans from building savings schemes and other loans decreased. Overall, loans to households increased by 6.2% y/y in 2019. The share of foreign-currency loans to households remains negligible.

# PPF BANKA'S FINANCIAL PERFORMANCE IN 2019

In 2019, PPF banka's earnings again exceeded CZK 2 billion, with profit after tax coming to CZK 2,088 million. The total comprehensive income, at CZK 2,677 million, was the highest ever reported by the Bank.

Equity increased by almost 23% to CZK 14,295 million. The volume of advances to customers rose by 7% to CZK 36.9 billion. Total assets were reported at CZK 227 billion, down from CZK 235 billion at the end of 2018.

Net interest income increased 18% year on year, climbing from CZK 3,468 million in 2017 to CZK 4,112 million in 2019. The increase in net interest income can be attributed to an increase in advances to customers and a hike in market rates. Net fee and commission income in 2019 remained at the same level as in 2018. As in the previous year, securities trading yielded another excellent result, this time CZK 605 million. The total net loss on financial operations in 2019 came to CZK 435 million. The result from trading in derivative transactions is recouped from exchange differences and interest income.

Total operating income of CZK 3,829 million in 2019 was just short of the outstanding level reported in 2018.

The net impairment gain of CZK 74 million in 2019 is the result of a very successful decrease in the volume of impaired receivables. In 2018, a loss of CZK 68 million was reported in this area.

Total operating costs amounted to CZK 1,274 million. The small 5% increase compared to the previous year was mainly occasioned by a planned increase in payroll costs, which was connected to labour market trends, and by a planned expansion in employee numbers.

The 2019 tax expense is CZK 541 million. The increase compared to the previous year is mainly linked to the adoption of IFRS 9 in 2018.

At the end of 2019, assets stood at almost CZK 227 billion. Deposits held with the central bank amounted to CZK 155 billion. Advances to customers amounted to CZK 37 billion, an almost 7% increase on the end of 2018. Financial assets measured at fair value through profit or loss came to CZK 7 billion and financial assets measured at fair value through other comprehensive income remained at CZK 18 billion. The slight decline can be explained by developments on the bond market.

The balance of adjustments to non-performing advances to customers, compared to the level at the beginning of 2019, decreased by a hefty CZK 337 million to CZK 824 million following a sharp 38% fall in the volume of non-performing receivables to CZK 2,861 million.

The balance of adjustments to performing advances to customers of CZK 185 million remained virtually unchanged from the beginning of 2019. Compared to the beginning of 2018, i.e. the effective date of IFRS 9, it increased by a modest 5%, consistent with the rise in these performing exposures.

PPF banka's main source of financing is deposits from customers. The CZK 172 billion balance at the end of 2019 was CZK 39 billion higher than at the end of 2018. This positive trend is spread evenly between demand deposits and time deposits. At the end of 2019, the Bank's total liabilities amounted to CZK 213 billion.

The return on equity is very respectable.

The capital ratio is above the statutory level.

In 2019, PPF banka continued its charity work and considers corporate social responsibility to be one of its fundamental values.

# PPF BANKA'S BUSINESS ACTIVITIES IN 2019

## PPF banka's activity on the financial markets

PPF banka operates as PPF Group's hub for access to financial markets. The same investment services are also provided to a wide range of our other customers.

## Securities

In 2019, as in previous years, PPF banka was very active as a market maker for Czech government bonds. In the ranking of primary dealers compiled by the Ministry of Finance of the Czech Republic, the Bank figured among the top three primary dealers in 2019. It was second on the secondary government bond market. This methodology takes into account comprehensive criteria in the initial subscription of government bonds (the primary market) and quoting activity on the secondary market (the MTS Czech Republic electronic trading platform).

Overview of PPF banka's securities trading volumes:

| In billions of CZK | 2019 | 2018 | 2017 |
|---|---|---|---|
| Domestic bonds | 112.6 | 140.3 | 126.7 |
| Foreign bonds | 18.3 | 13.3 | 21.5 |
| Total bonds | 130.9 | 153.6 | 148.2 |
| Domestic equities | 0.0 | 0.0 | 2.5 |
| Foreign equities | 8.6 | 2.4 | 2.0 |
| Total equities | 8.6 | 2.4 | 4.5 |
| **Total** | **139.5** | **156.0** | **152.7** |

We engage in robust activity in our securities trading, with an emphasis on access to various equity and debt security markets.

PPF banka participated in many issue-related products, including:

- PPF Arena 1 bonds totalling EUR 1,050 million (role: joint lead manager);
- Air Bank bonds totalling CZK 1,500 million (role: arranger and distributor);
- Emma Gamma bonds totalling EUR 20 million (role: arranger and distributor);
- investment certificates with underlying assets in the form of PPF Group members' debt totalling CZK 1,142 million (role: arranger, lead manager, and distributor); and
- private issues of bonds and investment certificates totalling CZK 2,581 million (role: lead manager and arranger).

## Foreign exchange and derivative markets

On the foreign exchange market, we maintained high numbers of transactions and a broad product portfolio. There was significantly higher activity on the FX spot market, where we reported our highest ever traded volume. The FX derivative market recorded a slight year-on-year decline in volumes, reflecting the gradual fading of the effects created by the termination of the CNB's foreign exchange interventions.

The distribution and timing of PPF banka's transactions are shown in the table below.

| In billions of CZK | 2019 | 2018 | 2017 |
|---|---|---|---|
| FX spot | 283.3 | 189.3 | 244.2 |
| FX derivatives | 533.9 | 558.6 | 719.4 |
| **Total** | **817.2** | **747.9** | **963.6** |

Note: New methodology is used to count FX derivatives, which also include trades concluded in the investment portfolio of PPF banka a.s.

As far as interest-rate derivatives are concerned, PPF banka significantly increased its activity on FRA markets and provided liquidity for the market in CZK interest-rate swaps.

| In billions of CZK | 2019 | 2018 | 2017 |
|---|---|---|---|
| IR derivatives | 234.8 | 135.5 | 160.3 |

As in the past, in 2018 we again focused on our role as PPF Group's central treasury bank and, in various tasks, engaged in the hedging of risks for Group companies. With these transactions, we act as a counterparty and as the hedge provider or auction organiser (i.e. the hedge coordinator).

## Corporate banking and the public sector

In 2019, in the face of keen competition on the domestic banking market, we continued to focus on maintaining business cooperation with a number of our key customers and on identifying new business opportunities in segments in which we have long specialised. These primarily include manufacturing, energy (both in the Czech Republic and abroad), and wholesale and retail, as well as engineering, logging and wood processing. We successfully continued to seek out and promote new attractive real estate projects, the share of which has supported our portfolio's growth and stability. The Bank also continued to provide a comprehensive range of export and structured financing services.

We supported our customers, many of whom lead the way in their fields, in their acquisition activities, in expanding and upgrading their production capacities, and in the further development of their business activities in the Czech Republic, America or Asia. We carried out our largest transactions in the form of club financing in cooperation with other major banks from the Czech Republic and abroad. We always try to seek out the optimal financing structure for the customer and, where appropriate, we complement bank financing, for example, with the possibility of issuing bonds. In terms of business opportunities, 2019 was high in extraordinary/one-off transactions and returns.

In the public sector, the Bank continued to strengthen its cooperation with the Czech Republic's regions and statutory cities in 2019. We successfully completed our acquisition process and are now actively cooperating with all 14 of the Czech Republic's regions. As part of this strategy, we are building on the ties we have in the regions and we are gradually offering our services to important corporate customers in which regions and municipalities have participating interests.

Acutely aware of the progressive digitalisation of our customers' financial agendas and the emphasis they place on the speed, accuracy and efficiency of electronic communication, we continued to prepare and develop the Bank's key customer systems in 2019. We are confident that they will improve our customers' communication with the Bank and simplify the payment agenda so that they are able to manage their finances as efficiently as possible.

## Private banking for individuals

PPF banka's private banking department specialises in serving our most demanding private clients and in providing investment services. We pride ourselves on the quality of our team of experienced private bankers, expert knowledge and ability to listen to our customers. For us, 2019 was another successful year in which our customers were able to enjoy rising returns and successful acquisitions without having to worry about the management of finances they had entrusted to the Bank. In 2019, we once again provided active support in placing PPF Group's investment instruments on the market.

Our long-term strategy is to maintain our individual and professional approach, to foster mutual trust, and to place an emphasis on customer satisfaction. We will continue to nurture these values in the coming years in order to provide our clients with a completely different view of banking services.

## Information technology and information system security

In 2019, we implemented and initiated a whole raft of changes related to IT and security, leading to significant improvements in the Bank's operations. We also implemented regulatory requirements and expanded the functionality of the main banking system.

The main banking system is stable, contains the latest functional and security updates, and has been expanded to include two new modules. Other IT systems were also maintained on supported (secure) versions and we ensured that they were widely available.

We successfully became the sixth bank on the Czech market to launch instant domestic payments. We also implemented electronic toll support in a very short time. We prepared a "technology stack", based on modern MicroServices architecture, for the Bank so that we were able to launch our own application development in early 2020. The reasons behind this included the need to cover some unique processes for which there are no standard tools (Toll, RWA, etc.), to establish a short time-to-market, to reduce TCO, and, last but not least, to be less dependent on suppliers and create very appealing work for the team.

This project required the introduction of Enterprise Architecture (EA), enabling us to significantly improve the management of new features and optimise existing solutions. The main benefit of EA, however, is that it gives us active management of the overall IT architecture in order to ensure the high availability and stability of services, their security and cost-effectiveness.

One of the first fruits of EA was the implementation of the JIRA platform. Here, we quickly replaced the internal IT process management, which had previously relied on Lotus Notes (LN). We prepared JIRA for expansion to cover the entire Bank, encompassing a helpdesk, project and project portfolio management, and other collaborative agendas.

Besides all of the above changes, we finalised the digitalisation of our internal customer relationship agendas – CRM (the GoLive project for Q1 2020).

With the implementation of CRM and the introduction of JIRA, we have started to replace LN functions with the aim of leaving the LN platform in the medium term and replacing it with modern technologies. This strategy includes an email and communication platform project, where we have decided to deploy Microsoft Exchange and Microsoft Teams.

We are continuing to improve security in the Bank's internal IT environment. In 2019, we divided the network into smaller units, added new security technology for checking emails from the internet (a sandbox), and we are gradually switching to the two-factor verification of all employees when they access the Bank's IT systems.

In IT security, two risk analyses were carried out – a comprehensive risk analysis of the entire IT environment and an analysis of the risks of internet payments. Neither of these analyses revealed major flaws. We are also improving our supervision of the entire environment's security – we have installed a new network vulnerability scanner, run two penetration tests, and improved user access control, and we are procuring a new shared drive access surveillance tool.

We also prepared activities for 2020 – we selected a data loss prevention tool and a security information and event management (SIEM) system.

The regulatory environment is advancing rapidly and new requirements are emerging that stem from either completely new or modified regulations. We monitor regulation both at a European level (EBA regulatory technical standards, EBA Guidelines) and at the level of industry requirements (Swift, Mastercard).

From the perspective of incidents, 2019 was a very successful year, with only minor operational outages that were quickly remedied and had no major impact on the Bank's operations.

# Human resources management strategy

The human resources management strategy focuses on pursuing defined long-term strategic goals, such as building up a strong corporate culture at PPF banka and automating and simplifying HR processes. The human resources management strategy is implemented through component activities in the individual areas in which HR operates.

In 2019, conceptual changes related to remuneration, the specifications of which were guided by the Bank's senior management, were completed. These changes included the all-round revision of the employee appraisal system, along with internal support for the management of change in employee appraisals, which involved manager training. The follow-up activities to evaluate the system that had been configured were carried out at the end of the year and are also planned in the first half of this year. The change in the performance appraisal system required the implementation of an e-solution. The function analysis of that system and a definition of its requirements were completed in 2019.

Training and development activities included the professional training of employees aimed at furthering soft skills in the field of employee appraisal and the acquisition/transfer of feedback. The EDUNIO e-learning platform was also developed, and all statutory and compulsory training/courses were transferred here. Last year, we also completed the implementation of the e-recruitment system, enabling us to work on increasing the efficiency of the employee recruitment process.

We made time savings and increased efficiency in HR/payroll processes by automating the annual income tax clearing and income tax declaration processes. We streamlined the payroll preparation process by facilitating electronic pay slips for employees. We enabled employees to have access, via an e-solution (the HR Portal), to the data we manage about them, and we automated employees' requests for changes to their personal data.

In the upcoming period, we will continue our change management and active automation of processes/digitisation.

The audit and non-audit services provided to PPF banka and its subsidiaries by an external auditor, or by member firms of the external auditor, are set out in the table below:

# Principles for the remuneration of executives and Supervisory Board members

The remuneration of PPF banka's executives and Supervisory Board members reflects statutory regulatory requirements. The remuneration policy is set by the Board of Directors and approved by the Supervisory Board. It takes into consideration the Bank's business performance and links to potential risks. In accordance with regulatory requirements, compliance with the remuneration policy is reviewed annually by the Internal Audit Department, which reports its findings to the Supervisory Board and the Board of Directors.

Only approved monetary remuneration was paid out in 2019. Remuneration in kind was not provided.

## Audit and non-audit services

Fees paid to the external auditor for services rendered in 2019 amounted to CZK 5 million (2018: CZK 6 million). All external auditor services in 2019 and 2018 are connected with the examination of the financial statements, the annual report, the underlying documentation for consolidation, the condensed interim financial statements, and the MiFID report.

The audit and non-audit services provided to PPF banka and its subsidiaries by an external auditor, or by member firms of the external auditor, are set out in the table below:

PPF banka a.s.:

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| Audit services | 4.8 | 5.8 |
| Other assurance services | 1.7 | 1.5 |
| Advisory services | 1.2 | 1.0 |
| **Total** | **7.7** | **8.3** |

Subsidiaries of PPF banka a.s.:

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| Audit services | 0.5 | 0.5 |
| Other assurance services | – | – |
| Advisory services | – | – |
| **Total** | **0.5** | **0.5** |

## Public-benefit projects

Every year, PPF banka contributes to numerous projects primarily geared towards the development of Czech education and culture. It supports the activities of The Kellner Family Foundation and, in a new move, the PPF Foundation. It helps to fund Pipan, a bilingual nursery school for the hearing impaired that is part of the Tamtam Children's Hearing Centre.

Together with other PPF Group companies, the Bank is a long-standing partner of major cultural projects in the Czech Republic. For many years, it has sponsored the Summer Shakespeare Festival, Europe's largest open-air theatre festival to specialise in staging William Shakespeare's works. The festival runs from the end of June to the beginning of September and takes place on open stages in Prague, Brno, Ostrava and Bratislava. Likewise, the Bank sponsors the Jára Cimrman Theatre, which is woven into the very fabric of the Czech theatre scene and has been entertaining audiences and inspiring other professional and amateur theatre ensembles for more than 50 years.

## Other information

In 2019 and 2018, the Company incurred no expenditure on research and development or environmental protection.

The Company has no branches abroad. The company did not obtain any of its own shares.

## Risk management methods and objectives

The risk management methods and objectives are described in detail in the Financial Section of the Annual Report on both an individual and consolidated basis.

## Subsequent events

The World Health Organisation did not declare coronavirus a global health emergency until the end of January 2020, and no significant measures were taken by governments until early 2020. Furthermore, the effects of the SARS CoV-2 (COVID-19) outbreak did not have a significant impact on global markets and share prices until February 2020. Therefore, based on information about the outbreak that was reasonably available as at 31 December 2019, the Bank made no adjustments to its forecasting based on assessments of the information available and associated risks as at that date. We therefore take the view that the disruption is a change in economic conditions that arose after the year-end date. In other words, it is a non-adjusting subsequent event.

In the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak.

The Bank is closely monitoring the evolving market and environment and is responding accordingly. All key indicators and the current market situation will be considered and used as baseline parameters for the concept and calculation of stress scenarios.

The Bank is mindful of the fact that the spread of COVID-19 and the measures taken by government authorities to contain the disease are a challenging situation for the Bank and for the banking sector in general. It affects existing risks and will give rise to new, specific ones.

The COVID-19 epidemic is likely to have negative repercussions not only for banking operations, but also for the Bank's financial performance, both in the short and the longer term. The quality of the loan portfolio is expected to be adversely affected, in particular, by the increasing number of clients who indicate a deterioration in their financial situation due to the measures taken by individual governments and seek to negotiate a solution to their predicament. We project that the situation may result in an increase in the number of repayment schedule adjustments in part of the client portfolio, with a rise in the number of defaults and increased risk costs in the longer run. The volume of new business can also be expected to decline.

In addition, the Bank is exposed to market risk, i.e. a downturn on global markets. Financial stability may be dented by a further decline on the stock market and limited financing opportunities.

Since the beginning of 2020, the Bank has become much more prudent in assessing the credit risk posed by loans newly submitted for approval. In its customer relations, the Bank is not only monitoring the situation, but is also in close contact with clients to pre-empt any potential impacts. When assessing what impact the current situation will have on the corporate loan portfolio, the Bank defines the expected macroeconomic scenarios of future development and analyses the macroeconomic effect on the creation of provisions and other relevant factors. The corporate bond portfolio was revised in tandem with the approach established for corporate risk assessment since the beginning of 2020. Parallel to this, the Bank is monitoring financial market developments.

However, high uncertainty surrounding the current spread of COVID-19 and further economic developments means that quantifying all the impacts is difficult to predict.

Assumptions and estimation uncertainties that may have a significant effect on the financial statements for the year ended 31 December 2019, belong impairment of financial instruments, determination of inputs for the ECL measurement model, including the incorporation of forward-looking information

Up to the reporting date, i.e. 31 December 2019, very little was known about the virus and what sort of impact it was expected to have. The ECL at 31 December 2019 was estimated based on a range of economic conditions forecast as at that date.

Any potential impacts of COVID-19 on corporate clients are expected to be felt with a slight time lag, i.e. in Q2-3 2020. For the part of the portfolio focused on financing retail receivables, the Bank is secured by the financing structure itself and by the territorial breakdown. Due to the changing situation and the difficulty of validating individual assumptions, no new expectations were incorporated into the ECL model at the time of preparation.

The actual market situation will be considered when determining the ECL estimate under IFRS 9 in 2020.

The Bank conducted stress testing on the basis of all available information. On the strength of the results, the Bank is not expecting its functioning to be threatened.

In order to ensure its financial stability, the Bank also plans to delay the payment of dividends or other steps that could in any way compromise its resilience.

The Bank's management cannot exclude the possibility that the prolongation or tightening of restrictive measures or the consequent negative impact of such measures on the economic landscape in which it operates will not adversely affect the Bank, its financial situation and its operating results in both the medium and the long term. The Bank's management will continue to monitor closely and respond to developments in order to mitigate the consequences of events and circumstances.

The Bank believes that it has sufficient capital and liquidity reserves to cover credit losses, capital requirements and any outage of financing sources.

The Bank has analysed all the risks and severe but plausible scenarios and concluded that there is no material uncertainty related to its going-concern status.

# Proposal for the distribution of profit for 2019

PPF banka made a profit after tax of CZK 2,087,762,100.8.

PPF banka's Board of Directors proposes the following profit distribution:

| | |
|---|---|
| Appropriation to the social fund | CZK 2,000,000.00 |
| Appropriation to retained earnings | CZK 2,085,762,100.80 |

Prague, 31 March 2020

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

**Miroslav Hudec**
Member of the Board of Directors
PPF banka a.s.

# FINANCIAL SECTION

**KPMG Česká republika Audit, s.r.o.**
Pobřežní 1a
186 00 Praha 8
Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

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

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying separate financial statements of PPF banka a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT CZ699001996
ID data box: 8h3gtra

*Emphasis of Matter – subsequent event*

We draw attention to Note 44 of the separate financial statements, where the Company's management, at the date of preparation of these separate financial statements, assessed the most recent information regarding the possible impact of SARS-CoV-2 and its COVID-19 disease on the Company's separate financial statements. Our opinion is not modified in respect of this matter.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Loss allowances for loans to and receivables from customers*

Loss allowances for loans and receivables from customers amounted to CZK 1,009 million as at 31 December 2019 (31 December 2018: CZK 1,337 million).

Refer to Note 3 (Significant accounting policies) and Note 18 (Loans and receivables) in the notes to the consolidated financial statements.

| Key audit matter | How the audit matter was addressed |
|---|---|
| The Company's management makes material and complex assumptions when estimating expected credit losses ("the Expected Credit Losses", "ECLs") in respect of loans to and receivables from customers (together "loans"). We consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.<br><br>The loans are assigned to one of three stages in line with IFRS 9 Financial instruments for the purposes of estimating the loss allowances. Stage 1 and Stage 2 loans are performing exposures. Stage 2 loans are exposures where a significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans.<br><br>Key inputs, assumptions and judgments relevant for the calculation of loss allowances for Stage 1 and Stage 2 loans comprise: | Assisted, where applicable, by our own credit risk and information technology specialists, we performed, among others, the procedures outlined below:<br><br>Applying our knowledge, experience and market standards, we critically assessed the Company's credit and accounting policies, and the processes related to estimating ECLs. As part of the procedure, we assessed the process of identifying indicators of default, significantly increased credit risk, and allocating of loans to particular stage levels. In addition, we tested IT control environment for data security and access.<br><br>We tested the design, implementation and operating effectiveness of IT-based and manual controls over the identification and timely consideration of significant increase in credit risk and credit-impairment. The tested controls comprised those over the calculation of the past due days of loans, matching of borrowers' repayments to loan instalments and calculation of ECL. We tested these controls by making inquiries of heads of risk, finance and IT department, and other relevant IT and risk department |

| Key audit matter | How the audit matter was addressed |
| --- | --- |
| — definition of default and definition of significant increase in credit risk (SICR); | personnel, in combination with observation, inspection and re-performance. |
| — probability of default (PD) - estimated by statistical models, based on historical data and forward looking information (FLI). For certain types of loans, the modelled PDs are either increased by coefficients set by the Company's management or replaced by PDs obtained from an external study on defaults of foreign debt exposures<br>— exposure at default (EAD) - decreased by the net realisable value of collateral;<br>— loss given default (LGD) - based on regulatory coefficients.<br><br>Loss allowances for all stage 3 loans are determined by discounting the probability-weighted scenarios of estimated future cash flows. The key judgments and assumptions consist in estimating the amount and timing of future cash repayments including the net realisable value of underlying collateral. | We tested the key inputs, assumptions and judgments relevant for the calculation of ECLs. As part of the procedure, for a sample of individual loans, by reference to respective loan files and inquiries of the credit risk personnel, we:<br>— determined whether a significant increase in credit risk occurred or whether the loan was credit-impaired;<br>— assessed the net realisable value of collateral;<br>— assessed whether appropriate PD and LGD was assigned to the loan;<br>— checked other characteristics of selected loans relevant for the ECL calculation.<br><br>In addition, for a sample of Stage 3 loans, we challenged the estimated cash flow scenarios and their probabilities. In performing the procedure, we focused on the key assumptions in relation to the amount and timing of estimated cash flows, which included primarily the value of the underlying collateral.<br><br>We evaluated the results of the back-testing of PD and LGD performed by the Company by reference to model PDs and historical defaults observed by the Company.<br><br>We critically assessed the overall reasonableness of the estimated Expected Credit Losses by comparing the ratios of loss allowances to gross loan receivables per stage and in total against market average ratios and the ratios of selected similar banks in the market.<br><br>We assessed the adequacy of the Company's disclosures on the loss allowances and credit risk management in the notes to the consolidated financial statements. |

### *Other Information*

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

As described in Note 1 to the financial statements, PPF banka a.s. has not prepared an annual report as at 31 December 2019, as it includes the respective information in a consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

### *Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements*

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

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Company's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

*Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 26 April 2019 and our uninterrupted engagement has lasted for 21 years.

*Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 17 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

*Provision of Non-audit Services*

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

## Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of PPF banka a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague
17 April 2020

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Registration number 2059

# INDIVIDUAL FINANCIAL STATEMENTS

for the year ended 31 December 2019 in accordance with International Financial Reporting Standards (IFRS)

## Individual Statement of Comprehensive Income

for the year ended 31 December 2019

| In millions of CZK | Note | 2019 | 2018 |
|---|---|---|---|
| Interest and similar income | 7 | 6,073 | 4,314 |
| Interest expense and similar charges | 7 | (1,961) | (846) |
| **Net interest and similar income** | | **4,112** | **3,468** |
| Dividend income | | 2 | 1 |
| Fee and commission income | 8 | 209 | 186 |
| Fee and commission expense | 8 | (79) | (54) |
| **Net fee and commission income** | | **130** | **132** |
| Net income from financial operations | 9 | (435) | 362 |
| Other operating income | 10 | 20 | 2 |
| **Operating income** | | **3,829** | **3,965** |
| General administrative expenses | 11 | (907) | (979) |
| Other operating expenses | 12 | (367) | (229) |
| **Operating expenses** | | **(1,274)** | **(1,208)** |
| Impairment (loss)/reversal | 26 | 74 | (68) |
| **Profit before income tax** | | **2,629** | **2,689** |
| Income tax expense | 22 | (541) | (487) |
| **Net profit for the year** | | **2,088** | **2,202** |
| **Other comprehensive income** | | **2019** | **2018** |
| **Items that are or may be reclassified to profit or loss** | | | |
| Fair value reserve (debt instruments measured at fair value through other comprehensive income): | | 722 | (855) |
| Net change in fair value | | 810 | (665) |
| Net amount transferred to profit or loss | | (88) | (190) |
| Deferred tax | | (132) | 129 |
| **Items that will not be reclassified to profit or loss** | | | |
| Fair value reserve (equity instruments designated at fair value through other comprehensive income): | | | |
| Net change in fair value | | (1) | 158 |
| **Other comprehensive income for the period** | | **589** | **(568)** |
| **Total comprehensive income for the period** | | **2,677** | **1,634** |

The notes on pages 8 to 112 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 17 April 2020.

Signed on behalf of the Board of Directors by:

**Petr Jirásko**

**Miroslav Hudec**

# Individual Statement of Financial Positions

as at 31 December 2019

| In millions of CZK | Note | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 156,713 | 165,640 |
| Financial assets at fair value through profit or loss | 14 | 7,166 | 9,605 |
| Financial assets at fair value through other comprehensive income | 15 | 17,551 | 18,784 |
| Debt instruments at amortised cost | 16 | 4,174 | 3,051 |
| Loans and advances to banks | 17 | 3,636 | 3,030 |
| Loans and advances to customers | 18 | 36,935 | 34,437 |
| Investments in subsidiaries | 19 | 132 | 135 |
| Property, plant and equipment | 20 | 167 | 38 |
| Intangible assets | 21 | 193 | 144 |
| Deferred tax assets | 22 | – | 28 |
| Other assets | 25 | 291 | 270 |
| **Total assets** | | **226,958** | **235,162** |
| **Liabilities** | | | |
| Deposits from banks | 27 | 24,950 | 66,306 |
| Deposits from customers | 28 | 171,723 | 132,785 |
| Debt securities issued | 29 | 3,536 | 2,583 |
| Financial liabilities at fair value through profit or loss | 30 | 9,054 | 16,180 |
| Income tax liabilities | 31 | 61 | 180 |
| Deferred tax liabilities | 22 | 138 | – |
| Provisions | 33 | 183 | 232 |
| Other liabilities | 32 | 3,018 | 5,276 |
| **Total liabilities** | | **212,663** | **223,542** |
| **Shareholders' equity** | | | |
| Issued capital | 36 | 769 | 769 |
| Share premium | 36 | 412 | 412 |
| Retained earnings | | 12,508 | 10,392 |
| Fair value reserve | 37 | 606 | 47 |
| **Total shareholders' equity** | | **14,295** | **11,620** |
| **Total liabilities and shareholders' equity** | | **226,958** | **235,162** |

# Individual Statement of Cash Flows

for the year ended 31 December 2019

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 2,629 | 2,689 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 74 | 40 |
| Net impairment loss on investment securities | 12 | 6 |
| Net impairment loss on loans and advances | (87) | 110 |
| Net interest income | (4,112) | (3,468) |
| Revaluation of financial assets and liabilities at fair value through profit or loss | 207 | 82 |
| Net gain/loss on the sale of financial assets at fair value through other comprehensive income | (87) | (190) |
| Other non-cash adjustments | 237 | (267) |
| **Operating profit before the change in operating assets and liabilities** | **(1,127)** | **(998)** |
| **Changes in:** | | |
| Financial assets at fair value through profit or loss | 2,235 | (686) |
| Debt instruments at amortised cost | (1,123) | 200 |
| Loans and advances to banks | (606) | 1,445 |
| Loans and advances to customers | (2,407) | (1,471) |
| Other assets | (21) | 10 |
| Financial liabilities at fair value through profit or loss | (7,126) | 3,244 |
| Deposits from banks | (41,356) | 27,343 |
| Deposits from customers | 38,938 | (24,599) |
| Other liabilities and provisions | (2,293) | (3,259) |
| | **(14,886)** | **1,229** |
| Interest received | 6,070 | 4,254 |
| Dividends received | 2 | 1 |
| Interest paid | (1,780) | (913) |
| Income taxes paid | (630) | (526) |
| **Net cash from / (used in) operating activities** | **(11,224)** | **4,045** |
| **Cash flow from investing activities** | | |
| Acquisition of financial assets at fair value through other comprehensive income | (12,101) | (18,625) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | 13,562 | 25,648 |
| Acquisition of property and equipment | (16) | (21) |
| Acquisition of intangible assets | (74) | (69) |
| Acquisition of subsidiaries and capital funds increase | – | (23) |
| Sale of subsidiaries | 8 | – |
| **Net cash from / (used in) investing activities** | **1,379** | **6,910** |
| **Cash flow from financing activities** | | |
| Proceeds from issue of debt securities | 1,611 | 220 |
| Repayment of debt securities issued | (658) | (818) |
| Repayment of subordinated debt | – | (1,525) |
| Leasing payments | (34) | – |
| **Net cash from / (used in) financing activities** | **919** | **(2,123)** |
| Net increase/(decrease) in cash and cash equivalents | (8,926) | 8,832 |
| Cash and cash equivalents at 1 January | 165,640 | 156,805 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | (1) | 3 |
| **Cash and cash equivalents at 31 December** | **156,713** | **165,640** |

# Individual Statement of Changes in Equity

for the year ended 31 December 2019

| In millions of CZK | Issued capital | Share premium | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **769** | **412** | **47** | **10,392** | **11,620** |
| **Total comprehensive income for the period** | | | | | |
| Profit for 2019 | – | – | – | 2,088 | 2,088 |
| Other liabilities – Social Fund | – | – | – | (2) | (2) |
| **Other comprehensive income** | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income, incl. tax | – | – | 589 | – | 589 |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | – | – | (30) | 30 | – |
| **Total** | **769** | **412** | **606** | **12,508** | **14,295** |
| **Transactions with owners, contribution and distribution to owners** | | | | | |
| Dividends paid | – | – | – | – | – |
| **Balance at 31 December 2019** | **769** | **412** | **606** | **12,508** | **14,295** |
| **Balance at 1 January 2018** | **769** | **412** | **545** | **8,418** | **10,144** |
| **Total comprehensive income for the period** | | | | | |
| Profit for 2018 | – | – | – | 2,202 | 2,202 |
| Other liabilities – Social Fund | – | – | – | (2) | (2) |
| **Other comprehensive income** | | | | | |
| Changes in fair value of available-for-sale financial assets, net of tax | – | – | (568) | – | (568) |
| **Total** | **769** | **412** | **47** | **10,392** | **11,620** |
| **Transactions with owners, contribution and distribution to owners** | | | | | |
| Dividends paid | – | – | – | – | – |
| **Balance at 31 December 2018** | **769** | **412** | **47** | **10,392** | **11,620** |

# NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

for the year ended 31 December 2019

## 1. Introduction

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

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

— execution of banking transactions and provision of banking services in the Czech Republic and abroad, to the extent permitted by relevant legislation and the licence granted by the Czech National Bank (CNB). The Bank may 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., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 33264887.

Registered office of the Bank:

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

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

## 2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 assets at fair value through other comprehensive income.

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.

Information about assumptions and estimation uncertainties that may have a significant effect on the financial statements in the year ended 31 December 2019 is included in the following notes:

— impairment of financial instruments, determining inputs into the ECL measurement model, including incorporation of forward-looking information in note 5;
— sensitivity analysis of loss allowance by relevant categories in note 42(a);
— determination of the fair value of financial instruments with significant unobservable inputs in note 3(c).

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.

Estimates which may have a significant effect on the financial statements in the next year regarding the standards that are not yet effective and are relevant for the financial statements are discussed in note 4.

Information about judgements made in applying accounting policies that may have a significant effect on the financial statements is included in the following notes.

— classification of financial instruments, especially the assessment of the business model and assessment of whether contractual cash flows are solely payments of principal and interest from unpaid principal ("SPPI") in note 3(c);
— assessment of whether there has been a significant increase in the credit risk of a financial instrument since initial recognition considering all available and relevant information, including quantitative and qualitative information, analysis based on historical experience of the bank and forward-looking information in note 5.

The individual financial statements have been prepared on the basis of the going-concern principle. In addition to the individual financial statements, the Bank prepares consolidated financial statements, which include the companies stated in note 19.

## b) Foreign currency

### i) Functional currency

The individual financial statements are presented in Czech crowns (CZK), which is the Bank's functional currency.

### ii) Foreign currency transactions

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

## c) Financial instruments

### i) Classification and measurement of financial assets

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (“AC”), fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified under one of these categories on initial recognition.

**Business model assessment**

The Bank made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the management. The information considered includes:

— the stated policies and objectives for the portfolio and the operation of those policies in practice;
— how the performance of the portfolio is evaluated and reported to the Bank’s management;
— the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
— how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
— the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Assessment of whether contractual cash flows are solely payments of principal and interest (“SPPI”)

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

— contingent events that would change the amount and timing of cash flows;
— leverage features;
— prepayment and extension terms;
— terms that limit the Bank’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
— features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

### POCI assets

IFRS 9 also includes so called POCI assets. POCI assets are purchased or originated financial assets that are credit-impaired on initial recognition.

### (ii) Recognition

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

### iii) Fair value measurement principles

Fair value is the price the bank would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date.

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

### Valuation models

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

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

#### iv) 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 "Net income from financial operations".

Gains and losses arising from a change in the fair value of financial assets measured at fair value through other comprehensive income are recognised directly in other comprehensive income and become the equity item "Changes in fair value of financial assets at FVOCI".

#### v) Specific financial instruments

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash deposited with banks and 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 are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. If contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, the financial assets are measured at amortised cost in line with IFRS 9. The financial assets are measured at fair value through profit or loss if the contractual terms do not meet the criteria specified above.

#### Debt securities issued

Own issued debt securities are recognised at amortised cost under "Debt securities issued". Upon initial recognition, own debt securities are measured at cost, which includes direct transaction costs.

#### Subordinated liabilities

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

### vi) Financial Derivatives

Financial derivatives with positive fair value are presented as "Financial assets measured at fair value through profit or loss". Financial derivatives with negative fair value are presented as "Financial liabilities measured at fair value through profit or loss".

For presentation purposes derivatives are split into

— derivatives held for trading; and
— hedging derivatives.

Derivatives held for trading are those which are not designated as hedging instruments. All kinds of non-hedging derivatives, without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, or purpose, i.e. both trading derivatives and derivatives held for risk management, are presented in this line item. Hedging derivatives are those which are designated as hedging instruments in hedges fulfilling the conditions of IFRS 9.

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

## d) Derecognition and contractual modification

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the financial asset, provided that the Bank also transfers substantially all the risks and rewards of ownership of the financial asset.

Substantial modification of the contractual cash flows of a financial asset is considered by the Bank to be the expiry of contractual rights to the financial asset. The Bank uses internally defined quantitative and qualitative criteria to assess the significance of a change. As for the quantitative criteria, the Bank considers contractual terms to be significantly changed if the discounted present value of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset as of the date of modification. As for the qualitative criteria, the Bank considers contractual terms to be significantly changed if the new contractual cash flow would not meet SPPI criteria or there would be change of legal form, tax regime, currency of the financial assets or addition of convertible option to the financial asset terms. If a quantitative or qualitative criterion is not met, this is taken to mean a significant change and the lapse of contractual rights attaching to the original financial asset. If at least one of the qualitative or qualitative criteria is not met, the Bank derecognises the modified financial asset. Where the modification of a financial asset results in the derecognition of an existing financial asset and the subsequent recognition of a modified financial asset, the modified asset is treated as a new financial asset for the Bank's purposes.

A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. Substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day they are delivered (settlement date accounting).

In case of derecognition of investments in equity instruments designated at fair value through other comprehensive income, the Bank does not reclassify cumulative gain or loss from equity to profit or loss. The cumulative gain or loss is transferred within equity.

Debt instruments measured at amortised cost, loans and advances to banks and loans and advances to customers are derecognised on the day of maturity or on the day they are transferred by the Bank.

In the event of the modification of a financial instrument not measured at fair value through profit or loss that does not result in derecognition, the Bank recalculates the gross carrying amount of the financial asset (amortised cost of the financial liability) as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's (financial liability's) original effective interest rate and recognises the modification gain or loss in profit or loss.

## e) Repurchase transactions

The Bank enters into purchases (sales) of financial assets under agreements to resell (repurchase) identical financial assets at a certain date in the future at a fixed price. Financial assets purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers or cash and cash equivalents. 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.

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 and similar income" or "Interest expense and similar charges".

## f) Offsetting

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

## g) Impairment

The Bank assesses impairment loss on financial assets based on a forward-looking "expected credit loss" model in line with IFRS 9. The model assumptions and estimates are described in detail in note 5(i).

When the expected credit loss increases in the period, the amount of corresponding impairment loss on the financial asset is recognised in the statement of comprehensive income line item "Impairment loss".

If the expected credit loss decreases in the subsequent period, the amount of corresponding impairment loss reversal is recognised in the statement of comprehensive income line item "Impairment reversal".

When a financial asset is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the financial asset is written off directly to the statement of comprehensive income.

**Loans and advances to banks, loans and advances to customers, debt instruments measured at amortised cost**
Loans and advances to banks, loans and advances to customers and debt instruments measured at amortised cost are presented net of any loss allowance.

**Financial assets measured at fair value through other comprehensive income**
Financial assets measured at fair value through other comprehensive income are presented at fair value. The loss allowance for expected credit loss is recognised in the equity line item "Fair value reserve".

**Financial guarantees, loan commitments and letters of credit**
Financial guarantees, loan commitments and letters of credit are presented at fair value. The loss allowance for expected credit loss is recognised in the statement of financial position line item "Provisions".

## h) Net interest and similar income

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 include 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. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortised over the life of the loan.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset except for POCI financial assets and financial assets that have subsequently become credit-impaired financial assets.

For POCI financial assets, the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For financial assets that have subsequently become credit-impaired financial assets, the Bank applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

## i) Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate and are therefore included in “Interest and similar income” or “Interest expense and similar charges”.

Other 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.

Other fee and commission expenses relate mainly to transaction and service fees, account maintenance and brokerage fees which are expensed as the services are received.

## j) Penalty fees

Penalty fees that have not been claimed or that have been waived are excluded from profit or loss.

## k) Net income from financial operations

Net income from financial operations includes gains and losses arising from disposals of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, except for equity instruments designated at fair value through other comprehensive income. Net income from financial operations also includes gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss. This item also includes foreign exchange gains and losses.

## 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) Investments in subsidiaries

Investments in subsidiaries are measured at historical costs decreased by potential accumulated impairment losses.

## n) 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 | 50 years |
| Other | 1–10 years |

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

## o) 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.

## p) Leases – applicable until 31. 12. 2018

A lease is classified as a finance lease if it transfers to the lessee all substantial risks and rewards incidental to ownership of the asset being leased. Otherwise it is an operating lease.

**From a lessee perspective:**

**Operating leases**

Lease payments are recognised as an expense on a straight-line basis over the lease term. Any payments relating to the early termination of the lease are charged to costs in the period in which the lease is terminated.

**Finance leases**

From its perspective as a lessee, the Bank has not entered into any lease that qualifies as a finance lease.

**From a lessor perspective:**

The Bank does not provide leasing services in the capacity of a lessor.

## q) Leases – applicable from 1. 1. 2019

**From a lessee perspective:**
The Bank treats a contract as a lease if it conveys the right to control the use of a given asset for a period of time in exchange for consideration.

A right-of-use asset and a lease liability are recognised at the lease commencement date.

A right-of-use asset is initially measured at cost. The cost of a right-of-use asset comprises: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs; and an estimate of costs to be incurred in restoring the underlying asset. The asset is subsequently depreciated on a straight-line basis over the estimated useful life of the right-of-use asset, or until the end of the lease term, if earlier.

A right-of-use tangible asset is recognised as a tangible asset in the statement of financial position.

A lease liability recognised in other liabilities is measured at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, variable lease payments that depend on an index, amounts expected to be payable by the lessee under residual value guarantees, and the exercise price of a purchase option or an option to extend or terminate a lease if the Bank is reasonably certain to exercise that option. Lease payments are discounted using the Bank's incremental borrowing rate.

After the commencement date, the Bank revises the remeasurement of lease liabilities to reflect changes to the lease payments. The Bank also makes the corresponding adjustment to the value of the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank recognises it in profit or loss.

Interest on the lease liability is recognised in interest expense.

**From a lessor perspective:**
The Bank does not provide leasing services in the capacity of a lessor.

## r) 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.

## s) Income taxes

The income tax base is calculated from the current year profit. Expenses considered non-taxable expenses are added and income considered 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.

## t) 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.

## 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 2019, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations.

**Amendments to IAS 1** *Presentation of Financial Statements* and **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors* (Effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Bank assessed the new amendments to the standard and determined that they would have no major impact on its financial statements.

**Amendments to IFRS 10** and **IAS 28** *Sale or contribution of assets between an investor and its associate or joint venture* (The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

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

The Bank assessed the new amendments to thestandards and determined that they would have no major impact on its financial statements.

**Amendments to IFRS 3** *Business Combinations* (Effective for annual periods beginning on or after 1 January 2020. These amendments are not yet endorsed by the EU.)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Bank assessed the new amendments to the standard and determined that they would have no major impact 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 judgements

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 financial assets

The Bank assesses impairment loss on financial assets based on a forward-looking "expected credit loss" ("ECL") model in line with IFRS 9.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Financial assets for which the provision is reported at 12-month expected credit losses are referred to as stage 1 financial assets. Financial assets are classified under stage 1 if they are assigned a low credit risk or if their credit risk has not significantly increased since the initial recognition.

Financial assets for which the provision is reported at the level of lifelong expected credit losses are referred to as stage 2 financial assets. Financial assets are reclassified under stage 2 if their credit risk has significantly increased since initial recognition and they are not currently assigned a low credit risk.

Financial assets in default are classified as stage 3 financial assets.

### Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn and the cash flows that the Bank expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

### Definition of default

Under IFRS 9, the Bank considers a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without realising collateral; or
- the borrower is more than 90 days past due on the respective significant credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank mainly considers the following indicators:

— approval of the forced restructuring of the receivable, with the effect of a reduction in the borrower's financial liabilities;
— active insolvency proceedings against the borrower in the insolvency register;
— the removal of the borrower's licence for activity for which licensing is required;
— the declaration of a moratorium on payments to international creditors (valid only for Sovereigns);
— the initiation of steps by the Bank to activate guarantees provided by guarantors for the borrower's commitments;
— a performing exposure with relief in the probationary period is more than 30 days past due during the probationary period;
— the borrower is unlikely (according to an assessment by the Bank) to fully repay liabilities to the Bank, the parent company or subsidiaries without the realisation of collateral;
— loss of the borrower's regular income intended for the repayment of liabilities to the Bank;
— there are reasonable concerns about the borrower's future ability to generate stable and sufficient cash flows;
— a significant increase in the borrower's level of debt, or a reasonable expectation of such an increase;
— breach of covenants laid down in the contract with the borrower;
— a significant delay in the borrower's payments to other creditors is recorded in the Central Credit Register (or in another credit register);
— a crisis in the borrower's sector, accompanied by the borrower's weak position in that sector;
— the disappearance of an active market for a financial asset because of the borrower's financial difficulties;
— the default of another member in an economically linked group;
— a borrower facing financial difficulties receives material financial assistance (for more than 12 months) from the parent company, shareholders or another member of an economically linked group in order to meet liabilities, unless this is financial assistance pre-planned or expected during the lending approval procedure.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

**Credit risk grades**

The Bank allocates each exposure a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure is allocated a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades are primary inputs in the determination of the probability of default (PD) development for exposures.

**Determining whether credit risk has increased significantly**

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting – based on availability and complexity – of the Bank's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset becomes more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

— the credit risk grade as at the reporting date; with
— the credit risk grade that was estimated on initial recognition of the exposure.

The Bank deems the credit risk of a particular exposure to have increased significantly since initial recognition if the credit risk grade at the reporting date is determined to have increased – since initial recognition – by two notches or more.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

The Bank monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the results of assessment are compliant with IFRS 9 and internal guidelines and settings.

**Inputs in the measurement of ECLs**

The key inputs in the measurement of ECLs are – in general – the following variables:

— probability of default (PD);
— loss given default (LGD); and
— exposure at default (EAD).

These parameters are – separately or collectively – derived from statistical models created on the basis of available market data. Models created on the basis of available market data are periodically back-tested on internal historical data. Failure probability estimates are estimates at a certain date that are calculated on the basis of statistical rating models and assessed using the rating tools established for different categories of counterparties and exposures.

The migration of a counterparty or exposure between rating classes results in a change in the estimate of the associated PD.

Loss given default (LGD) is the amount of probable loss in the event of a default. For stage 1 and 2 exposures, the Bank uses external comparative information to assess LGD parameters. For stage 3 exposures, the Bank uses the difference between the gross carrying amount of an asset and the present value of estimated future cash flows, applying scenario probability weights to measure expected credit losses.

EAD represents the exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty. The EAD of a financial asset is the gross carrying amount at default reduced by the net realisable value of collateral received.

**Forward-looking information**

Under IFRS 9, the Bank incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of the measurement of ECLs. The external information used may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

On the strength of data availability and resource credibility, the Bank uses historical data analysis to estimate the relationships between macroeconomic variables and probabilities of default that are used to measure expected credit losses.

## 6. Changes in accounting policies

There were no changes in accounting policies during the period from 1 January 2019 to 31 December 2019 except for those disclosed below.

The Bank has adopted IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019), which supersedes IAS 17 Leases and related interpretations.

From the perspective of the Bank as a lessee, the most significant changes occurred in leases previously classified as operating leases under IAS 17, where the Bank, on implementing IFRS 16 as at 1 January 2019, recognised right-of-use assets of MCZK 162 under Tangible Assets and, similarly, lease liabilities at an amortised cost of MCZK 162 under Financial Liabilities. The weighted average Bank incremental borrowing rate of 2,3% was applied to lease liabilities recognised in the statement of financial position at the date of initial application. The contracts mainly concerned office and branch leases.

In accordance with the transitional provisions of IFRS 16, the Bank adopted a modified retrospective approach, i.e. without adjusting the comparative information.

## 7. Net interest income and similar income

| MCZK | 2019 | 2018 |
|---|---|---|
| **Interest and similar income** | | |
| Cash and cash equivalents | 2,324 | 1,365 |
| Loans and advances to banks | 105 | 58 |
| Loans and advances to customers | 2,679 | 2,014 |
| Of which: | | |
| Unpaid interest income from impaired loans | 2 | 34 |
| Unpaid interest income from loans with forbearance | – | 10 |
| Debt securities | 965 | 877 |
| | **6,073** | **4,314** |
| **Interest expense and similar charges** | | |
| Deposits from banks | (147) | 13 |
| Deposits from customers | (1,575) | (568) |
| Debt securities issued and short sales | (236) | (244) |
| Lease liabilities | (3) | – |
| Subordinated liabilities | – | (47) |
| | **(1,961)** | **(846)** |
| **Net interest income and similar income** | **4,112** | **3,468** |

The Bank did not waive any interest on late payment during the years 2019 and 2018.

# 8. Net fee and commission income

| MCZK | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Transaction fee with clients | 111 | 87 |
| Fees from guarantees provided | 25 | 19 |
| Fees from administration of shares/bonds issue | 18 | 20 |
| Transaction fee with banks | 5 | 3 |
| Other | 50 | 57 |
| | **209** | **186** |
| **Fee and commission expense** | | |
| Transaction fee with other counterparties | (39) | (34) |
| Transaction fee with banks | (25) | (20) |
| Other | (15) | – |
| | **(79)** | **(54)** |
| **Net fee and commission income** | **130** | **132** |

# 9. Net income from financial operations

| MCZK | 2019 | 2018 |
|---|---|---|
| Net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss | (732) | 469 |
| Of which: | | |
| Net profit/(loss) from derivatives | (1,249) | 54 |
| Trading securities | 517 | 415 |
| Net realised gains/(losses) on financial assets at fair value through other comprehensive income | 88 | 190 |
| Of which: | | |
| Debt instruments | 88 | 190 |
| Net gains/(losses) on financial liabilities at amortised cost | – | (18) |
| Of which: | | |
| Debt instruments | – | (18) |
| Foreign exchange gains and losses | 209 | (279) |
| | **(435)** | **362** |

# 10. Other operating income

Other operating income comprises net gain from sale of a subsidiary amounting to MCZK 8, income from re-invoicing and other similar income.

# 11. General administrative expenses

| MCZK | 2019 | 2018 |
|---|---|---|
| Personnel expenses | | |
| Wages and salaries | (252) | (244) |
| Social expenses | (83) | (85) |
| Liability insurance, pension insurance | (4) | (3) |
| Remuneration paid to key management personnel* | (54) | (50) |
| | (393) | (382) |
| Other general operating expenses | | |
| Gifts | (210) | (200) |
| Consultancy services | (133) | (136) |
| Other | (171) | (261) |
| | (514) | (597) |
| | **(907)** | **(979)** |

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2019 and 2018 was as follows:

| | 2019 | 2018 |
|---|---|---|
| Board of Directors | 5 | 5 |
| Supervisory Board ** | 6 | 6 |
| Executives | 2 | 2 |
| Employees ** | 237 | 235 |

* Remuneration paid to key management personnel includes remuneration paid to the Board of Directors, Supervisory Board and executives.
** Two employees are also members of the Supervisory Board and are therefore included in both number of employees and the members of the Supervisory Board.

## 12. Other operating expenses

| MCZK | 2019 | 2018 |
|---|---|---|
| Payment to Resolution Fund | (291) | (181) |
| Depreciation of fixed assets | (74) | (40) |
| Payment to Deposit Insurance Fund | (1) | (1) |
| Payment to Guarantee Fund | (1) | (2) |
| Net loss on sale investment in subsidiary | – | (5) |
| | **(367)** | **(229)** |

The basis for the calculation of the payment to the Guarantee Fund for 2019 amounted to MCZK 68 (2018: MCZK 74).

## 13. Cash and cash equivalents

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Cash on hand | 35 | 41 |
| Nostro account balances | 1,647 | 2,992 |
| Term deposits with the central bank | 6,100 | – |
| Reverse repo with the central bank | 148,931 | 162,607 |
| Loss allowance | – | – |
| **Net cash and cash equivalents** | **156,713** | **165,640** |

The technical parameters of the reverse repo operation with the central bank are as follows: maturity of two weeks, interest rate set by CNB for two-week repo operations (the "2W repo rate").

## 14. Financial assets at fair value through profit or loss

All financial assets at fair value through profit or loss are classified as measured at fair value through profit or loss in accordance with IFRS 9. All financial assets listed below are held within the held-for-trading business model.

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bonds and notes issued by: | | |
| Government | 2,282 | 4,357 |
| Corporate | 250 | 1,364 |
| Positive fair value of derivatives: | | |
| Interest rate contracts | 3,048 | 2,514 |
| Currency contracts | 1,586 | 1,370 |
| Of which: | | |
| Listed instruments | 2,462 | 5,780 |
| Unlisted instruments | 4,704 | 3,825 |
| | **7,166** | **9,605** |

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

# 15. Financial assets at fair value through other comprehensive income

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bonds issued by: | | |
| Government | 4,892 | 6,125 |
| Corporate bonds | 12,482 | 11,912 |
| Equity instruments at fair value through other comprehensive income | | |
| Shares and other equity instruments issued by: | | |
| Other issuers | 177 | 747 |
| Of which: | | |
| Listed instruments | 15,259 | 15,251 |
| Unlisted instruments | 2,292 | 3,533 |
| **Total** | **17,551** | **18,784** |

Debt instruments at fair value through other comprehensive income were classified under this category on the basis of the Bank's business model for managing financial assets.

Interest income from debt instruments at fair value through other comprehensive income is recognised in interest and similar income.

The fair value of unlisted bonds was estimated using discounted cash-flow techniques.

The loss allowance for expected credit loss on debt instruments at fair value through other comprehensive income was MCZK 62 as at 31 December 2019 (2018: MCZK 54). The loss allowance for expected credit loss is presented in the equity line item "Fair value reserve".

A credit risk analysis and a detailed overview of impairment loss on debt instruments at fair value through other comprehensive income are disclosed in note 42 (a).

The Bank designated certain investments shown in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long term.

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Best Hotel Properties (ISIN: SK1120005105) | 176 | 196 |
| Swift S.C. (ISIN: BE0016790090) | 1 | 1 |
| Aphelium Real Estate (ISIN: MT7000022984) | – | 550 |
| **Total** | **177** | **747** |

The Bank disposed of an investment during the year ended 31 December 2019 and transferred the cumulative gain of MCZK 30 within equity. No investments were disposed of during the year ended 31 December 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments. The result of the change in fair value on investments was a loss of MCZK 20 in 2019 (2018: profit of MCZK 145). The Bank did not recognise any dividends related to these instruments in 2019 or 2018.

# 16. Debt instruments at amortised cost

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bills of exchange: | 4,175 | 3,053 |
| Corporate bills of exchange | 4,175 | 3,053 |
| Loss allowance | (1) | (2) |
| **Net debt instruments at amortised cost** | **4,174** | **3,051** |

A credit risk analysis and a detailed overview of impairment loss on debt instruments at amortised cost are disclosed in note 42 (a).

# 17. Loans and advances to banks

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Loans to banks | 77 | 131 |
| Money market transactions | 1,009 | 142 |
| Cash collateral for derivative instruments | 2,194 | 1,867 |
| Balances with the central bank | 356 | 891 |
| Loss allowance | – | (1) |
| **Net loans and advances to banks** | **3,636** | **3,030** |

At 31 December 2019 loans and advances to banks included balances with the central bank amounting to MCZK 356 (31. 12. 2018: MCZK 891) representing the obligatory minimum reserves. Compliance with the requirement to hold a certain level of obligatory minimum reserves is measured using the monthly average of daily closing balances. These funds are not available for the Bank's daily business.

A credit risk analysis and a detailed overview of impairment loss on loans and advances are disclosed in note 42 (a).

# 18. Loans and advances to customers

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Total loans and advances to customers | 37,944 | 35,774 |
| Loss allowance | (1,009) | (1,337) |
| **Net loans and advances to customers** | **36,935** | **34,437** |

A credit risk analysis and a detailed overview of impairment loss on loans and advances are disclosed in note 42 (a).

# 19. Investments in subsidiaries

The Bank controls the following subsidiaries:

| | Principal place of business | 31. 12. 2019 Share (%) | 31. 12. 2018 Share (%) | 31. 12. 2019 MCZK | 31. 12. 2018 MCZK |
|---|---|---|---|---|---|
| Ruconfin B.V. | RU | 100% | 100% | 51 | 51 |
| USconfin 1 DAC | US | 0% | 100% | – | 3 |
| PPF Co3 B.V. | ID, IN, PH, EU | 100% | 100% | 81 | 81 |
| **Investment in subsidiaries** | | | | **132** | **135** |

The Bank established the subsidiary Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation in 2012. Ruconfin B.V. buys receivables from Home Credit and Finance Bank in the Russian Federation.

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

In 2018 the Bank established its subsidiary USconfin 1 DAC with the aim of entering the consumer credit segment in the United States. The Bank sold the company in 2019.

The Bank held no interest participation with significant influence as at 31 December 2019 and 31 December 2018.

# 20. Property, plant and equipment

| MCZK | Low value fixed assets | Building | Furniture and fittings | Equipment | Fixed assets not in use yet | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2018 | 3 | 13 | 12 | 95 | 5 | 128 |
| Additions | 1 | – | 6 | 17 | 3 | 27 |
| Disposals | (1) | (6) | (3) | (24) | (5) | (39) |
| At 31 December 2018 | 3 | 7 | 15 | 88 | 3 | 116 |
| Recognition of right-of-use assets according to IFRS 16 | – | 162 | – | – | – | 162 |
| At 1 January 2019 | 3 | 169 | 15 | 88 | 3 | 278 |
| Additions | 1 | – | – | 17 | 3 | 21 |
| Disposals | – | – | – | (4) | (5) | (9) |
| At 31 December 2019 | 4 | 169 | 15 | 101 | 1 | 290 |
| **Depreciation** | | | | | | |
| At 1 January 2018 | 3 | 2 | 11 | 76 | – | 92 |
| Additions | – | 5 | 1 | 13 | – | 19 |
| Disposals | – | (6) | (3) | (24) | – | (33) |
| At 31 December 2018 | 3 | 1 | 9 | 65 | – | 78 |
| At 1 January 2019 | 3 | 1 | 9 | 65 | – | 78 |
| Additions | 1 | 32 | 1 | 15 | – | 49 |
| Disposals | – | – | – | (4) | – | (4) |
| At 31 December 2019 | 4 | 33 | 10 | 76 | – | 123 |
| **Net book value** | | | | | | |
| At 31 December 2018 | – | 6 | 6 | 23 | 3 | 38 |
| At 31 December 2019 | – | 136 | 5 | 25 | 1 | 167 |

At 31 December 2019 the Bank recorded right-of-use assets in the amount of MCZK 130 and related depreciation expense in the amount of MCZK 32.

# 21. Intangible assets

| MCZK | Software | Total |
|---|---|---|
| Cost | | |
| At 1 January 2018 | 408 | 408 |
| Additions | 69 | 69 |
| Disposals | – | – |
| At 31 December 2018 | 477 | 477 |
| At 1 January 2019 | 477 | 477 |
| Additions | 86 | 86 |
| Disposals | (12) | (12) |
| At 31 December 2019 | 551 | 551 |
| **Amortisation** | | |
| At 1 January 2018 | 312 | 312 |
| Additions | 21 | 21 |
| Disposals | – | – |
| At 31 December 2018 | 333 | 333 |
| At 1 January 2019 | 333 | 333 |
| Additions | 25 | 25 |
| Disposals | – | – |
| At 31 December 2019 | 358 | 358 |
| **Net book value** | | |
| At 31 December 2018 | 144 | 144 |
| At 31 December 2019 | 193 | 193 |

# 22. Deferred tax liability/asset and income tax

Deferred taxes are calculated from all temporary differences between the tax and accounting value of assets and liabilities. To determine the recognised deferred taxes the Bank uses the income tax rate applicable in the periods in which deferred taxes are expected to be utilised, i.e. 19% for the following years (in 2019 and 2018 the tax rate in the Czech Republic was 19%).

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax asset from wages and unpaid social and health insurance | 18 | 21 |
| Deferred tax asset from financial assets at fair value through other comprehensive income | – | 1 |
| Deferred tax asset from loans and advances to customers | – | 6 |
| **Deferred tax assets** | **18** | **28** |
| **Deferred tax liabilities** | | |
| Deferred tax liability from financial assets at fair value through other comprehensive income | (131) | – |
| Deferred tax liability from loans and advances to customers | (25) | – |
| **Deferred tax liabilities** | **(156)** | **–** |
| **Net deferred tax assets (liabilities)** | **(138)** | **28** |

The amount of deferred tax relating to changes at the tax rate applicable for the deferred tax calculation is MCZK 0 (2018: MCZK 0). There was no unrecognised item related to deferred tax.

At 31 December 2019 the Bank recorded receivables from customers of penalty interest not yet collected of MCZK 133 (31. 12. 2018: MCZK 122), where the relevant income is not taxable. Due to the application of IFRS 9 from 1 January 2018, the Bank created a loss allowance for performing receivables in the amount of MCZK 151, which was a temporary difference for the year ended 31 December 2018. Therefore, the Bank created a deferred tax liability in the amount of MCZK 25 (31. 12. 2018: deferred tax asset of MCZK 6), all of which was recognised.

A change in deferred tax from financial assets at fair value through other comprehensive income disclosed as at 31 December 2019 decreased other comprehensive income by MCZK 132 (2018: increased other comprehensive income by MCZK 129) and was included in the Bank's equity through the adjustment to the "Fair value reserve".

Taxes on income consist of current tax on income calculated based on the results reported for tax purposes and the change in deferred taxes.

| MCZK | 2019 | 2018 |
|---|---|---|
| Income tax – current | (511) | (507) |
| Income tax – related to prior years | 3 | (12) |
| Income tax – deferred | (33) | 32 |
| **Income tax expense** | **(541)** | **(487)** |

| MCZK | 2019 | 2018 |
|---|---|---|
| **Tax rate** | **19.0%** | **19.0%** |
| Profit from operations (before taxation) | 2,629 | 2,689 |
| Computed taxation using applicable tax rate | 500 | 511 |
| Tax non-deductible expenses | 106 | 109 |
| Non-taxable income | (63) | (65) |
| Other items | (35) | (36) |
| **Income tax (expense)/income – current** | **(508)** | **(519)** |
| **Effective tax rate** | **19.3%** | **19.3%** |

# 23. Operating leasing

Non-cancellable operating lease rentals are payable as follows:

| MCZK | 2019 | 2018 |
|---|---|---|
| Less than one year | – | 33 |
| Between one and five years | – | 127 |
| More than five years | – | 2 |
| **Total** | **–** | **162** |

In 2018, the Bank leased branch and office premises under operating leases. The leases typically included an option to renew the lease after that date. The operating leasing expense was MCZK 38 in 2018.

# 24. Lease liabilities

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Lease liabilities** | **131** | **–** |
| Current | 35 | – |
| Non-current | 96 | – |
| **Interest on lease liabilities** | **3** | **–** |

The Bank leases branch and office premises under operating leases.

Variable lease payments depend on the consumer price index set by the Czech Statistical Office, payments are updated annually as at 1 January.

The lease liabilities are recognised under the item “Other liabilities” in the statement of financial position. Interest on lease liabilities are recognised in the income statement in the line item “Interest and similar income”.

Maturity analysis – contractual undiscounted cash flows:

| MCZK | 2019 | 2018 |
|---|---|---|
| Less than one year | 37 | – |
| Between one and five years | 97 | – |
| More than five years | 4 | – |
| **Total** | **138** | **–** |

# 25. Other assets

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Clearing with securities market | 42 | 17 |
| Prepaid expenses and accrued revenues | 20 | 34 |
| Cash collateral to payment cards | 166 | 165 |
| Other | 67 | 58 |
| Loss allowance | (4) | (4) |
| | **291** | **270** |

# 26. Impairment gains/losses

| MCZK | 2019 | 2018 |
|---|---|---|
| Gains/(Losses) from change in loss allowance: | | |
| Loans and advances to banks | 1 | (1) |
| Financial assets at amortised cost | 1 | 1 |
| Financial assets at fair value through other comprehensive income | (13) | (8) |
| Loans and advances to customers | 328 | (109) |
| Other assets | – | 1 |
| Write-offs – loans and advances to customers | (237) | – |
| Gains/(Losses) from change in provisions – off-balance sheet assets | (6) | 48 |
| | **74** | **(68)** |

# 27. Deposits from banks

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Deposits from banks | 23,920 | 65,664 |
| Other (loro account balances) | 1,030 | 642 |
| | **24,950** | **66,306** |

# 28. Deposits from customers

| MCZK | Payable on demand | | Term deposits | | Repo operations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Financial institutions* | 37,234 | 15,047 | 14,076 | 13,157 | 62,848 | 41,733 | 114,158 | 69,937 |
| Public sector | 20,694 | 24,032 | 15,141 | 13,595 | – | – | 35,835 | 37,627 |
| Non-financial institutions | 11,301 | 9,998 | 4,699 | 7,180 | – | 3,099 | 16,000 | 20,277 |
| Households/Individuals | 5,333 | 4,792 | 397 | 152 | – | – | 5,730 | 4,944 |
| **Total** | **74,562** | **53,869** | **34,313** | **34,084** | **62,848** | **44,832** | **171,723** | **132,785** |

* Holdings included

Interest is recognised in the item Interest expense and similar charges.

# 29. Debt securities issued

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial institutions | 3,496 | 2,187 |
| Non-financial institutions | 40 | 392 |
| Resident individuals | – | 4 |
| | **3,536** | **2,583** |

| MCZK | Interest | maturity | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|---|---|
| Investment certificates | fixed | 2020–2022 | 3,496 | 2,188 |
| Issued notes | fixed | 2020 | 40 | 395 |
| | | | **3,536** | **2,583** |

The Bank has not had any defaults of principal or interest or other breaches with respect to its debt securities issued during the years ended 31 December 2019 and 2018.

# 30. Financial liabilities at fair value through profit or loss

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Negative fair value of derivatives: | | |
| Interest rate contracts | 3,143 | 2,100 |
| Currency contracts | 1,954 | 1,587 |
| Liabilities from short sales of securities | 3,957 | 12,493 |
| | **9,054** | **16,180** |

# 31. Income tax liabilities

As of 31 December 2019 a tax liability of MCZK 511 (31. 12. 2018: MCZK 507) is offset against income tax advances totalling MCZK 446 (31. 12. 2018: MCZK 323) and tax paid abroad amounting to MCZK 4 (31. 12. 2018: MCZK 4).

## 32. Other liabilities

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Blocked accounts | 2,055 | 4,791 |
| Liabilities from clearing | 552 | 225 |
| Payables to suppliers | 159 | 154 |
| Lease liabilities | 131 | – |
| Other liabilities to employees | 20 | 19 |
| Accrued expenses and deferred income | 43 | 16 |
| Social and health insurance | 7 | 7 |
| Liabilities from securities transactions | 2 | 2 |
| Other payables | 49 | 62 |
| | **3,018** | **5,276** |

Blocked accounts mainly consist of collateral deposits for derivatives totalling MCZK 1,875 (31. 12. 2018: MCZK 3,960).

## 33. Provisions

The development of provisions is disclosed in the following table:

| MCZK | Provisions for guarantees provided | Legal provisions | Other provisions | Total |
|---|---|---|---|---|
| **Provisions at 1 January 2019** | **29** | **184** | **19** | **232** |
| Creation | 80 | 3 | – | 83 |
| Use | – | (57) | – | (57) |
| Release | (74) | – | (1) | (75) |
| Effect on profit for the year | 6 | (54) | (1) | (49) |
| **Provisions at 31 December 2019** | **35** | **130** | **18** | **183** |
| **Provisions at 1 January 2018** | **77** | **118** | **10** | **205** |
| Creation | 52 | 66 | 9 | 127 |
| Use | – | – | – | – |
| Release | (100) | – | – | (100) |
| Effect on profit for the year | (48) | 66 | 9 | 27 |
| **Provisions at 31 December 2018** | **29** | **184** | **19** | **232** |

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

The creation of legal provisions is mainly an ancillary action by the insolvency trustee that relates to an alleged ineffective legal action by the debtor towards the Bank and litigation concerning the enforcement of a bank guarantee that has been provided. In 2019, the Bank lost a court case disputing the eligibility of calling a bank guarantee and paid the amount of the bank guarantee, plus interest, charges and legal costs, to the counterparty. At the same time, an appeal on a point of law was lodged in this case. The Bank created a provision for legal expenses in this appeal process.

# 34. 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 2019:** | | |
| to banks (CNB included) | 148,931 | 147,410 |
| to clients | 261 | 476 |
| **Loans and advances at 31 December 2018:** | | |
| to banks (CNB included) | 162,607 | 161,329 |
| to clients | 390 | 689 |

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 2019:** | | |
| to banks | 23,920 | 26,856 |
| to clients | 62,848 | 61,450 |
| **Deposits at 31 December 2018:** | | |
| to banks | 65,574 | 71,248 |
| to clients | 44,832 | 43,880 |

# 35. Offsetting financial instruments

Financial assets subject to offsetting and potential offsetting agreements as at 31 December 2019

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral received | Non-cash financial collateral received | |
| Derivatives held for trading | 2,713 | 2,713 | (1,049) | – | 1,664 |
| Reverse repurchase agreements | 149,192 | 149,192 | – | (147,666) | 1,526 |
| **Total** | **151,905** | **151,905** | **(1,049)** | **(147,666)** | **3,190** |

Financial liabilities subject to offsetting and potential offsetting agreements as at 31 December 2019

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral provided | Non-cash financial collateral provided | |
| Derivatives held for trading | (4,234) | (4,234) | 1,646 | – | (2,588) |
| Repurchase agreements | (86,768) | (86,768) | – | 85,370 | (1,398) |
| **Total** | **(91,002)** | **(91,002)** | **1,646** | **85,370** | **(3,986)** |

Financial assets subject to offsetting and potential offsetting agreements as at 31 December 2018

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral received | Non-cash financial collateral received | |
| Derivatives held for trading | 2,986 | 2,986 | (1,175) | – | 1,811 |
| Reverse repurchase agreements | 162,997 | 162,997 | – | (161,719) | 1,278 |
| **Total** | **165,983** | **165,983** | **(1,175)** | **(161 719)** | **3,089** |

Financial liabilities subject to offsetting and potential offsetting agreements as at 31 December 2018

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral provided | Non-cash financial collateral provided | |
| Derivatives held for trading | 2,232 | 2,232 | 1,031 | – | (1,201) |
| Repurchase agreements | 110,406 | 110,406 | – | 109,454 | (952) |
| **Total** | **112,638** | **112,638** | **1,031** | **109 454** | **(2,153)** |

The Bank uses repurchase agreements and master netting agreements as a means of reducing the credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in the hands of the lender as collateral in case the borrower defaults in any obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received/ pledged. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction, the value is capped at the level of the carrying amount. The remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

# 36. Issued capital

| | Number of shares | Nominal value CZK | Registered capital MCZK |
|---|---|---|---|
| **As at 31 December 2019:** | | | |
| | 192,131 | 2,602.5 | 500 |
| | 384,262 | 700.0 | 269 |
| | 576,393 | | 769 |
| **As at 31 December 2018:** | | | |
| | 192,131 | 2,602.5 | 500 |
| | 384,262 | 700.0 | 269 |
| | 576,393 | | 769 |

The shareholder structure as at 31 December 2019 and as at 31 December 2018 was as follows:

| Name | Residence | Number of shares | Share MCZK | Share % |
|---|---|---|---|---|
| PPF Financial Holdings B.V. | 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 as at 31 December 2019 or 31 December 2018.

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. The share premium amounts to MCZK 412 (31. 12. 2018: MCZK 412).

# 37. Nature and purpose of reserves

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income and a loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income, until the assets are derecognised.

# 38. Dividends paid

No dividends were paid by the Bank in 2019 and 2018.

# 39. Proposed allocation of net profit for the year

The Bank proposes to allocate its profit as follows

| MCZK | Net profit for the year |
|---|---|
| Net profit for the year 2019 | 2,088 |
| Proposed allocation of profit for 2019: | |
| Transfer to social funds | (2) |
| Transfer to retained earnings | (2,086) |
| | **–** |

The Social Fund is part of other liabilities.

# 40. 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 | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Guarantees issued | 1,126 | 1,596 |
| Undrawn credit commitments | 11,964 | 5,323 |
| Letters of credit | – | 34 |
| | **13,090** | **6,953** |

The total outstanding contractual commitments to extend the credits indicated above do not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

## b) Off-balance sheet financial instruments

| MCZK | Notional value | | Fair value | |
|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Derivatives | | | | |
| Interest Rate Swaps | 243,755 | 177,816 | (101) | 304 |
| Interest Rate Forwards | 50,700 | – | 6 | – |
| Foreign exchange derivatives | | | (368) | (218) |
| Purchase | 192,012 | 263,925 | | |
| Sale | 192,375 | 264,157 | | |
| Options | – | – | – | – |
| Other derivatives | | | 45 | 110 |
| Purchase | 43 | 1,368 | | |
| Sale | 43 | 1,373 | | |
| | | | **(463)** | **196** |

Other derivatives consist of futures (2018: 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 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2019** | | | | | | |
| Interest Rate Swaps | 7,945 | 25,625 | 74,273 | 135,912 | – | 243,755 |
| Interest Rate Forwards – FRA | – | 50,700 | – | – | – | 50,700 |
| FX derivatives (purchase) | 82,422 | 46,571 | 63,019 | – | – | 192,012 |
| FX derivatives (sale) | 82,514 | 46,802 | 63,059 | – | – | 192,375 |
| Options | – | | | – | – | |
| Other derivatives (purchase) | 43 | – | – | – | – | 43 |
| Other derivatives (sale) | 43 | – | – | – | – | 43 |
| **As at 31 December 2018** | | | | | | |
| Interest Rate Swaps | 3,531 | 20,406 | 58,872 | 95,007 | – | 177,816 |
| Interest Rate Forwards – FRA | – | – | – | – | – | 0 |
| FX derivatives (purchase) | 78,045 | 127,478 | 58,634 | – | – | 264,157 |
| FX derivatives (sale) | 77,958 | 127,399 | 58,568 | – | – | 263,925 |
| Options | | | | – | – | 0 |
| Other derivatives (purchase) | 1,368 | – | – | – | – | 1,368 |
| Other derivatives (sale) | 1,373 | – | – | – | – | 1,373 |

# 41. 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 2019** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | 156,713 | – | 156,713 | 156,713 |
| Loans and advances to banks | – | 3,636 | – | 3,636 | 3,636 |
| Loans and advances to customers | – | – | 36,914 | 36,914 | 36,935 |
| Debt instruments at amortised cost | – | – | 4,197 | 4,197 | 4,174 |
| **Financial liabilities** | | | | | |
| Deposits from banks | – | 24,950 | – | 24,950 | 24,950 |
| Deposits from customers | – | 171,723 | – | 171,723 | 171,723 |
| Debt securities issued | – | 3,469 | – | 3,469 | 3,536 |

| MCZK | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | 165,640 | – | 165,640 | 165,640 |
| Loans and advances to banks | – | 3,030 | – | 3,030 | 3,030 |
| Loans and advances to customers | – | – | 34,262 | 34,262 | 34,437 |
| Debt instruments at amortised cost | – | – | 3,038 | 3,038 | 3,051 |
| **Financial liabilities** | | | | | |
| Deposits from banks | – | 66,306 | – | 66,306 | 66,306 |
| Deposits from customers | – | 132,785 | – | 132,785 | 132,785 |
| Debt securities issued | – | 2,549 | – | 2,549 | 2,583 |

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 cash equivalents

For cash and cash equivalents 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.

### Debt instruments at amortised cost

Debt instruments at amortised cost are net of specific and other provisions for impairment. The estimated fair value of debt instruments at amortised cost represents the discounted amount of the estimated future cash flows expected to be received.

### Deposits from banks

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

### Deposits from customers

The estimated fair value of current and deposit accounts without a stated maturity was deemed to be equal to the carrying value. All fixed rate term deposits are renewed regularly at market rates; thus the fair value is deemed to be equal to the carrying value.

### Debt securities issued

For issued debt securities, the fair value is calculated based on market inputs.

### Subordinated liabilities

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

The following table analyses 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) (iii):

| MCZK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Securities held for trading | 2,462 | 70 | – | 2,532 |
| Derivatives held for trading | – | 4,634 | – | 4,634 |
| Financial assets at fair value through other comprehensive income | 15,259 | 2,292 | – | 17,551 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Securities held for trading | 3,957 | – | – | 3,957 |
| Derivatives held for trading | – | 5,097 | – | 5,097 |

| MCZK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2018** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Securities held for trading | 5,664 | 57 | – | 5,721 |
| Derivatives held for trading | 115 | 3,769 | – | 3,884 |
| Financial assets at fair value through other comprehensive income | 15,251 | 3,533 | – | 18,784 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Securities held for trading | 8,033 | 4,460 | – | 12,493 |
| Derivatives held for trading | – | 3,687 | – | 3,687 |

In 2019, there were no transfers of financial assets recognised at fair value to or from Level 3. The following table states the transfers of financial assets recognised at fair value to and from Level 3 in 2018:

| MCZK | Financial assets at fair value through other comprehensive income | Total |
|---|---|---|
| **Balance as at 1 January 2018** | **52** | **52** |
| Profit and loss from revaluation | – | – |
| In profit or loss | – | – |
| In other comprehensive income | – | – |
| Purchases | – | – |
| Sales | – | – |
| Transfers into Level 3 | – | – |
| Transfers out of Level 3 | (52) | (52) |
| Transfers between portfolios | | – |
| **Balance as at 31 December 2018** | **–** | **–** |

# 42. 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 risk
d) operational risk.

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.

## a) Credit risk

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

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

### Managing credit risk at individual level

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

When determining creditworthiness, the Bank also specifies the likelihood of a client's default and what the expected loss relating to the Bank's potential engagement in respect to the client may be. An internal rating is assigned to each client constituting a credit risk to the Bank, i.e. representing an exposure in both the investment and the trading portfolios. The exposures evaluated include both balance sheet and off-balance sheet exposures. The internal rating system comprises 14 ratings (A1–A4, B1–B6, C1–C4). Clients with default receivables must always be assigned one of the C2–C4 grades. The Bank has plotted this internal scale to reflect the rating scales of prominent external rating agencies. Below is a table showing the indicative pairing of the risk level with external ratings.

| | External rating |
|---|---|
| Very low risk | AAA–AA |
| Low to fair risk | A–BBB |
| Medium risk | BB–B |
| High risk | CCC |
| Default | CC and lower |

### Credit risk management at the portfolio level

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

### Classification of receivables, assessment of impairment losses

The Bank classifies receivables into the following categories:

— performing receivables (without the default of the debtor)
— non-performing receivables (debtor in default)

The Bank assesses the impairment loss on performing receivables at an amount equal to the 12-month expected credit losses (stage 1 under IFRS9) or to the lifetime expected credit losses (stage 2 under IFRS9).

The Bank assesses the impairment loss on non-performing receivables at an amount equal to the lifetime expected credit losses (stage 3 under IFRS). To determine the impairment loss, the Bank applies the method of discounting estimated future cash flows. The loss is determined as the difference between the asset's gross carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset. The original effective interest rate is the effective interest rate ascertained upon the establishment of the receivable or on the last date the modification of the contractual cash flow or interest income was made. The Bank writes off a receivable when it does not expect any income from the receivable or from received collateral related to such receivable.

Set out below is an analysis of the gross and net (of allowances for impairment) carrying amounts (or fair value where applicable) of financial assets individually impaired by internal rating system grades and classification of the asset as at year end. The amounts represent the Bank's maximum exposure to credit risk.

The tables analysing changes in provisions in the respective categories present the development of provisions and reserves during the year. These were affected by various factors during the year, such as:

— a change in the stage of a financial asset (see below – an increase or decrease in a provision/reserve within the scope of a transfer, as reported in the values of a provision/reserve corresponding to the appropriate stage);
— the emergence of new assets (i.e. the recognition of a new provision/reserve reported at the stage under which a financial asset was classified at the end of the accounting period);
— the derecognition or write-off of financial assets (i.e. the derecognition of the corresponding provision/reserve);
— a change in the PD/EAD/LGD of individual financial asset (i.e. an increase or decrease in the provision/reserve);
— a change in the calculation methodology, a modification of the cash flows of financial assets, or a change in the exchange rates of financial assets (and provisions/reserves) in foreign currencies during the year.

The Bank did not recognise any financial asset in 2019 or 2018 that has been modified since initial recognition and transferred from stage 2 or 3 (the loss allowance measured at an amount equal to lifetime expected credit losses) to stage 1 (the loss allowance measured at an amount equal to 12-month expected credit losses).

### Financial assets at fair value through other comprehensive income (excluding equity instruments designated at fair value through other comprehensive income)

| MCZK | 31. 12. 2019 Fair value | 31. 12. 2018 Fair value |
|---|---|---|
| Debt instruments | 17,374 | 18,037 |
| **Total** | **17,374** | **18,037** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 4,789 | – | – | – | 4,789 |
| Low to fair risk | 7,011 | – | – | – | 7,011 |
| Medium risk | 4,282 | 1,118 | – | – | 5,400 |
| High risk | 174 | – | – | – | 174 |
| Default | – | – | – | – | – |
| **Fair value** | **16,256** | **1,118** | **–** | **–** | **17,374** |
| Loss allowance | (39) | (28) | – | – | (67) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 5,775 | – | – | – | 5,775 |
| Low to fair risk | 7,310 | – | – | – | 7,310 |
| Medium risk | 4,419 | 533 | – | – | 4,952 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Fair value** | **17,504** | **533** | **–** | **–** | **18,037** |
| Loss allowance | (41) | (13) | – | – | (54) |

The loss allowance for the expected credit loss on debt instruments at fair value through other comprehensive income is presented in the equity line item “Fair value reserve”.

Set out below is an analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 41 | 13 | – | – | 54 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | 1 | (8) | – | – | (7) |
| Transfer to stage 2 | (1) | 6 | – | – | 5 |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 12 | 1 | – | – | 13 |
| Changes in PD/LGD/EADs, unwind of discount | (4) | 17 | – | – | 13 |
| Derecognition of financial asset | (11) | – | – | – | (11) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | (1) | – | – | – |
| **Net change in 2018** | **(2)** | **15** | **–** | **–** | **13** |
| Loss allowance as at 31. 12. 2019 | 39 | 28 | – | – | 67 |

Set out below is an analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 34 | 10 | – | – | 44 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | 6 | – | – | 6 |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 7 | – | – | – | 7 |
| Changes in PD/LGD/EADs, unwind of discount | 11 | – | – | – | 11 |
| Derecognition of financial asset | (12) | (4) | – | – | (16) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | 1 | – | – | 2 |
| **Net change in 2018** | **7** | **3** | **–** | **–** | **10** |
| Loss allowance as at 31. 12. 2018 | 41 | 13 | – | – | 54 |

## Debt instruments at amortised cost

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Bills of exchange | 4,175 | (1) | 4,174 | 3,053 | (2) | 3,051 |
| **Total** | **4,175** | **(1)** | **4,174** | **3,053** | **(2)** | **3,051** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 4,175 | – | – | – | 4,175 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **4,175** | **–** | **–** | **–** | **4,175** |
| Loss allowance | (1) | – | – | – | (1) |
| **Net carrying amount** | **4,174** | **–** | **–** | **–** | **4,174** |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 3,053 | – | – | – | 3,053 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **3,053** | **–** | **–** | **–** | **3,053** |
| Loss allowance | (2) | – | – | – | (2) |
| **Net carrying amount** | **3,051** | **–** | **–** | **–** | **3,051** |

Set out below is the analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 2 | – | – | – | 2 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 2 | – | – | – | 2 |
| Changes in PD/LGD/EADs, unwind of discount | (1) | – | – | – | (1) |
| Derecognition of financial asset | (2) | – | – | – | (2) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2019** | **(1)** | **–** | **–** | **–** | **(1)** |
| Loss allowance as at 31. 12. 2019 | 1 | – | – | – | 1 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 3 | – | – | – | 3 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 3 | – | – | – | 3 |
| Changes in PD/LGD/EADs, unwind of discount | (1) | – | – | – | (1) |
| Derecognition of financial asset | (3) | – | – | – | (3) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2018** | **(1)** | **–** | **–** | **–** | **(1)** |
| Loss allowance as at 31. 12. 2018 | 2 | – | – | – | 2 |

### Balances with the central bank and loans and advances to banks

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Nostro account balances | 1,647 | – | 1,647 | 2,992 | – | 2,992 |
| Term deposits with the central bank | 6,100 | – | 6,100 | – | – | – |
| Reverse repo with the central bank | 148,931 | – | 148,931 | 162,607 | – | 162,607 |
| Loans and advances to banks | 3,636 | – | 3,636 | 3,031 | (1) | 3,030 |
| **Total** | **160,314** | **–** | **160,314** | **168,630** | **(1)** | **168,629** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stupeň 1 | Stupeň 2 | Stupeň 3 | POCI | Celkem |
| Very low risk | 155,947 | – | – | – | 155,947 |
| Low to fair risk | 3,032 | – | – | – | 3,032 |
| Medium risk | 1,297 | 38 | – | – | 1,335 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **160,276** | **38** | **–** | **–** | **160,314** |
| Loss allowance | – | – | – | – | – |
| **Net carrying amount** | **160,276** | **38** | **–** | **–** | **160,314** |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 166,521 | – | – | – | 166,521 |
| Low to fair risk | 1,741 | – | – | – | 1,741 |
| Medium risk | 284 | 84 | – | – | 368 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **168,546** | **84** | **–** | **–** | **168,630** |
| Loss allowance | – | (1) | – | – | (1) |
| **Net carrying amount** | **168,546** | **83** | **–** | **–** | **168,629** |

The Bank did not report any accrued interest to individually impaired loans and advances to banks as at 31 December 2019 and 2018.

Set out below is an analysis of changes in loss allowances by relevant categories:

### Loans and advances to customers (individually impaired)

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Loans and advances to customers | 37,944 | (1,009) | 36,935 | 35,774 | (1,337) | 34,437 |
| **Total** | **37,944** | **(1,009)** | **36,935** | **35,774** | **(1,337)** | **34,437** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 394 | – | – | – | 394 |
| Medium risk | 32,445 | 835 | – | – | 33,280 |
| High risk | 1,353 | 56 | – | – | 1,409 |
| Default | – | – | 2,861 | – | 2,861 |
| **Gross carrying amount** | **34,192** | **891** | **2,861** | **–** | **37,944** |
| Loss allowance | (163) | (22) | (824) | – | (1,009) |
| **Net carrying amount** | **34,029** | **869** | **2,037** | **–** | **36,935** |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 326 | – | – | – | 326 |
| Medium risk | 29,299 | 974 | – | – | 30,273 |
| High risk | 563 | – | – | – | 563 |
| Default | – | – | 4,612 | – | 4,612 |
| **Gross carrying amount** | **30,188** | **974** | **4,612** | **–** | **35,774** |
| Loss allowance | (167) | (9) | (1,161) | – | (1,337) |
| **Net carrying amount** | **30,021** | **965** | **3,451** | **–** | **34,437** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 167 | 9 | 1 161 | – | 1 337 |
| Transfers between stages: | | | | | |
| Transfer to stage 1 | – | (1) | – | – | (1) |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | (1) | – | 21 | – | 20 |
| New financial assets originated or purchased | 103 | 18 | 22 | – | 143 |
| Changes in PD/LGD/EADs, unwind of discount | 12 | (3) | 10 | – | 19 |
| Derecognition of financial asset | (118) | (1) | (153) | – | (272) |
| Write-offs | – | – | (237) | – | (237) |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2019** | **(4)** | **13** | **(337)** | **–** | **(328)** |
| Loss allowance as at 31. 12. 2019 | 163 | 22 | 824 | – | 1,009 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 139 | 12 | 1,067 | – | 1,218 |
| Transfers between stages: | | | | | |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | (1) | 2 | – | – | 1 |
| Transfer to stage 3 | (1) | – | 6 | – | 5 |
| New financial assets originated or purchased | 99 | 3 | – | – | 102 |
| Changes in PD/LGD/EADs, unwind of discount | (6) | (2) | 108 | – | 100 |
| Derecognition of financial asset | (64) | (6) | (29) | – | (99) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | – | 9 | – | 10 |
| **Net change in 2018** | **28** | **(3)** | **94** | **–** | **119** |
| Loss allowance as at 31. 12. 2018 | 167 | 9 | 1,161 | – | 1,337 |

Accrued interest to credit-impaired loans and advances to customers was reported in the amount of MCZK 161 as at 31 December 2019 (31. 12. 2018: MCZK 182).

### Loans and advances to customers

| MCZK | 2019 | 2018 |
|---|---|---|
| Gross | 37,944 | 35,774 |
| Performing | 35,083 | 31,162 |
| Due | 34,855 | 30,956 |
| Past due 1–90 days | 228 | 206 |
| Past due 91–360 days | – | – |
| Past due more than 360 days | – | – |
| Non-performing | 2,861 | 4,612 |
| Allowances for impairment | (1,009) | (1,337) |
| **Total** | **36,935** | **34,437** |

### Loan commitments

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 11,493 | 394 | – | – | 11,887 |
| High risk | 75 | – | – | – | 75 |
| Default | – | – | 2 | – | 2 |
| **Gross amount** | **11,568** | **394** | **2** | **–** | **11,964** |
| Loss allowance | (20) | – | – | – | (20) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 10 | – | – | – | 10 |
| Medium risk | 5,291 | 2 | – | – | 5,293 |
| High risk | 20 | – | – | – | 20 |
| Default | – | – | – | – | – |
| **Gross amount** | **5,321** | **2** | **–** | **–** | **5,323** |
| Loss allowance | (14) | – | – | – | (14) |

### Financial guarantees, letters of credit

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 589 | 521 | – | – | 1,110 |
| High risk | – | – | – | – | – |
| Default | – | – | 16 | – | 16 |
| **Gross amount** | **589** | **521** | **16** | **–** | **1,126** |
| Loss allowance | (1) | (1) | (13) | – | (15) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 1,355 | 256 | – | – | 1,611 |
| High risk | – | – | – | – | – |
| Default | – | – | 19 | – | 19 |
| **Gross amount** | **1,355** | **256** | **19** | **–** | **1,630** |
| Loss allowance | (8) | (1) | (6) | – | (15) |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 22 | 1 | 6 | – | 29 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | 2 | – | 2 |
| New financial assets originated or purchased | 30 | 1 | – | – | 31 |
| Changes in PD/LGD/EADs, unwind of discount | (24) | – | 6 | – | (18) |
| Derecognition of financial asset | (7) | (1) | (1) | – | (9) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2019** | **(1)** | **–** | **7** | **–** | **6** |
| Loss allowance as at 31. 12. 2019 | 21 | 1 | 13 | – | 35 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 22 | 2 | 53 | – | 77 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | 1 | – | – | – | 1 |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 17 | 2 | | – | 19 |
| Changes in PD/LGD/EADs, unwind of discount | (8) | (1) | 3 | – | (6) |
| Derecognition of financial asset | (10) | (2) | (50) | – | (62) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | |
| **Net change in 2018** | **–** | **(1)** | **(47)** | **–** | **(48)** |
| Loss allowance as at 31. 12. 2018 | 22 | 1 | 6 | – | 29 |

### Other assets – Past due, but not impaired

As at 31 December 2019 the Bank reported MCZK 0 of other assets as “Past due, but not impaired” (31. 12. 2018: MCZK: 0).

### Sensitivity analysis of loss allowance by relevant categories

Set out below is the analysis of changes in loss allowance which would occur in case of an increase of PD by 10 %:

| 2019<br>MCZK | Loss allowance in the baseline scenario | Increase of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 67 | 74 | 7 | 10% |
| Nostro accounts, deposits with central banks and loans and advances to banks | – | – | – | 10% |
| Loans and advances to customers | 1,009 | 1,028 | 19 | 2% |
| Loan commitments, financial guarantees and letters of credit | 35 | 37 | 2 | 6% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Increase of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 54 | 59 | 5 | 10% |
| Nostro accounts, deposits with central banks and loans and advances to banks | 1 | 1 | – | 10% |
| Loans and advances to customers | 1,337 | 1,355 | 18 | (1%) |
| Loan commitments, financial guarantees and letters of credit | 29 | 31 | 2 | 8% |

Set out below is the analysis of changes in loss allowance which would occur in case of a decrease of PD by 10 %:

| 2019<br>MCZK | Loss allowance in the baseline scenario | Decrease of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 67 | 60 | (7) | (10%) |
| Nostro accounts, deposits with central banks and loans and advances to banks | – | – | – | (10%) |
| Loans and advances to customers | 1,009 | 991 | (19) | (2%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 33 | (2) | (6%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Decrease of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 54 | 49 | (5) | (10%) |
| Nostro accounts, deposits with central banks and loans and advances to banks | 1 | 1 | – | (10%) |
| Loans and advances to customers | 1,337 | 1,319 | (18) | (1%) |
| Loan commitments, financial guarantees and letters of credit | 29 | 27 | (2) | (8%) |

For loans and advances to customers, loan commitments, financial guarantees and letters of credit, the Bank also discloses its analysis of the sensitivity of loss allowance to changes in rating grades.

| 2019<br>MCZK | Loss allowance in the baseline scenario | Improvement of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,009 | 957 | (52) | (5%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 29 | (6) | (17%) |

| 2019<br>MCZK | Loss allowance in the baseline scenario | Deterioration of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,009 | 1,630 | 621 | 62% |
| Loan commitments, financial guarantees and letters of credit | 35 | 48 | 13 | 37% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Improvement of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,337 | 1,290 | (47) | (3%) |
| Loan commitments, financial guarantees and letters of credit | 29 | 21 | (8) | (28%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Deterioration of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,337 | 1,512 | 175 | 13% |
| Loan commitments, financial guarantees and letters of credit | 29 | 40 | 11 | 38% |

For loans and advances to customers, loan commitments, financial guarantees and letters of credit, the Bank also discloses its analysis of the sensitivity of loss allowance to changes in forward-looking information, specifically to the change in expected GDP developments.

| 2019<br>MCZK | Loss allowance in the baseline scenario | Increase in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,009 | 986 | (23) | (2%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 33 | (2) | (6%) |

| 2019<br>MCZK | Loss allowance in the baseline scenario | Decrease in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,009 | 1,038 | 29 | 3% |
| Loan commitments, financial guarantees and letters of credit | 35 | 38 | 3 | 8% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Increase in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,337 | 1,323 | (14) | (1%) |
| Loan commitments, financial guarantees and letters of credit | 29 | 27 | (2) | (7%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Decrease in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,337 | 1,354 | 17 | 1% |
| Loan commitments, financial guarantees and letters of credit | 29 | 31 | 2 | 7% |

### Evaluation of collateral

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

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

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

### Loans with renegotiated terms and the Bank's forbearance policy

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

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

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

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Not credit-impaired | 34,898 | 31,054 |
| Of which: | | |
| Loans and advances to customers with forbearance: | 30 | 27 |
| Credit-impaired | 2,037 | 3,383 |
| Of which: | | |
| Loans and advances to customers with forbearance: | 1,622 | 2,652 |
| **Total** | **36,935** | **34,437** |

The following table shows loans and advances to customers with forbearance and without forbearance split by sectors:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Loans and advances to customers without forbearance: | 35,283 | 31,758 |
| Residents: | | |
| Financial institutions | 1,317 | 1,585 |
| Non-financial institutions | 14,074 | 11,061 |
| Households/individuals | 117 | 130 |
| Public sector | 74 | 150 |
| Non-residents | 19,701 | 18,832 |
| Loans and advances to customers with forbearance: | 1,652 | 2,679 |
| Residents: | | |
| Financial institutions | – | – |
| Non-financial institutions | 58 | 65 |
| Households/individuals | – | – |
| Public sector | – | – |
| Non-residents | 1,594 | 2,614 |
| **Total** | **36,935** | **34,437** |

The following table shows gross carrying amounts of loans and advances to customers, loan commitments, financial guarantees and letters of credit split according to type of collateral:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bank guarantees | 941 | 2,195 |
| Property | 8,204 | 9,459 |
| Financial guarantees | 547 | 536 |
| Other | 1,975 | 547 |
| Unsecured | 39,367 | 29,990 |
| **Total** | **51,034** | **42,727** |

The following table shows gross carrying amounts of loans and advances to customers, loan commitments, financial guarantees and letters of credit classified as non-performing according to type of collateral:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bank guarantees | 826 | 1,850 |
| Property | 1,204 | 1,335 |
| Financial guarantees | – | – |
| Other | 26 | 9 |
| Unsecured | 823 | 1,437 |
| **Total** | **2,879** | **4,631** |

The “Unsecured” category also includes loans and advances to customers, loan commitments, financial guarantees and letters of credit that are secured by collateral, but the Bank assigns zero accounting value to the collateral.

### Concentration of credit risks

The concentration of credit risks arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations.

The Bank manages the exposure limits in line with the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), such that the Bank shall not incur an exposure, after taking into account the effect of the credit risk to a client or group of connected clients, the value of which exceeds 25% of its eligible capital. Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25% of the institution's eligible capital or EUR 150 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in relation to all connected clients that are not institutions, does not exceed 25% of the institution's eligible capital.

The Bank did not exceed any exposure limits towards individual debtors or related parties in the reporting period.

The Bank calculates the capital requirement for the credit risk of the investment portfolio using a standardised approach in accordance with the Basel III standard under the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR).

### Concentration of credit risks according to economic sector/industry

| MCZK | Loans and advances to banks | | Loans and advances to customers | | Debt securities | |
|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Concentration according to economic sector/industry: | | | | | | |
| Financial institutions* | 3,636 | 3,030 | 17,685 | 15,922 | 9,765 | 9,836 |
| Public sector | – | – | 75 | 150 | 7,174 | 10,482 |
| Non-financial institutions | – | – | 19,028 | 18,198 | 7,141 | 6,492 |
| Real estate | – | – | 7,524 | 9 920 | – | – |
| Production and distribution of electricity, gas and heat | – | – | 3,015 | 2,175 | 699 | 760 |
| Wholesale | – | – | 1,061 | 1,447 | 844 | 581 |
| Accommodation | – | – | 1,008 | 1,136 | – | – |
| Other | – | – | 6,420 | 3,520 | 5,598 | 5,151 |
| Households/Individuals | – | – | 147 | 167 | – | – |
| **Total** | **3,636** | **3,030** | **36,935** | **34,437** | **24,080** | **26,810** |

* Holding entities included.

### Concentration of credit risk according to geographical areas by country of risk

| MCZK | Loans and advances to banks | | Loans and advances to customers | | Debt securities | |
|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Concentration according to geographical sectors | | | | | | |
| Czech Republic | 500 | 913 | 15,271 | 13,494 | 10,308 | 13,810 |
| Slovak Republic | – | – | 1,812 | 2,151 | 529 | 281 |
| Netherlands | – | – | – | 767 | 893 | 1,210 |
| Other EU countries | 1,430 | 1,658 | 3,007 | 3,331 | 3,268 | 4,106 |
| Russian Federation | 948 | 142 | 621 | 1,561 | 1,998 | 2,330 |
| Asia | – | – | 16,224 | 12,528 | 2,417 | 625 |
| North America | 602 | 186 | – | 605 | 3,376 | 2,911 |
| Other | 156 | 131 | – | – | 1,291 | 1,537 |
| **Total** | **3,636** | **3,030** | **36,935** | **34,437** | **24,080** | **26,810** |

## b) Liquidity risk

The liquidity risk represents the Bank's risk of incurring losses due to momentary insolvency. The Bank may also suffer a loss as a result of low liquidity in the market for the financial instruments included in the Bank's portfolios. The liquidity risk threatens the Bank's funding and investment needs. Market liquidity risk represents the risk of not being able to liquidate financial instruments quickly enough, or in sufficient volume and for reasonable prices. If the conditions are not favourable, this risk may 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 any 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 the carrying amounts of the Bank's assets and liabilities on the basis of their earliest possible contractual maturity.

The amounts on the basis of their expected recovery or settlement are essentially the same as the carrying amounts of 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 2019** | | | | | | |
| Cash and cash equivalents | 156,713 | – | – | – | – | 156,713 |
| Financial assets at fair value through profit or loss | 687 | 577 | 1,118 | 4,784 | – | 7,166 |
| Financial assets at fair value through other comprehensive income | 484 | 1,244 | 9,845 | 5,801 | 177 | 17,551 |
| Debt instruments at amortised cost | 1,512 | 2,134 | 528 | – | – | 4,174 |
| Loans and advances to banks | 3,584 | 26 | 26 | – | – | 3,636 |
| Loans and advances to customers | 6,424 | 9,963 | 18,401 | 2,147 | – | 36,935 |
| Investments and other assets | 268 | – | – | – | 515 | 783 |
| **Total** | **169,672** | **13,944** | **29,918** | **12,732** | **692** | **226,958** |
| Deposits from banks | 24,950 | – | – | – | – | 24,950 |
| Deposits from customers | 150,768 | 13,044 | 7,911 | – | – | 171,723 |
| Debt securities issued | 738 | 1,696 | 1,102 | – | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 743 | 847 | 1,918 | 5,546 | – | 9,054 |
| Tax and other liabilities and provisions | 3,222 | 85 | 31 | 62 | – | 3,400 |
| Shareholders' equity | – | – | – | – | 14 295 | 14,295 |
| **Total** | **180,421** | **15,672** | **10,962** | **5,608** | **14 295** | **226,958** |
| **At 31 December 2018** | | | | | | |
| Cash and cash equivalents | 165,640 | – | – | – | – | 165,640 |
| Financial assets at fair value through profit or loss | 451 | 1,130 | 1,904 | 6,120 | – | 9,605 |
| Financial assets at fair value through other comprehensive income | 77 | 1,004 | 12,296 | 4,660 | 747 | 18,784 |
| Debt instruments at amortised cost | 1,179 | 823 | 1,049 | | | 3,051 |
| Loans and advances to banks | 2,926 | 26 | 78 | – | – | 3,030 |
| Loans and advances to customers | 1,890 | 11,995 | 18,003 | 2,549 | | 34,437 |
| Investments and other assets | – | – | – | – | 615 | 615 |
| **Total** | **172,163** | **14,978** | **33,330** | **13,329** | **1,362** | **235,162** |
| Deposits from banks | 66,306 | – | – | – | – | 66,306 |
| Deposits from customers | 116,334 | 9,922 | 6,529 | – | – | 132,785 |
| Debt securities issued | 83 | 315 | 2,185 | – | – | 2,583 |
| Financial liabilities at fair value through profit or loss | 413 | 5,557 | 1,394 | 8,816 | – | 16,180 |
| Tax and other liabilities and provisions | 5,254 | 180 | – | – | 254 | 5,688 |
| Shareholders' equity | – | – | – | – | 11,620 | 11,620 |
| **Total** | **188,390** | **15,974** | **10,108** | **8,816** | **11,874** | **235,162** |

### Residual maturity of the Banks's off-balance-sheet items

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Commitments provided | 1,314 | 6,388 | 4,262 | – | – | 11,964 |
| Guarantees provided | 145 | 101 | 335 | 1 | – | 582 |
| **Total** | **1,459** | **6,489** | **4,597** | **1** | **–** | **12,546** |
| **At 31 December 2018** | | | | | | |
| Commitments provided | 831 | 3,532 | 960 | – | – | 5,323 |
| Guarantees provided | 39 | 658 | 336 | 1 | – | 1,033 |
| **Total** | **870** | **4,190** | **1,295** | **1** | **–** | **6,356** |

The following table shows undiscounted cash flows on the Bank's financial 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 2019** | | | | | | |
| Deposits from banks | 24,958 | – | – | – | – | 24,958 |
| Deposits from customers | 150,804 | 13,201 | 8,068 | – | – | 172,073 |
| Debt securities issued | 738 | 1,696 | 1,102 | – | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 743 | 847 | 1,918 | 5,547 | – | 9,055 |
| **Total** | **178,321** | **15,720** | **10,877** | **4,704** | **–** | **209,622** |
| **At 31 December 2018** | | | | | | |
| Deposits from banks | 66,304 | – | – | – | – | 66,304 |
| Deposits from customers | 116,329 | 10,025 | 6,646 | – | – | 133,000 |
| Debt securities issued | 84 | 316 | 2,185 | – | – | 2,585 |
| Financial liabilities at fair value through profit or loss | 413 | 5,557 | 1,394 | 8,816 | – | 16,180 |
| **Total** | **183,130** | **15,898** | **10,225** | **8,816** | **–** | **218,069** |

## c) Market risk

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

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

### Trading

The Bank holds trading positions in certain financial instruments. The majority of the Bank's business activities are based on the requirements of its customers. These positions are also held for the purpose of speculation on the future development of financial markets. The Bank's business strategy is thus affected by 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, risk position limits and Value at Risk (VaR) limits.

### Value at risk

Market risks arising from the Bank's trading activities are managed using the Value at Risk method. Value at Risk represents the potential loss arising from an unfavourable movement on the market within a certain time period and at a certain confidence level. The Bank determines the Value at Risk using the parametric method based on the historical development of interest rates, exchange rates and prices of equity instruments. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. That means that there is a 1% probability that the Bank will lose more than a certain amount over a one-day period.

| MCZK | 31 December 2019 | Average for 2019 | 31 December 2018 | Average for 2018 |
|---|---|---|---|---|
| VaR of interest instruments | 20 | 23 | 24 | 13 |
| VaR of currency instruments | 1 | 5 | 2 | 5 |
| VaR of equity instruments | – | 3 | – | 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.

### Currency risk exposure

| MCZK | CZK | EUR | USD | INR | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| Financial assets | 182,724 | 17,778 | 14,171 | 8,112 | 265 | 3,352 | 226,401 |
| Financial liabilities | 145,659 | 60,860 | 3,678 | 199 | 277 | 1,554 | 212,227 |
| FX derivatives | (22,182) | 42,942 | (10,464) | (8,590) | (180) | (1,889) | (363) |
| Net exposure | 14,883 | (140) | 29 | (677) | (192) | (91) | |

| MCZK | CZK | EUR | USD | INR | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| Financial assets | 192,122 | 17,986 | 15,842 | 5,340 | 149 | 3,309 | 234,748 |
| Financial liabilities | 156,643 | 59,210 | 5,769 | 7 | 337 | 1,141 | 223,107 |
| FX derivatives | (24,047) | 41,863 | (10,349) | (5,755) | 188 | (2,133) | (233) |
| Net exposure | 11,432 | 639 | (276) | (422) | – | 35 | |

### 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

The following table shows the carrying amounts of the Bank's financial assets and liabilities on the basis of their earliest possible repricing.

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Cash and cash equivalents | 156,713 | – | – | – | – | 156,713 |
| Financial assets at fair value through profit or loss | 689 | 602 | 1,115 | 4,760 | – | 7,166 |
| Financial assets at fair value through other comprehensive income | 1,305 | 6,585 | 6,971 | 2,513 | 177 | 17,551 |
| Debt instruments at amortised cost | 1,512 | 2,134 | 528 | – | – | 4,174 |
| Loans and advances to banks | 3,584 | 26 | 26 | 0 | – | 3,636 |
| Loans and advances to customers | 21,114 | 7,270 | 8,437 | 114 | – | 36,935 |
| Investments and other assets | 268 | – | – | – | 515 | 783 |
| **Total** | **185,185** | **16,617** | **17,077** | **7,387** | **692** | **226,958** |
| Deposits from banks | 24,950 | – | – | – | – | 24,950 |
| Deposits from customers | 150,768 | 13,044 | 7,911 | – | – | 171,723 |
| Debt securities issued | 738 | 1,696 | 1,102 | | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 1,821 | 823 | 1,707 | 4,703 | – | 9,054 |
| Tax and other liabilities and provisions | 2,845 | 24 | 93 | 4 | 434 | 3,400 |
| Shareholders' equity | – | – | – | – | 14,295 | 14,295 |
| **Total** | **181,122** | **15,587** | **10,813** | **4,707** | **14,729** | **226,958** |
| **Gap** | **4,063** | **1,030** | **6,264** | **2,680** | **(14,037)** | **–** |
| **Cumulative gap** | **4,063** | **5,093** | **11,357** | **14,037** | **–** | **–** |

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Cash and cash equivalents | 165,640 | – | – | – | – | 165,640 |
| Financial assets at fair value through profit or loss | 451 | 1,865 | 1,199 | 6,090 | – | 9,605 |
| Financial assets at fair value through other comprehensive income | 1,657 | 7,343 | 7,690 | 1,347 | 747 | 18,784 |
| Debt instruments at amortised cost | 1,179 | 823 | 1,049 | – | – | 3,051 |
| Loans and advances to banks | 3,030 | – | – | – | – | 3,030 |
| Loans and advances to customers | 16,681 | 10,281 | 7,374 | 101 | – | 34,437 |
| Investments and other assets | – | – | – | – | 615 | 615 |
| **Total** | **188,638** | **20,312** | **17,312** | **7,538** | **1,362** | **235,162** |
| Deposits from banks | 66,306 | – | – | – | – | 66,306 |
| Deposits from customers | 116,334 | 9,922 | 6,529 | – | – | 132,785 |
| Debt securities issued | 83 | 315 | 2,185 | – | – | 2,583 |
| Financial liabilities at fair value through profit or loss | 414 | 5,768 | 1,394 | 8,604 | – | 16,180 |
| Tax and other liabilities and provisions | 5,254 | – | – | – | 434 | 5,688 |
| Shareholders' equity | – | – | – | – | 11,620 | 11,620 |
| **Total** | **188,391** | **16,005** | **10,108** | **8,604** | **12,054** | **235,162** |
| **Gap** | **247** | **4,307** | **7,204** | **(1,066)** | **(10,692)** | **–** |
| **Cumulative gap** | **247** | **4,554** | **11,758** | **10,692** | | |

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, whichever occurs earlier.

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

### Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Bank as at 31 December 2018 and 2017 were as follows:

| In % p.a. | 2019 | 2018 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 1,98 | 1,72 |
| Financial assets at fair value through profit or loss | 2,24 | 3,29 |
| Financial assets at fair value through other comprehensive income* | 3,99 | 3,47 |
| Debt instruments at amortised cost | 3,91 | 3,69 |
| Loans and advances to banks | 0,74 | 0,41 |
| Loans and advances to customers | 6,38 | 6,51 |
| **Financial liabilities** | | |
| Deposits from banks | 0,36 | 0,01 |
| Deposits from customers | 0,67 | (0,37) |
| Debt securities issued | 0,34 | 0,79 |
| Financial liabilities at fair value through profit or loss | 3,44 | 1,57 |

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

Apart from the 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 or shift of interest rate yield curves.

### Basis point value

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

As at 31 December 2019 BPVs for individual currencies were as follows:

| Currency<br>MCZK | Banking book<br>BPV | Trading book<br>BPV |
|---|---|---|
| CZK | 186 | (5) |
| EUR | (74) | (73) |
| USD | (322) | (6) |
| RUB | – | – |
| HUF | 1 | – |
| KZT | (4) | – |
| GBP | – | – |
| INR | – | – |
| IDR | – | – |
| **Total BPV (absolute)** | **587** | **84** |

As at 31 December 2018 BPVs for individual currencies were as follows:

| Currency<br>MCZK | Banking book<br>BPV | Trading book<br>BPV |
|---|---|---|
| CZK | 251 | 116 |
| EUR | (30) | 22 |
| USD | (256) | (28) |
| RUB | – | (1) |
| JPY | – | – |
| KZT | – | 1 |
| UAH | – | – |
| GBP | – | 1 |
| VND | – | – |
| **Total BPV (absolute)** | **537** | **169** |

### Stress testing

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

| MCZK | 2019 | | 2018 | |
|---|---|---|---|---|
| | 100 bp<br>parallel increase | 100 bp<br>parallel decrease | 100 bp<br>parallel increase | 100 bp<br>parallel decrease |
| At 31 December | (85) | 85 | 91 | 65 |
| Average for the period | 30 | (30) | 190 | 256 |
| Maximum for the period | 257 | 142 | 243 | 341 |
| Minimum for the period | (142) | (257) | 91 | 65 |

### 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 a delivery versus payment manner.

## d) Operational risk

### i) Operational risks

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

Operational risks are usually the cause of an increase in the Bank's expenses, a decrease in the Bank's income, fines, penalties, damage, loss of the Bank's tangible and intangible assets and the failure of information systems.

The Security and Operational Risk Management department prepares the operational risk management methodology, identifies, monitors, measures and assesses the operational risks, and proposes measures to mitigate the operational risks. As part of operational risk management, it is further responsible for physical security and the information system security management system, and it monitors, measures and assesses physical and information security, and prepares the methodology for the management and mitigation of the risks.

The Security and Operational Risk Management department manages the access of employees, clients and other authorised persons to tangible and intangible assets, and manages the risk in terms of arranging supplies of banking services, the launch of new products, and the utilisation of outsourcing by the Bank. It also manages insurance and legal risk. The Security and Operational Risk Management department also regularly informs the management and relevant employees about operational risks and significant events that have arisen. Furthermore, it secures training for employees on the identification, reporting and handling of operational risks.

The management and employees in charge of managing operational risks within a division or department are also involved in the management of operational risks. After an operational risk is identified, they propose and arrange the implementation of operational, controlling or organisational measures to mitigate or eliminate the operational risk. In proposing the measures to mitigate operational risk, they also assess the impact on expenses and income.

### ii) Other risks

Legal risk management consists of minimising the uncertainties relating to the enforceability of contracts with insufficient documentation, and changes in the regulatory environment, including accepted case-law and uncertainties in counterparties' acts. The aim is to reduce the risk of loss, the risk of possible or questionable claims against the Bank, or penalties, including damage to the Bank's reputation.

The Compliance department performs activities aimed at harmonising the Bank's internal policies and processes with external regulations. The main compliance activities are to ensure the compliance of internal guidelines with external standards, the mutual compliance of internal guidelines, the compliance of the Bank's activities with internal guidelines and external standards, and the ongoing monitoring of compliance with legal obligations and responsibilities arising from the internal regulations of the Bank, to establish preconditions for achieving this harmonisation, to establish preconditions for the fair provision of services to customers and to refrain from giving preferential treatment to the Bank and its employees compared to customers, to prevent conflicts of interest, and to mitigate acts which would result in market abuse. It also engages in anti-money laundering activities and activities to combat financial terrorism (AML-CFT), runs checks on these activities and handles claims and complaints.

Where compliance activities are not performed directly by the Compliance department, but are delegated to another department of the Bank, the Bank's managers or the Bank's employees at the Compliance department act as coordinator.

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

## e) Capital management

**Regulatory capital**

The Bank's lead regulator, sets and monitors the capital requirements of the Bank. The Bank and individual banking operations are directly supervised by 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 the implementation of current capital requirements the CNB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

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

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

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the 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 complied with all externally imposed capital requirements throughout the period.

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

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

| MCZK | Regulatory capital | Equity |
|---|---|---|
| **At 31 December 2019** | | |
| Issued capital | 769 | 769 |
| Share premium | 412 | 412 |
| Retained earnings | 10,421 | 12,508 |
| Profit/(Loss) | 1,443 | – |
| Accumulated other comprehensive income | 606 | 606 |
| Less value adjustment due to requirements | (34) | – |
| of prudent valuation | | |
| Less intangible assets | (193) | – |
| Mitigation of impact of IFRS 9 introduction | 226 | |
| **Tier 1 capital** | **13,650** | |
| **Total Equity** | | **14,295** |
| **Total regulatory capital** | **13,650** | |
| **At 31 December 2018** | | |
| Issued capital | 769 | 769 |
| Share premium | 412 | 412 |
| Retained earnings | 8,188 | 10,392 |
| Profit/(Loss) | 2,200 | – |
| Accumulated other comprehensive income | 47 | 47 |
| Less value adjustment due to requirements | (45) | – |
| of prudent valuation | | |
| Less intangible assets | (144) | – |
| Mitigation of impact of IFRS 9 introduction | 245 | |
| **Tier 1 capital** | **11,672** | |
| **Total Equity** | | **11,620** |
| **Total regulatory capital** | **11,672** | |

Capital adequacy ratios are as follows:

| | 2019 | 2018 |
|---|---|---|
| Tier 1 common capital ratio | 18,27% | 16,26% |
| Tier 1 capital ratio | 18,27% | 16,26% |
| Total capital ratio | 18,27% | 16,26% |

If the mitigation of impact of IFRS 9 introduction were not applied, the tier 1 common capital ratio, tier 1 capital ratio and total capital ratio would be 18.02 % as at 31 December 2019 (2018: 15.97%).

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

| MCZK | Exposure | Capital requirement |
|---|---|---|
| **At 31 December 2019** | | |
| Central government | 319 | 25 |
| Local government | 16 | 1 |
| Institutions | 3,207 | 257 |
| Businesses | 47,543 | 3,803 |
| Retail sector | – | – |
| Exposures pledged by properties | 313 | 25 |
| Exposures in default | 1,952 | 156 |
| High risk exposures | 2,111 | 169 |
| Collective investment undertakings | – | – |
| Equities | 310 | 25 |
| Other exposures | 271 | 22 |
| **Total** | **56,042** | **4,483** |
| **At 31 December 2018** | | |
| Central government | 500 | 40 |
| Local government | 35 | 3 |
| Institutions | 4,967 | 397 |
| Businesses | 41,234 | 3,299 |
| Retail sector | – | – |
| Exposures pledged by properties | 319 | 25 |
| Exposures in default | 2,049 | 164 |
| High risk exposures | 2,794 | 223 |
| Collective investment undertakings | 550 | 44 |
| Equities | 332 | 27 |
| Other exposures | 174 | 14 |
| **Total** | **52,954** | **4,236** |
| of which the effect of the mitigation of the impact of IFRS 9 introduction on specific credit risk adjustments | 226 | 18 |

| MCZK | 2019 | 2018 |
|---|---|---|
| **Capital requirements for credit risk** | **4,483** | **4,236** |
| Capital requirements for market risks | 699 | 797 |
| – for general interest rate risks of trading portfolio | 630 | 737 |
| – for general equity risks of trading portfolio | – | – |
| – for foreign exchange risks | 69 | 60 |
| **Capital requirements for settlement risks** | **–** | **–** |
| **Capital requirements for operational risks** | **487** | **418** |
| **Capital requirements for credit valuation adjustment risk** | **306** | **292** |
| **Total capital requirements** | **5,975** | **5,743** |

## Minimum requirements for capital ratios are as follows:

| | Minimum requirement | Capital conservation buffer | Countercyclical buffer | Total |
|---|---|---|---|---|
| **31. 12. 2019** | | | | |
| Common Equity Tier 1 capital (CET1) | 4,5% | 2,5% | 0,71% | 7,71% |
| Tier 1 capital | 6% | 2,5% | 0,71% | 9,21% |
| **Total regulatory capital** | **8%** | **2,5%** | **0,71%** | **11,21%** |
| **31. 12. 2018** | | | | |
| Common Equity Tier 1 capital (CET1) | 4,5% | 2,5% | 0,48% | 7,48% |
| Tier 1 capital | 6% | 2,5% | 0,48% | 8,98% |
| **Total regulatory capital** | **8%** | **2,5%** | **0,48%** | **10,98%** |

### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on 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.

# 43. Related-party transactions

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

The Bank has a related-party relationship with its parent company, PPF Financial Holdings B.V. and the ultimate controlling entity, PPF Group N.V., and with its subsidiaries and associates.

The Bank also has related-party relationships with its key management personnel, and enterprises with which it has key management personnel in common.

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

## a) Transaction with the parent company

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | 23 | 30 |
| Other assets | – | 20 |
| Deposits from customers | (3,006) | (4,496) |
| **Total** | **(2,983)** | **(4,446)** |

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

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

| MCZK | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 1 | 1 |
| Interest expense and similar charges | – | (1) |
| Fee and commission income | 1 | 22 |
| **Total** | **2** | **22** |

## b) Transactions with subsidiaries

The below stated balances are included in the statement of financial position and represented transactions with subsidiaries:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Loans and advances to customers | 13,767 | 11,602 |
| Deposits from customers | (690) | (496) |
| **Total** | **13,077** | **11,106** |

The below stated figures are included in the statement of comprehensive income and represented transactions with subsidiaries:

| MCZK | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 1,344 | 890 |
| Interest expense and similar charges | (1) | (4) |
| Net impairment losses on financial assets | (6) | (17) |
| Other operating income | 2 | 2 |
| **Total** | **1,339** | **871** |

## c) Transactions with other related parties

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | 696 | 399 |
| Financial assets at fair value through other comprehensive income | 555 | 260 |
| Debt instruments at amortised cost | 2,186 | 1,049 |
| Loans and advances to banks | 266 | 152 |
| Loans and advances to customers | 1,412 | 767 |
| Other assets | 28 | 11 |
| Deposits from customers | (32,084) | (8,814) |
| Deposits from banks | (853) | (555) |
| Financial liabilities at fair value through profit or loss | (632) | (371) |
| Other liabilities | (626) | (414) |
| **Total** | **(29,052)** | **(7,516)** |

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

| MCZK | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 176 | 132 |
| Interest expense and similar charges | (56) | (80) |
| Fee and commission income | 59 | 48 |
| Fee and commission expense | (1) | – |
| Net trading income | 726 | 223 |
| Net impairment losses on financial assets | (4) | 6 |
| Other operating income | 5 | – |
| General administrative expenses | (158) | (151) |
| **Total** | **747** | **178** |

### d) Key management personnel

The below stated balances are included in the statement of financial position and represented transactions with key management personnel:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial liabilities at fair value through profit or loss | (1) | – |
| Deposits from customers | (58) | (94) |

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

The below stated balances are included in the statement of other comprehensive income and represented transactions with key management personnel:

| MCZK | 2019 | 2018 |
|---|---|---|
| Net income from financial operations | (1) | (1) |

## e) Off-balance sheet items

As a related-party transaction, as at 31 December 2019 the Bank provided a credit commitment to related parties of MCZK 8,186 (31. 12. 2018: MCZK 2,410), a guarantee commitment and a guarantee in the amount of MCZK 100 (31. 12. 2018: MCZK 111).

# 44. Subsequent events

The World Health Organisation did not declare coronavirus a global health emergency until the end of January 2020, and no significant measures were taken by governments until early 2020. Furthermore, the effects of the SARS CoV-2 (COVID-19) outbreak did not have a significant impact on global markets and share prices until February 2020. Therefore, based on information about the outbreak that was reasonably available as at 31 December 2019, the Bank made no adjustments to its forecasting based on assessments of the information available and associated risks as at that date. We therefore take the view that the disruption is a change in economic conditions that arose after the year-end date. In other words, it is a non-adjusting subsequent event.

In the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak.

The Bank is closely monitoring the evolving market and environment and is responding accordingly. All key indicators and the current market situation will be considered and used as baseline parameters for the concept and calculation of stress scenarios.

The Bank is mindful of the fact that the spread of COVID-19 and the measures taken by government authorities to contain the disease are a challenging situation for the Bank and for the banking sector in general. It affects existing risks and will give rise to new, specific ones.

The COVID-19 epidemic is likely to have negative repercussions not only for banking operations, but also for the Bank's financial performance, both in the short and the longer term. The quality of the loan portfolio is expected to be adversely affected, in particular, by the increasing number of clients who indicate a deterioration in their financial situation due to the measures taken by individual governments and seek to negotiate a solution to their predicament. We project that the situation may result in an increase in the number of repayment schedule adjustments in part of the client portfolio, with a rise in the number of defaults and increased risk costs in the longer run. The volume of new business can also be expected to decline.

In addition, the Bank is exposed to market risk, i.e. a downturn on global markets. Financial stability may be dented by a further decline on the stock market and limited financing opportunities.

Since the beginning of 2020, the Bank has become much more prudent in assessing the credit risk posed by loans newly submitted for approval. In its customer relations, the Bank is not only monitoring the situation, but is also in close contact with clients to pre-empt any potential impacts. When assessing what impact the current situation will have on the corporate loan portfolio, the Bank defines the expected macroeconomic scenarios of future development and analyses the macroeconomic effect on the creation of provisions and other relevant factors. The corporate bond portfolio was revised in tandem with the approach established for corporate risk assessment since the beginning of 2020. Parallel to this, the Bank is monitoring financial market developments.

However, high uncertainty surrounding the current spread of COVID-19 and further economic developments means that quantifying all the impacts is difficult to predict.

Assumptions and estimation uncertainties that may have a significant effect on the financial statements for the year ended 31 December 2019, impairment of financial instruments, determination of inputs for the ECL measurement model, including the incorporation of forward-looking information

Up to the reporting date, i.e. 31 December 2019, very little was known about the virus and what sort of impact it was expected to have. The ECL at 31 December 2019 was estimated based on a range of economic conditions forecast as at that date.

Taking into account PPFB's segment focus, i.e. the absence of both a retail and an SME segment, any potential impacts of COVID-19 on corporate clients are expected to be felt with a slight time lag, i.e. in Q2-3 2020. Due to the changing situation and the difficulty of validating individual assumptions, no new expectations were incorporated into the ECL model at the time of preparation.

Any potential impacts of COVID-19 on corporate clients are expected to be felt with a slight time lag, i.e. in Q2-3 2020. For the part of the portfolio focused on financing retail receivables, the Bank is secured by the financing structure itself and by the territorial breakdown. Due to the changing situation and the difficulty of validating individual assumptions, no new expectations were incorporated into the ECL model at the time of preparation.

The actual market situation will be considered when determining the ECL estimate under IFRS 9 in 2020.

The Bank conducted stress testing on the basis of all available information. On the strength of the results, the Bank is not expecting its functioning to be threatened.

In order to ensure its financial stability, the Bank also plans to delay the payment of dividends or other steps that could in any way compromise its resilience.

The Bank's management cannot exclude the possibility that the prolongation or tightening of restrictive measures or the consequent negative impact of such measures on the economic landscape in which it operates will not adversely affect the Bank, its financial situation and its operating results in both the medium and the long term. The Bank's management will continue to monitor closely and respond to developments in order to mitigate the consequences of events and circumstances.

The Bank believes that it has sufficient capital and liquidity reserves to cover credit losses, capital requirements and any outage of financing sources.

The Bank has analysed all the risks and severe but plausible scenarios and concluded that there is no material uncertainty related to its going-concern status.

# REPORT ON RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY AND BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY FOR 2019

In accordance with Section 82 et seq. of Act No 90/2012 on companies and cooperatives, as amended, (“the AoC”), PPF banka a.s., with its registered office at Evropská 2690/17, 160 41 Praha 6, registration number 47116129, incorporated by entry in the Commercial Register maintained by the Municipal Court in Prague, section B, file number 1834 (“the Company”), has the obligation to prepare the following report on relations between the controlling entity and the Company and between the Company and entities controlled by the same controlling entity (“Report on Relations”) for the accounting period from 1 January 2019 to 31 December 2019 (“the Accounting Period”).

## 1. Structure of relations between the controlling entity and the Company and between the Company and entities controlled by the same controlling entity

By reference to the information of the Board of Directors, in which the Company’s statutory body, to the best of its knowledge, found no incompleteness, the structure is set out in Appendix No 1 of this Report on Relations.

## 2. Role of the Company

During the Accounting Period, the Company did not adopt or implement any measures or other legal arrangements providing it with special advantages or imposing special obligations on it in the interest or at the initiative of the controlling entity or entities controlled by the same controlling entity. In relation to control, the Company benefits from no special advantages and has no special obligations vis-à-vis the controlling entity and/or entities controlled by the same controlling entity beyond those negotiated in the agreements listed in Section 5 of this Report on Relations.

## 3. Method and means of control

The controlling entity exercises control through its ownership rights via decisions at the Company’s general meetings (or decisions of the Company’s sole shareholder). Methods and means of controlling the Company include the Company’s articles of association and decisions of the Company’s supreme body. No special agreements exist between the Company and the controlling entity with respect to methods and means of controlling the Company.

## 4. Overview of actions pursuant to Section 82(2)(d) of the AoC

In the Accounting Period, the Company did not perform any actions at the initiative or in the interest of the controlling entity or entities controlled by it that related to assets exceeding 10% of the Company’s equity as determined from the latest financial statements.

## 5. Overview of mutual agreements

The Company has concluded the following agreements with the controlling entity or with entities controlled by the same controlling entity:

The following agreements have been concluded with AB 2 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 57279667:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with AB 4 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34186049:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with AB 7 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 57279241:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY, with its registered office at DO2A339, Dublin, Block 3, Harcourt Centre, Harcourt Road, DO2A339, Ireland, registration number: 619700:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ABDE Holding s.r.o. (previously Airline Gate 1 s.r.o.), with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 02973081:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with AB-X Projekt GmbH, with its registered office at Germany, Munich, Landsberger 155, 806 87, registration number: HRB 247124:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Accord Research, s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 290 48 974:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with AF Airfueling s.r.o., with its registered office at Hůlkova 1075/35, Kbely, 197 00 Praha 9, registration number: 02223953:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Air Bank a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 29045371:

— Reporting Delegation Agreement – Agreement on EMIR reporting – scope of performance: other services
— Contract with an administrator + special provisions for the contract with an administrator – scope of performance: financial services
— Contract on opening and maintaining correspondent accounts – scope of performance: financial services
— Framework agreement on trading on financial markets (EMA) – scope of performance: financial services
— Contract on Group Corporate Governance – scope of performance: financial services
— Creditor Accesion Undertaking – scope of performance: financial services
— ISDA Master Agreement – scope of performance financial services
— Participant agreement – scope of performance financial services
— Agreement on the provision of Investment services – scope of performance: other services

The following agreements have been concluded with ALMONDSEY LIMITED, with its registered office at Themistokli Dervi, 48, Athienitis Centennial Building, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE 291856:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ANTHEMONA LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE316792:

— General agreement on payment and banking services – scope of performance: financial services
— ISDA Master Agreement, as amended – scope of performance: financial services

The following agreements have been concluded with ASTAVEDO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE316792:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Autotým, s.r.o., with its registered office at Hráského 2231/25, Chodov, 148 00 Praha 4, registration number: 03040836:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Bavella B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 52522911:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Benxy s.r.o. (previously Zonky s.r.o.)., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 035 70 967:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Bestsport holding a.s., with its registered office at Českomoravská 2345/17, Libeň, 190 00 Praha 9, registration number: 06613161:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Bestsport, a.s., with its registered office at Českomoravská 2345/17, Libeň, 190 00 Praha 9, registration number: 24214795:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Bolt Start Up Development a.s., with its registered office at Praha 4, Michle, 140 00, Za Brumlovkou 266/2, registration number: 04071336:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with BONAK a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 05098815:

— General agreement on payment and banking services – scope of performance: financial services
— Share Pledge Agreements – scope of performance: financial services
— Project Support Agreement – scope of performance: financial services

The following agreements have been concluded with C & R Office Center Two s.r.o., with its registered office at Českomoravská 2345/17, Libeň, 190 00 Praha 9, registration number: 28227913:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with CETIN Finance B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 66805589:

— General agreement on payment and banking services – scope of performance: financial services
— DEALER AGREEMENT – scope of performance: financial services

The following agreements have been concluded with CETIN služby s.r.o., with its registered office at Olšanská 2681/6, Žižkov, 130 00 Praha 3, registration number: 06095577:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with CIAS HOLDING a.s., with its registered office at Evropská 2690/17, 160 00 Praha 6, registration number: 27399052:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with CITY TOWER Holding a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 02650665:

— General agreement on payment and banking services – scope of performance: financial services
— Contract for subscription and purchase of bonds – scope of performance: financial services
— Contract with an administrator – scope of performance: financial services

The following agreements have been concluded with COLANDS s.r.o., with its registered office at Českomoravská 2345/17, Libeň, 190 00 Praha 9, registration number: 03883663:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Comcity Office Holding B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 64411761:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Cytune Pharma SAS, with its registered office at 3 Chemin du Pressoir Chenaie, Nantes, 44100, France, registration number: 500998703:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Czech Equestrian Team a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 01952684:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with CzechToll s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 06315160:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on Establishing the Right of Lien on Receivables of the SEM Agreement – scope of performance: financial services
— Contracts establishing a lien on current accounts – scope of performance: financial services
— Cooperation agreements – scope of performance: financial services
— Facilities Agreement up to CZK 1,967,000,000 – scope of performance: financial services

The following agreements have been concluded with Česká telekomunikační infrastruktura a.s., with its registered office at Olšanská 2681/6, Žižkov, 130 00 Praha 3, registration number: 04084063:

— General agreement on payment and banking services – scope of performance: financial services
— Framework contract on trading on the financial market (EMA) – scope of performance: financial services
— Agreement on the provision of Investment services – scope of performance: other services
— Agreement on the provision of penetration tests – scope of performance: provision of penetration tests
— Confidentiality Agreement – scope of performance: other services

The following agreements have been concluded with Duoland s.r.o., with its registered office at Hůlkova 896/31, Kbely, 197 00 Praha 9, registration number: 06179410:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Eastern Properties B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 58756566:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with eKasa s.r.o., with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 05089131:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ELTHYSIA LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE290356:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ENADOCO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE316486:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FACIPERO INVESTMENTS LIMITED, with its registered office at Strovolos, Esperidon 5, 2001, 4th Floor, 1075 Nicosia, Cyprus, registration number: HE232483:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Favour Ocean Limited, with its registered office at useway Bay 36/F Tower Two, 1 Matheson St, Causeway Bay, Hong Kong, China, registration number: 1065678:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FAYDE INVESTMENTS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE310390:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FELISTON ENTERPRISES LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE152674:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FERRYMAT HOLDINGS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE313289:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FO Management s.r.o., with its registered office at Evropská 2690/17, Praha 6, 160 00 registration number: 06754295:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with FO servis s.r.o., with its registered office at Evropská 2690/17, Praha 6, 160 00 registration number: 08446407:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Fodina B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 59400676:

— Commission Agreement – scope of performance: financial services
— Special Arrangements on Remuneration – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— Global Master Repurchase Agreement – scope of performance: financial services

The following agreements have been concluded with GALIO INVESTMENTS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE310260:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Garco Group B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34245884:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with German Properties B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 61008664:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with GLANCUS INVESTMENTS INC., with its registered office at Tropic Isle Building P.O. Box 3423. Road Town, Tortola, British Virgin Islands, registration number: 1396023:

— General agreement on payment and banking services – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services

The following agreements have been concluded with GRACESPRING LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE208337:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with HC Advisory services s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 01487779:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with HC Asia B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34253829:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with HC Broker, s.r.o., with its registered office at Nové sady 996/25, Staré Brno, 602 00 Brno, registration number: 29196540:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with HC Consumer Finance Philippines, Inc, with its registered office at UnionBank Plaza, 35th Floor, Meralco Avenue Corner Onyx, Pasig, Philippines, registration number: CS201301354:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with HC Philippines Holding B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 35024270:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Hofplein Offices (Rotterdam) B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 64398064:

— Facility Agreement reg. No. 46465217 – scope of performance: financial services

The following agreements have been concluded with Home Credit a.s., with its registered office at Nové sady 996/25, Staré Brno, 602 00 Brno, registration number: 26978636:

— Framework contract for the establishment and maintenance of a current investment account – scope of performance: financial services
— Contract on cooperation in the performance of work and provision of processing and other services (HC) – scope of performance: other services
— Confidentiality contract – scope of performance: other services
— Framework contract for performing foreign exchange spot transactions – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Home Credit Asia Limited, with its registered office at 36/F Tower Two, Times Square, 1 Matheson St, Hong Kong, China, registration number: 890063:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Home Credit Group B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 69638284:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on Group corporate governance – scope of performance: financial services
— Agreement with the Administrator – CZ0000000831, as amended – scope of performance: financial services
— Deed of Pledge of Registered Shares in the Share Capital of Home Credit Group B. V. – scope of performance: financial services
— AGREEMENT ON THE ASSIGNMENT OF DERIVATIVE TRANSACTIONS – scope of performance: financial services
— AGREEMENT ON THE ASSIGNMENT OF AN AGREEMENT ON A PROMISSORY NOTE PROGRAMME ARRANGEMENT AND ASSUMPTION OF DEBT – scope of performance: financial services
— ISDA 2002 MASTER AGREEMENT + CSA (VM) – scope of performance: financial services
— Agreement on the Assignment of a Contract on Group Corporate Governance – scope of performance other services
— Novation and Amendment Agreement – scope of performance: financial services
— Special arrangement for the Agreement with the Administrator – scope of performance: financial services
— Agreement on a promissory note programme arrangement – scope of performance: financial services
— Agreement on the assignment of loan agreement no. 41389616 – scope of performance: financial services
— Agreement on the assignment of a special arrangement for the Agreement with the Administrator – scope of performance: financial services
— Agreement on a promissory note programme arrangement – scope of performance: financial services
— Creditor Accession Undertaking – scope of performance: other services
— Agreement on the Provision of Investment Services – scope of performance: financial services

The following agreements have been concluded with Home Credit India B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 52695255:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Home Credit Indonesia B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 52695557:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Home Credit International a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 60192666:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on the provision of investment services – scope of performance: financial services
— Commission agreement on the provision and settlement of transactions with investment instruments and on investment instrument administration – scope of performance: financial services
— Framework agreement on the reallocation of software costs – scope of performance: purchase of SW solutions, distribution of SW and reinvoicing of expenses
— Agreement on the distribution of licences 1/2019 – scope of performance: distribution of licences and support
— Software licence agreement further to the ULA Oracle
— Confidentiality agreement – scope of performance: other services
— Framework agreement on financial market trading – scope of performance: financial services
— Agreement on the Provision of Services – scope of performance: financial services

The following agreements have been concluded with Home Credit N.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34126597:

— ISDA Master Agreement, as amended – scope of performance: financial services
— Agreement on the assignment of a special arrangement for the Agreement with the Administrator – scope of performance: financial services
— Special arrangement for the Agreement with the Administrator – scope of performance: financial services
— Agreement on a promissory note programme arrangement – scope of performance: financial services
— Agreement on the Provision of the Issue of the Notes – scope of performance: financial services
— Agreement on the assignment of derivative transactions – scope of performance: financial services
— Agreement Related to the Offer of a Bond – scope of performance: financial services
— Loan Agreement No 41389616 – scope of performance: financial services
— Term Facilities Agreement – scope of performance: financial services
— Novation and Amendment Agreement – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— Commission Agreement on the Provision and Settlement of Transactions with Investment Instruments and on Investment Instruments Administration – scope of performance: financial services
— Subordination Agreement – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services
— Agreement on the assignment of a promissory note programme arrangement and assumption of debt – scope of performance: financial services
— Agreement on the termination of the Agreement on the provision of the issue of notes – scope of performance: financial services
— Agreement on the Assignment of a Contract on Group Corporate Governance – scope of performance: financial services
— Contract on Group Corporate Governance – scope of performance: other services
— Creditor Accession Undertaking – scope of performance: financial services
— Agreement on the Assignment and Amendment of the Agreement with the Administrator – scope of performance: financial services

The following agreements have been concluded with Home Credit Slovakia, a.s., with its registered office at Teplická 7434/147, Piešťany 921 22, Slovakia, registration number: 36234176:

— Contract for subordinated liabilities and rights – scope of performance: financial services
— Contract on cooperation in the performance of work and the provision of processing and other services (HCS) – scope of performance: other services
— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Home Credit US Holding, LLC, with its registered office at 3500 S Dupont Hwy, Dover, DE 19901, USA, registration number: 5467913:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Horse Arena s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 04479823:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ITIS Holding a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 07961774:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with JARVAN HOLDINGS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE310140:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with KARMION HOLDINGS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE 312 004:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Letiště Praha Letňany, s.r.o., with its registered office at Hůlkova 1075/35, Kbely, 197 00 Praha 9, registration number: 24678350:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Letňany Air Land s.r.o., with its registered office at Hůlkova 896/31, Kbely, 197 00 Praha 9, registration number: 06138462:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Letňany Air Logistics s.r.o., with its registered office at Hůlkova 896/31, Kbely, 197 00 Praha 9, registration number: 06138411:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Letňany eGate s.r.o., with its registered office at Hůlkova 896/31, Kbely, 197 00 Praha 9, registration number: 06137628:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Letňany Park Gate s.r.o., with its registered office at Hůlkova 896/31, Kbely, 197 00 Praha 9, registration number: 06138446:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with LINDUS Real s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 29139309:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with LINDUS SERVICES LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE281891

— General agreement on payment and banking services – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services

The following agreements have been concluded with LLC Home Credit & Finance Bank, with its registered office at Ul. Pravdy 8, d.8, 125 040 Moscow, Russia, registration number: 1027700280937:

— Special Bank Account Agreement – RUB – 30230810700001500001 (Shares) – scope of performance: financial services
— Depositary contract – account PO 140103KSB – scope of performance: financial services
— Agreement on Russian rouble loro account opening and maintenance procedures for a non-resident bank – Rates of Commission Charge – scope of performance: financial services
— Master Agreement + Schedule to the 1992 Master Agreement – scope of performance: financial services
— Framework Treasury Agreement – scope of performance: financial services
— Agency Contract 37-18/005 – scope of performance: financial services
— Commission Agreement on the Provision of Transactions in Investment Instruments – HCFB Moscow – scope of performance: financial services
— Special Bank Account Agreement – RUB – 30230810600001600001 (Bond) – scope of performance: financial services
— Agreement on the Administration of Securities – scope of performance: financial services
— Contract on the opening and maintenance of a CZK correspondent account and terms and conditions of the maintenance of the account – 2005840171/6000 – Terms and Conditions for a Correspondent Account in CZK – scope of performance: financial services
— Contract on the opening and maintenance of a EUR correspondent account and terms and conditions of the maintenance of the account – 2005840200/6000 – Terms and Conditions for a Correspondent Account in EUR – scope of performance: financial services
— Contract on the opening and maintenance of a USD correspondent account and terms and conditions of the maintenance of the account – 2005840198/6000 – Terms and Conditions for a Correspondent Account in USD – scope of performance: financial services
— Uncommitted Loan Facility Agreement – scope of performance: financial services
— Agreement No 20-4-12/001 for brokerage service provision to legal entities non-resident in the RF – scope of performance: financial services
— Transfer Certificate – scope of performance: financial services
— Agreement on the Terms and Conditions for the Provision of Repository Services – scope of performance: financial services
— Cash Delivery Request and Indemnity for Acting Thereupon in Respect of our Account(s) No 2005840200/6000 – scope of performance: financial services
— Agreement on the maintenance of a correspondent account in foreign currency of a non-resident bank – nostro account USD 21 – scope of performance: financial services

The following agreements have been concluded with LLC RAV Agro, with its registered office at ul. 45 Strelkovoy Divizii, 232, office 205, 394 026 Voronezh, Russia, registration number: 1073667022879:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with LOSITANTO Ltd., with its registered office at Limassol, 3032, City House, Karaiskaki 6, Cyprus, registration number: HE157131:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Maraflex s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 02415852:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with MICROLIGHT TRADING LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE224515:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with mluvii.com s.r.o., with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 27405354:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with MOETON a.s. v likvidaci, with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 27864561:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Montería, spol. s r.o., with its registered office at Hvězdova 1716/2b, Nusle, 140 00 Praha 4, registration number: 27901998:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Moranda, a.s., with its registered office at Evropská 2690/17, Dejvice, 160 41 Praha 6, registration number: 28171934, registration number: 28171934:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on the provision of investment services – scope of performance: other services

The following agreements have been concluded with My Air a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 05479070:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Mystery Services s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 24768103:

— Contract for employee meals, as amended – scope of performance: other services
— General agreement on payment and banking services – scope of performance: financial services
— Agreement on the Coverage of the Costs of Catering Services and Refreshments – scope of performance: other services

The following agreements have been concluded with Naneva B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67400639:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Net Gate s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 24765651:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with NIDALEE HOLDING LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE310150:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with O2 Czech Republic a.s., with its registered office at Za Brumlovkou 266/2, 140 22 Praha 4, registration number: 60193336:

— Agreement on the provision of publicly available electronic communications services – scope of performance: provision of publicly available electronic communications services, financial services
— Agreement on the provision of cloud, housing and related services – scope of performance: provision of cloud, housing and related services to the second contracting party, financial services
— Agreement on the provision of the Aculla SIPREC SRS recording system – scope of performance: stating of conditions for the provision of a recording system to the second contracting party and its use for the fulfilment of MiFID regulation requirements, financial services
— Framework agreement on payment and banking services – scope of performance: setting of a credit limit for the company and establishment of bank accounts in CZK, EUR, USD
— IP Connect – Hosting Service, IP Connect – Connection Service (Technical Specifications of the Service) – scope of performance: other services
— Ethernet Service – Technical Specifications of the Service – MAN European <-> Nagano, Prague City Hall and Ostrava Branch Connection – Contract No 639131 – scope of performance: other services
— Bulk SMS Connector Service Agreement – scope of performance:other services
— Framework agreement on financial market trading – scope of performance: hedging against financial risk

The following agreements have been concluded with O2 Financial Services s.r.o., with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 05423716:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with O2 IT Services s.r.o., with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 02819678:

— Bank guarantee contract No BZ/30367615 – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with O2 TV s.r.o., with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 03998380:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Office Star Eight a.s., with its registered office at Hvězdova 1716/2b, Nusle, 140 00 Praha 4, registration number: 27639177:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Office Star Nine, spol. s r. o., with its registered office at Evropská 2690/17, 160 00 Praha 6, registration number: 27904385:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Paleos Industries B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 66846919:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF a.s., with its registered office at Evropská 2690/17, Dejvice, 160 41 Praha 6, registration number: 25099345:

— Contract on the use of a visual style and the provision of rights to use trademarks – scope of performance: other services
— Contract on the sublease of mobile equipment – scope of performance: other services
— Framework contract on the disposal of data storage devices – scope of performance: financial services
— Contract for the provision of services dated 31 March 2006 – scope of performance: other services
— Contract for the sublease of non-residential premises – E-GATE, as amended – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— Contract for the sublease of parking lots – scope of performance: financial services
— Declaration of Accession to the Agreement on the Provision of the Edunio e-Learning Education System – scope of performance: other services
— LAN Service Agreement – scope of performance: other services
— Share Transfer Agreement – scope of performance: financial services
— Works Catering Agreement – scope of performance: other services
— Declaration of accession to the framework agreement on the provision of electronic communications mobile services concluded on 14 December 2018 between PPF a.s and O2 Czech Republic a.s., scope of performance – other services
— Agreement on the creation of a pledge over an ownership interest – scope of performance: financial servicesAgreement on reimbursement of costs – scope of performance: financial services

The following agreements have been concluded with PPF A3 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 61684201:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF A4 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 63365391:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Advisory (CR) a.s., with its registered office at Evropská 2690/17, Dejvice, 160 41 Praha 6, registration number: 25792385:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Advisory (UK) Limited, with its registered office at Witan Gate House, 500-600 Witan Gate West, Milton Keynes, Buckinghamshire, MK9 1SH, United Kingdom, registration number: 5539859:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Arena 1 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 59009187:

— General agreement on payment and banking services – scope of performance: financial services
— MANDATE AGREEMENT ON ARRANGEMENT OF TRADES IN DERIVATE INVESTMENT INSTRUMENTS – scope of performance: financial services
— Agreement on the Provision of Investment Services – scope of performance: financial service
— ISDA 2002 MASTER AGREEMENT – scope of performance: financial services

The following agreements have been concluded with PPF Art a.s., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 63080672:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Beer Holdco 1 B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67330495:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Beer IM Holdco B. V, with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67331378:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Beer Topholdco B. V, with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67420427:

— General agreement on payment and banking services – scope of performance: financial services
— Escrow Agreement – scope of performance: other services
— Agreement on the Provision of Investment Services – scope of performance: financial services
— Intercreditor Agreement – scope of performance: financial services

The following agreements have been concluded with PPF Capital Partners Fund B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 55003982:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF CO 3 B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34360935:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement INR 1,875,000,000 Credit Facility + signature specimen, as amended – scope of performance: financial services
— Agreement dated 29.09.2016 INR 2,250,000,000 Credit Faciltity – scope of performance: financial services
— Agreement INR 2,500,000,000 Credit Facility, as amended – scope of performance: financial services
— Agreement IDR 30,000,000,000 Credit Facility, as amended – scope of performance: financial services
— Agreement INR 3,750,000,000 Credit Facility – scope of performance: financial services
— Agreement INR 4,000,000,000 Credit Facility – scope of performance: financial services
— Framework agreement on consultancy and cooperation – scope of performance: financial services
— Agreement Dated 2 May 2018 for a USD 25,000,000 Credit Facility – scope of performance: financial services
— Agreement Dated on 31 July 2018 for a USD 40,000,000 Credit Facility – scope of performance: financial services
— Agreement Dated 27 November 2018, INR 4,000,000,000 – scope of performance: financial services
— Agreement Dated 22 November 2018, USD 32,000,000 – scope of performance: financial services
— Consent and waiver in respect of certain conditions precedent – scope of performance: financial services
— Letter of Comfort – scope of performance: financial services
— Agreement Dated 15 August 2019, USD 40,000,000 Credit Facility – scope of performance: financial services
— Agreement Dated 15 August 2019, INR 4,500,000,000 Credit Facility – scope of performance: financial services
— oAgreement on the Provision of Investment Services – scope of performance: financial services
— Secured Credit Facility of up to INR 4,400,000,000 – scope of performance: financial services
— Agreement Dated 21 November 2019, HUF 6,000,000,000 Credit Facility – scope of performance: financial services
— Agreement Dated 21 November 2019, EUR 47,000,000 Credit Facility – scope of performance: financial services

The following agreements have been concluded with PPF CYPRUS MANAGEMENT LIMITED (previously ANTHIAROSE LIMITED), with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE224463:

— Contract for subscription and purchase of investment certificates – scope of performance: financial services
— Contract for subscription and purchase of investment certificates – scope of performance: financial services
— Contract for subscription and purchase of investment certificates – scope of performance: financial services
— Contract for subscription and purchase of investment certificates – scope of performance: financial services
— ISDA Agreement, as amended – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— Confidentiality Agreement – scope of performance: financial services

The following agreements have been concluded with PPF CYPRUS RE MANAGEMENT LTD., with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE251908:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Financial Consulting s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 24225657:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Financial Holdings B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 61880353:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on the provision of credit risk management services – scope of performance: financial services
— Agreement on administration – scope of performance: financial services
— Contract of Mandate – scope of performance: other services
— Agreement on administration – scope of performance: financial services
— Agreement on administration – scope of performance: financial services
— Agreement on administration – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services
— Agreement on the Assignment of a Contract on Group Corporate Governance, object: other services

The following agreements have been concluded with PPF GATE a.s., with its registered office at Evropská 2690/17, 160 41 Praha 6, registration number: 27654524:

— Agreement on the Letting of Non-residential Premises – Branch – PPF Gate Mandate – scope of performance: other services
— Pledge Notice – Agreement on the Letting of Non-residential Premises – Branch – PPF Gate Mandate – scope of performance: other services
— Construction Contract Mandate – scope of performance: other services

The following agreements have been concluded with PPF Group N. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 33264887:

— General agreement – deposits – scope of performance: financial services
— ISDA Master Agreement, as amended – scope of performance: financial services
— Contract on the administration of securities, as amended – scope of performance: financial services
— Agreement on a Guarantee – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— Dealer Manager Agreement – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services
— Escrow Agreement – scope of performance: financial services
— Project Support Agreement – scope of performance: business services

The following agreements have been concluded with PPF Healthcare N. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34308251:

— Contract on the assignment of a receivable – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services
— ISDA Master Agreement – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services

The following agreements have been concluded with PPF Industrial Holding B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 71500219:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Infrastructure B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 65167899:

— General agreement on payment and banking services – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES– scope of performance: financial services

The following agreements have been concluded with PPF PROPERTY LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE189164:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Real Estate Holding B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34276162:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on a Promissory Note Programme Arrangement + PoA – scope of performance: financial services

The following agreements have been concluded with PPF REAL ESTATE LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE188089:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Real Estate s.r.o., with its registered office at Evropská 2690/17, Dejvice, 160 00 Praha 6, registration number: 27638987:

— Agreement on the provision of services – scope of performance: financial services
— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF reality a.s., with its registered office at Evropská 2690/17, Dejvice, 160 41 Praha 6, registration number: 29030072:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF SERVICES LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE92432:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF Telco B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 65167902:

— General agreement on payment and banking services – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services

The following agreements have been concluded with PPF TMT Bidco 1 B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 70498288:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF TMT Bidco 2 B. V. (former PPF Beer Bidco B. V.), with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67332722:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF TMT Holdco 1 B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 70498261:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with PPF TMT Holdco 2 B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 70526214:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Prague Entertainment Group B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 63600757:

— General agreement on payment and banking services – scope of performance: financial services
— Escrow Agreement Reg. No. 2322470004 – scope of performance: financial services
— Escrow Agreement Reg. No. 2322480018 – scope of performance: financial services
— Escrow Agreement Reg. No. 2322460009 – scope of performance: financial services
— Escrow Agreement Reg. No. 2322490005 – scope of performance: financial services

The following agreements have been concluded with PT Home Credit Indonesia, with its registered office at Plaza Oleos, 8-9th Floor, Jl. TB Simatupang 53A, 125 20 Jakarta, Indonesia, registration number: 03.193.870.7-021.000:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Public Picture & Marketing a.s., with its registered office at Hvězdova 1716/2b, Nusle, 140 00 Praha 4, registration number: 25667254:

— General agreement on payment and banking services – scope of performance: financial services
— Contract for the provision of BZ No 90009006, as amended – scope of performance: financial services
— Agreement on the provision of banking products, produktů reg. No. 41516419 – scope of performance: financial services
— Agreement on the right to complete a promissory note, Reg. No. SD/41516419 – scope of performance: financial services
— Agreement on the payment of accommodation, ticket, and event agency service expenses – scope of performance: financial services

The following agreements have been concluded with Real Estate Russia B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 63458373:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with REDLIONE LTD, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE178059:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with REPIENO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE282866:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with RHASKOS FINANCE LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE316591:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Ruconfin B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 55391176:

— General agreement on payment and banking services – scope of performance: financial services
— Framework agreement on consultancy, cooperation and the provision of services as amended – scope of performance: financial services

The following agreements have been concluded with SALEMONTO LIMITED, with its registered office at 1066 Nicosia, Cyprus, registration number: HE161006:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with SATACOTO Ltd., with its registered office at ATHIENITIS CENTENNIAL BUILDING, Themistokli Dervi, 48, office 603, 6 floor, 1066 Nicosia, Cyprus, registration number: HE 155018:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with SB JSC Bank Home Credit, with its registered office at Nursultan Nazarbaev Street 248, Almaty, 0500059, Kazakhstan:

— ISDA Master Agreement – scope of performance: financial services
— ISDA Credit Support Annex for variation margin (VM) – scope of performance: financial services
— Correspondent account Agreement – scope of performance: financial services

The following agreements have been concluded with SEPTUS HOLDING LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE316585:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Smart home security s.r.o., with its registered office at Vyskočilova 1326/5, Michle, 140 00 Praha 4, registration number: 06321399:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with SOTIO a.s., with its registered office at Jankovcova 1518/2, 170 00 Praha 7, registration number: 24662623:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Sotio N. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 34302290:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with STEPHOLD LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE221908:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with STINCTUM HOLDINGS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE177110:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with SYLANDER CAPITAL LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE316597:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ŠKODA ICT s.r.o., with its registered office at Tylova 1/57, 301 28 Plzeň registration number: 279 94 902:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ŠKODA INVESTMENT a.s., with its registered office at Emila Škody 2922/1,301 00 Plzeň – jižní předměstí, registration number: 265 02 399:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with ŠKODA TRANSPORTATION a.s ., with its registered office at Emila Škody 2922/1,301 00 Plzeň – jižní předměstí, registration number: 626 23 753:

— General agreement on payment and banking services – scope of performance: financial services
— Internal escrow account E/2322620009 contract, scope of performance – financial services
— Framework agreement on trading on financial markets (EMA) – scope of performance: financial services
— Agreement Dated 26 August 2019 on a Credit Facility of up to CZK 3,500,000,000 – scope of performance: financial services

The following agreements have been concluded with ŠKODA VAGONKA a.s., with its registered office at 1.máje 3176/102, 703 00, Ostrava, registration number: 258 70 637:

— General agreement on payment and banking services – scope of performance: financial services
— Framework agreement on trading on financial markets (EMA) – scope of performance: financial services
— Intercreditor Agreement – scope of performance: financial services

The following agreements have been concluded with TALPA ESTERO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE316502:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TANAINA HOLDINGS LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 1066 Nicosia, Cyprus, registration number: HE318483:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TAPADEO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE341777:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Tapito s.r.o. (previously TapMedia s.r.o.), with its registered office at Za Brumlovkou 266/2, Michle, 140 00 Praha 4, registration number: 03853365:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Telematika a.s., with its registered office at Evropská 2690/17, 160 00 Praha 6, registration number: 054 18 046:

— General agreement on payment and banking services – scope of performance: financial services
— Agreement on provision of Investment services – scope of performance: other services

The following agreements have been concluded with Telenor Magyarorzág Zrt., with its registered office at Hungary, Torokbálint, 2045, Pannon út 1, IČ: 13-10-041060, registration number: 13-10-040409:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Telenor Real Estate Hungary Zrt., with its registered office at Hungary, Torokbálint, 2045, Pannon út 1, IČ: 13-10-041060, registration number: 13-10-041060:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TELISTAN LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE341864:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TIMEWORTH HOLDINGS LTD., with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE187475:

— General agreement on payment and banking services – scope of performance: financial services
— ISDA Master Agreement, as amended – scope of performance: financial services
— AGREEMENT ON THE PROVISION OF INVESTMENT SERVICES – scope of performance: financial services

The following agreements have been concluded with TMT Hungary B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 75752824:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TOLESTO LIMITED, with its registered office at Themistokli Dervi, 48, Office 603, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE322834:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Trigon Berlin B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 55440916:

— General agreement on payment and banking services – scope of performance: financial services
— FACILITY AGREEMENT Reg. No. 43493918 – scope of performance: financial services

The following agreements have been concluded with Trigon II B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 56068948:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Trilogy Park Holding B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 60006609:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Trilogy Park Nizhny Novgorod Holding B. V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 67330355:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TV Bermuda Ltd, with its registered office at Bermuda Islands, Hamilton, Park Place, 55 Par-la-Ville Road, HM11, registration number: 55011:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TV Bidco B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 75994437

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with TV Holdco B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 75983613:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Usconfin 1 DAC, with its registered office at Dublin 2, Block 3 Harcourt Centre, Harcourt Road, Ireland, registration number: 619282:

— General agreement on payment and banking services – scope of performance: financial services
— Loan Agreement up to the amount of USD 50 000 000 – scope of performance: financial services
— FRAMEWORK AGREEMENT ON CONSULTANCY AND COOPERATION – scope of performance: financial services
— Termination Agreement – Loan Agreement up to the amount of USD 50 000 000, 000 – scope of performance: financial services

The following agreements have been concluded with VELTHEMIA LIMITED, with its registered office at Themistokli Dervi, 48, Office 608, 6th Floor, 1066 Nicosia, Cyprus, registration number: HE282891:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Velvon GmbH (previously Innoble GmbH), with its registered office at Germany, Munich, 80687, Landsberger Str. 155, registration number: HRB 239796:

— General agreement on payment and banking services – scope of performance: financial services
— Contract on provision of services – scope of performance: financial services

The following agreements have been concluded with Vox Ventures B.V., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 65879554:

— General agreement on payment and banking services – scope of performance: financial services

The following agreements have been concluded with Vsegda Da N.V. (previously Home Credit Lab N. V.), with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 52695689:

— General agreement on payment and banking services – scope of performance: financial services

# 6. Assessment of whether the Company incurred damage and assessment of the settlement thereof pursuant to Sections 71 and 72 of the AoC

All actions described in Section 4 of this Report on Relations were performed, and all agreements described in Section 5 of this Report on Relations were concluded, at arm's length. Similarly, all supplies provided and received based on these agreements were provided at arm's length. The Company incurred no damage as a result of these actions and agreements.

The Company declares that in the Accounting Period there were no instances of an influential entity or the controlling entity influencing the Company's actions that would result in the Company's actions being decisively and significantly influenced to its detriment. The Company incurred no damage and no assessment of damage settlement within the meaning of Sections 71 and 72 of the AoC is thus necessary.

Upon a thorough assessment of the Company's role vis-à-vis the controlling entity and entities controlled by the same controlling entity, the Company's Board of Directors declares that relations between the Company and the controlling entity and/or entities controlled by the same controlling entity result in no special advantages or disadvantages to the Company.

The Company's role vis-à-vis the controlling entity and entities controlled by the same controlling entity has posed no risk to the Company. Stating whether, how and when damage was or will be settled (within the meaning of Sections 71 and 72 of the AoC) i
s thus not necessary.

The Report on Relations has been prepared to the best of the author's knowledge, gained from available supporting materials and documents, and with due managerial care. The information contained in this Report on Relations is accurate and complete.

Prague, 25 March 2020

On behalf of the Company:

**Petr Jirásko**
Chairman of the Board

**Miroslav Hudec**
Member of the Board

# APPENDIX 1 – LIST OF COMPANIES DIRECTLY OR INDIRECTLY CONTROLLED BY THE SAME CONTROLLING ENTITY

Controlling entity (person): Petr Kellner

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| 4Local, s.r.o. | 24161357 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 12. 2019 | O2 Czech Republic a.s |
| AB 2 B.V. | 57279667 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Air Bank a.s. |
| AB 4 B.V. | 34186049 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Air Bank a.s. |
| AB 7 B.V. | 57279241 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Air Bank a.s. |
| AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY | 619700 | Ireland | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Financial Holdings B.V. |
| ABDE Holding s.r.o. (dříve Airline Gate 1 s.r.o.) | 02973081 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V |
| AB-X Projekt GmbH | HRB 247124 | Germany | Entity controlled by the same controlling entity by means of an ownership interest | from 25. 4. 2019 | Home Credit Group B.V. |
| Accord Research, s.r.o. | 29048974 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Capital Partners Fund B.V. |
| AF Airfueling s.r.o. | 02223953 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Air Bank a.s. | 29045371 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| ALMONDSEY LIMITED | HE 291 856 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 31. 12. 2019 | PPF Real Estate Holding B.V. |
| ANTHEMONA LIMITED | HE 289 677 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Comcity Office Holding B.V. |
| Art Office Gallery a.s. | 24209627 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Office Star Eight a.s. |
| ASTAVEDO LIMITED | HE 316 792 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Autotým, s.r.o. | 03040836 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 28. 9. 2019 | Vsegda Da N.V. |
| B2S Servisní, a.s. v likvidaci | 19013825 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF CYPRUS MANAGEMENT LIMITED |
| Bammer trade a.s. | 28522761 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| Bavella B.V. | 52522911 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Benxy s.r.o. (dříve Zonky s.r.o.) | 035 70 967 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| Bestsport holding a.s. | 06613161 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Bestsport, a.s. | 24214795 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | LINDUS SERVICES LIMITED |
| Bolt Start Up Development a.s. | 04071336 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| BONAK a.s. | 05098815 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| BORACORA LIMITED | HE 251 936 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | GLANCUS INVESTMENTS INC. |
| Boryspil Project Management Ltd. | 34999054 | Ukraine | Entity controlled by the same controlling entity by means of an ownership interest | | Pharma Consulting Group Ltd. |
| Bucca Properties Ltd. | 1377468 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | BORACORA LIMITED |
| C & R Office Center Two s.r.o. | 28227913 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 1. 2019 | Bestsport, a.s. |
| Capellalaan (Hoofddorp) B.V. | 58391312 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| Carolia Westminster Hotel Limited | 9331282 | United Kingdom | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | CW Investor S.á.r.l. |
| Celestial Holdings Group Limited | 1471389 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | PPF Real Estate Holding B.V. |
| CETIN Finance B.V. | 66805589 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CETIN služby s.r.o. | 06095577 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Česká telekomunikační infrastruktura a.s. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| CIAS HOLDING a.s. | 273 99 052 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| CITY TOWER Holding a.s. | 02650665 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| COLANDS s.r.o. | 03883663 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 1. 2019 | Bestsport, a.s. |
| Comcity Office Holding B.V. | 64411761 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| CW Investor S.á.r.l. | B211446 | Luxembourg | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | Westminster JV a.s. |
| Cytune Pharma SAS | 500998703 | France | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Capital Partners Fund B.V. |
| Czech Equestrian Team a.s. | 019 52 684 | Czech Republic | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | SUNDOWN FARMS LIMITED |
| CZECH TELECOM Austria GmbH in Liqu | 229578s | Austria | Entity controlled by the same controlling entity by means of an ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CZECH TELECOM Germany GmbH i.L. | HRB 51503 | Germany | Entity controlled by the same controlling entity by means of an ownership interest | | Česká telekomunikační infrastruktura a.s. |
| CzechToll s.r.o. | 06315160 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| Česká telekomunikační infrastruktura a.s. | 040 84 063 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Infrastructure B.V., PPF A3 B.V. |
| D-Toll Holding GmbH | HRB 191929 | Germany | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| DADRIN LIMITED | HE 321 173 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 28. 6. 2019 | TOLESTO LIMITED |
| De Reling (Dronten) B.V. | 58164235 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| DEVEDIACO ENTERPRISES LIMITED | HE 372136 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | TELISTAN LIMITED |
| DRAK INVESTMENT HOLDING LTD | 324472 | Cayman Islands | Entity controlled by the same controlling entity by means of an ownership interest | | GONDRA HOLDINGS LTD |
| Duoland s.r.o. | 06179410 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Eastern Properties B.V. | 58756566 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| eKasa s.r.o. | 050 89 131 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| ELTHYSIA LIMITED | HE 290 356 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Emeldi Technologies, s.r.o. | 25663232 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | from 26. 6. 2019 | O2 Czech Republic a.s. |
| ENADOCO LIMITED | HE 316 486 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| ETO LICENSING LIMITED | HE 179 386 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | FACIPERO INVESTMENTS LIMITED |
| EusebiusBS (Arnhem) B.V. | 58169778 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| FACIPERO INVESTMENTS LIMITED | HE 232 483 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Favour Ocean Limited | 1065678 | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| FAYDE INVESTMENTS LIMITED | HE 310 390 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 2. 12. 2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| FELISTON ENTERPRISES LIMITED | HE 152674 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | SALEMONTO LIMITED |
| FERRYMAT HOLDINGS LIMITED | HE 313289 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 2. 12. 2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Filcommerce Holdings, Inc | CS 201 310 129 | Republic of the Philippines | Entity controlled by the same controlling entity by means of an ownership interest | | HC Philippines Holding B.V. |
| FLOGESCO LIMITED | HE 172588 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Gilbey Holdings Limited |
| FO Management s.r.o. | 06754295 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF FO Management B.V. |
| FO servis s.r.o. | 08446407 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 8. 2019 | PPF FO Management B.V. |
| Fodina B.V. | 59400676 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Forward leasing LLP | 190740032911 | Kazakhstan | Entity controlled by the same controlling entity by means of an ownership interest | until 30. 7. 2019 | Vsegda Da N.V., LLC Forward leasing |
| FOSOL ENTERPRISES LIMITED | HE 372077 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | DEVEDIACO ENTERPRISES LIMITED |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| GABELLI CONSULTANCY LIMITED | HE 160 589 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | VELTHEMIA LIMITED |
| GALIO INVESTMENTS LIMITED | HE 310 260 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 2. 12. 2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Ganz-Skoda Electric Zrt. | 110045500 | Hungary | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Garco Group B.V. | 34245884 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | GLANCUS INVESTMENTS INC. |
| Gen Office Gallery a.s. | 24209881 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Office Star Eight a.s. |
| German Properties B.V. | 61008664 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| GILBEY HOLDINGS LIMITED | HE182860 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| GLANCUS INVESTMENTS INC. | 1396023 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | PPF Real Estate Holding B.V. |
| GONDRA HOLDINGS LTD | 324452 | Cayman Islands | Entity controlled by the same controlling entity by means of an ownership interest | | Salonica Holding Limited |
| GRACESPRING LIMITED | HE 208 337 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 16. 12. 2019 | PPF Real Estate Holding B.V. |
| Grandview Resources Corp. | 1664098 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | | Bavella B.V. |
| Guangdong Home Credit Number Two Information Consulting Co., Ltd. | 76732894-1 | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Asia Limited |
| HC Advisory Services s.r.o. | 01487779 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| HC Asia B.V. | 34253829 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| HC Broker, s.r.o. | 29196540 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit a.s. |
| HC Consumer Finance Philippines, Inc | CS201301354 | Republic of the Philippines | Entity controlled by the same controlling entity by means of an ownership interest | | HC Philippines Holding B.V. |
| HC Philippines Holding B.V. | 35024270 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | HC Asia B.V. |
| HC Finance USA LLC | 7241255 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | from 1. 3. 2019 | Home Credit US Holding, LLC |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| HCPH Financing I. Inc | CS201727565 | Republic of the Philippines | Entity controlled by the same controlling entity by means of an ownership interest | | HC Philippines Holding B.V. |
| HCPH INSURANCE BROKERAGE, INC. (dříve HCPH 2 FINANCING, INC.) | CS201812176 | Republic of the Philippines | Entity controlled by the same controlling entity by means of an ownership interest | | HC Philippines Holding B.V. |
| Hofplein Offices (Rotterdam) B.V. | 64398064 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| Home Credit a.s. | 26978636 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit International a.s. |
| Home Credit Asia Limited | 890063 | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | HC Asia B.V. |
| Home Credit Consumer Finance Co., Ltd. | 91120116636067462H | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| Home Credit Egypt Trade S.A.E. | 50614 | Egypt | Entity controlled by the same controlling entity by means of an ownership interest | until 10. 6. 2019 | HC Philippines Holding B.V. |
| HOME CREDIT EUROPE PLC | 7744459 | United Kingdom | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Home Credit Group B.V. | 69638284 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Financial Holdings B.V. |
| Home Credit India B.V. | 52695255 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | HC Asia B.V. |
| HOME CREDIT INDIA FINANCE PRIVATE LIMITED | U65910HR1997PTC047448 | Republic of India | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit India B.V., Home Credit International a.s. |
| HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED | U7499HR2017FTC070364 | Republic of India | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit India B.V., Home Credit International a.s. |
| Home Credit Indonesia B.V. | 52695557 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | HC Asia B.V. |
| Home Credit International a.s. | 60192666 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| Home Credit N.V. | 34126597 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| Home Credit Slovakia, a.s. | 36234176 | Slovak Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| Home Credit US Holding, LLC | 5467913 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| Home Credit US, LLC | 5482663 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit US Holding, LLC |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Home Credit Vietnam Finance Company Limited | 307672788 | Vietnam | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| HOPAR LIMITED | HE 188 923 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Horse Arena s.r.o. | 044 79 823 | Czech Republic | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | SUNDOWN FARMS LIMITED |
| Chelton Properties Limited | 1441835 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| INTENS Corporation s.r.o. | 28435575 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Bolt Start Up Development a.s. |
| ITIS Holding a.s. | 07961774 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | from 6. 3. 2019 | PPF a.s. |
| Izotrem Investments Limited | HE 192753 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Gilbey Holdings Limited |
| JARVAN HOLDINGS LIMITED | HE 310 140 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| JH Media Services Plus s.r.o. | 04002423 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 1. 2019 | Bestsport, a.s. |
| Johan H (Amsterdam) B.V. | 58163239 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| Joint Stoct Company “Sibzavod Centre” | 1035501017221 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC Trust - Invest |
| Joint-Stock Company “Investments trust” (dříve CJSC “Investments trust”) | 1037739865052 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Trilogy Park Holding B.V. |
| Joint-Stock Company “Intrust NN” (dříve CJSC “Intrust NN”) | 1065259035896 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Stinctum Holdings Limited |
| Jokiaura Kakkonen Oy | 2401050-2 | Republic of Finland | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| JONSA LIMITED | HE 275 110 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 16. 12. 2019 | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| LLC “KARTONTARA” | 1197746247247 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGS LIMITED |
| KARMION HOLDINGS LIMITED | HE 312 004 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 31. 12. 2019 | PPF Real Estate Holding B.V. |
| Karperstraat (Amsterdam) B.V. | 58163883 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | until 31. 12. 2019 | PPF Real Estate Holding B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Kateřinská Office Building s.r.o. | 03495663 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate s.r.o. |
| Komodor LLC | 32069917 | Ukraine | Entity controlled by the same controlling entity by means of an ownership interest | | West Logistics Park LLC |
| Langen Property B.V. | 61012777 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | German Properties B.V. |
| Letiště Praha Letňany, s.r.o. | 24678350 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Letňany Air Land s.r.o. | 06138462 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Letňany Air Logistics s.r.o. | 06138411 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Letňany eGate s.r.o. | 06137628 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| Letňany Park Gate s.r.o. | 06138446 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Prague Entertainment Group B.V. |
| LINDUS Real s.r.o. | 29139309 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 1. 2019 | LINDUS SERVICES LIMITED |
| LINDUS SERVICES LIMITED | HE 281 891 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Bestsport holding a.s. |
| LLC Alians R | 1086627000635 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JONSA LIMITED |
| LLC Almondsey | 1127747228190 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V., LLC Charlie Com. |
| LLC BRAMA | 1107746950431 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Comcity Kotelnaya | 5157746112959 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Comcity Office Holding B.V. |
| LLC EASTERN PROPERTIES RUSSIA | 1137746929836 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Bavella B.V., GRANDVIEW RESOURCES CORP. |
| LLC ERKO | 1044702180863 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC "Gorod Molodogo Pokolenija" |
| LLC Fantom | 1053001163302 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Financial Innovations | 1047796566223 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC Home Credit & Finance Bank |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| LLC Forward leasing (dříve LLC Home Credit Online) | 1157746587943 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Vsegda Da N.V. |
| LLC "Gorod Molodogo Pokolenija" | 1187746792914 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGSLIMITED |
| LLC Home Credit & Finance Bank | 1027700280937 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V., Home Credit International a.s. |
| LLC Home Credit Insurance | 1027739236018 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| LLC Charlie Com | 1137746330336 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V., LLC Almondsey |
| LLC In Vino | 1052309138628 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Gracespring Limited |
| LLC ISK Klokovo | 1127746186501 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | STEPHOLD LIMITED |
| LLC K-Development | 1077760004629 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC KEPS | 1127746190604 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Kvartal Togliatti | 1056320172567 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC LB Voronezh | 1133668033872 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC EASTERN PROPERTIES RUSSIA |
| LLC Logistics - A | 1115048002156 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | ELTHYSIA LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| LLC Logistika - Ufa | 1150280069477 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC MCC Kupi ne kopi | 1027700280640 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V. |
| LLC Mitino Sport City | 1107746473383 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | MICROLIGHT TRADING LIMITED |
| LLC My Gym | 5157746112915 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Comcity Office Holding B.V. |
| LLC Oil Investments | 1167746861677 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC PPF Life Insurance | 1027739031099 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| LLC PPF Real Estate Russia | 1057749557568 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate H olding B.V. |
| LLC RAV Agro | 1073667022879 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Bavella B.V., Grandview Resources Corp. |
| LLC RAV Agro Pro | 1033600135557 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC RAV Agro, LLC RAV Molokoprodukt |
| LLC RAV Molokoprodukt | 1083627001567 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC RAV Agro, Grandview Resources Corp., Bavella B.V. |
| LLC RAV Myasoproduct - Orel | 1135749001684 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC RAV Molokoprodukt |
| LLC RAV Niva | 1023601232522 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | LLC RAV Agro |
| LLC RAV Niva Orel | 1113668051090 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC RAV Agro |
| LLC Razvitie | 1155009002609 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | VELTHEMIA LIMITED |
| LLC Regional Real Estate | 1137746217950 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Limited |
| LLC ROKO | 5107746049329 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JONSA LIMITED |
| LLC ROST Agro | 1103601000030 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | until 13. 12. 2019 | LLC RAV Agro |
| LLC Skladi 104 | 5009049271 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | GABELLI CONSULTANCY LIMITED |
| LLC Skolkovo Gate | 1137746214979 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Trigon II B.V. |
| LLC Sotio | 1117746901502 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Sotio N.V. |
| LLC Sotio | EIN 35-2424961 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | | Sotio N.V. |
| LLC Spectrum | 1097746356806 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V. |
| LLC Spetsializirovanniy zastroyschik "Delta Com" (dříve LLC Delta Com) | 1137746330358 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Comcity Office Holding B.V., ANTHEMONA LIMITED |
| LLC Stockmann StP Centre | 1057811023830 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | from 21. 1. 2019 | LLC Oil Investments |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| LLC Strata | 7702765300 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | VELTHEMIA LIMITED |
| LLC TGK – Trilogy | 1155027001030 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC PPF Real Estate Russia |
| LLC Torgovij complex Lipetskiy | 1074823001593 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Trilogy Services | 1155027007398 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Trilogy Park Holding B.V. |
| LLC Trust – Invest | 1057746391306 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | JARVAN HOLDINGS LIMITED |
| LLC Urozhay | 1063627011910 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC Yug |
| LLC Vsegda Da | 5177746179705 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | from 3. 6. 2019 | Vsegda Da N.V., LLC Forward leasing |
| LLC Yug | 1073627001777 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LLC LB Voronezh |
| LOSITANTO Ltd. | HE157131 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | SATACOTO Ltd. |
| LvZH (Rijswijk) B.V. | 58163999 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| Maraflex s.r.o. | 02415852 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| MICROLIGHT TRADING LIMITED | HE 224 515 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Millennium Tower (Rotterdam) B.V. | 56261330 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| mluvii.com s.r.o. | 27405354 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Bolt Start Up Development a.s. |
| MOBI BANKA AD BEOGRAD (NOVI BEOGRAD) (dříve TELENOR BANKA AD BEOGRAD (NOVI BEOGRAD)) | 17138669 | Republic of Serbia | Entity controlled by the same controlling entity by means of an ownership interest | from 20. 2. 2019 | PPF Financial Holdings B.V. |
| MOETON a.s. v likvidaci | 27864561 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 19. 2. 2019 | PPF FO Management B.V. |
| Monheim Property B.V. | 61012521 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | German Properties B.V. |
| Monchyplein (Den Haag) B.V. | 58163603 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Montería, spol. s r.o. | 27901998 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF FO Management B.V. |
| Moranda, a.s. | 28171934 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| MOVO spol. s r. o. | 46887989 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 1. 2. 2019 | ŠKODA TRANSPORTATION a.s. |
| MP Holding 2 B.V. | 69457018 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | DEVEDIACO ENTERPRISES LIMITED |
| My Air a.s. | 05479070 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Air Bank a.s. |
| Mystery Services s.r.o. | 24768103 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| Naneva B.V. | 67400639 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Net Gate s.r.o. | 247 65 651 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| NIDALEE HOLDING LIMITED | HE 310 150 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 2. 12. 2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| O2 Business Services, a.s. | 50087487 | Slovak Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Slovakia, s.r.o. |
| O2 Czech Republic a.s. | 60193336 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Telco B.V., PPF A3 B.V., PPF CYPRUS MANAGEMENT LIMITED |
| O2 Family, s.r.o. | 24215554 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| O2 Financial Services s.r.o. | 05423716 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| O2 IT Services s.r.o. | 02819678 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| O2 Slovakia, s.r.o. | 35848863 | Slovak Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| O2 TV s.r.o. | 03998380 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| Office Star Eight a.s. | 27639177 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate s.r.o. |
| Office Star Nine, spol. s r. o. | 27904385 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| One Westferry Circus S.a.r.l. | B175495 | Luxembourg | Entity controlled by the same controlling entity by means of an ownership interest | | PPR Real Estate s.r.o. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| OOO Sibelectroprivod | 1045400530922 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | LOSITANTO LIMITED |
| OOO Vagonmash | 1117847029695 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ORIBASE Pharma SAS | 499824670 | France | Entity controlled by the same controlling entity by means of an ownership interest | until 25. 10. 2019 | PPF Capital Partners Fund B.V. |
| PACHATA LIMITED | HE 188 914 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 22. 1. 2019 | PPF CYPRUS MANAGEMENT LIMITED |
| Paleos Industries B.V. | 66846919 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Pars nova a.s. | 25860038 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Pharma Consulting Group Ltd. | 34529634 | Ukraine | Entity controlled by the same controlling entity by means of an ownership interest | | HOPAR LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Plaza Development SRL | 22718444 | Rumunsko | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate s.r.o. , PPF CYPRUS MANAGEMENT LIMITED |
| POLL,s.r.o. | 62967754 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Pompenburg (Rotterdam) B.V. | 58163506 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Seven Assets Holding B.V. |
| POTLAK LIMITED | HE362788 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | from 30. 9. 2019 | Ing. Petr Kellner |
| PPF a.s. | 25099345 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF A3 B.V. | 61684201 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF A4 B.V. | 63365391 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Advisory (CR) a.s. | 25792385 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF ADVISORY (RUSSIA) LIMITED | HE 276 979 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Advisory (UK) Limited | 5539859 | United Kingdom | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF ADVISORY (UKRAINE) LIMITED | HE 162 172 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 22. 1. 2019 | PPF Group N.V. |
| PPF Arena 1 B.V. | 59009187 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| PPF Art a.s. | 63080672 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| PPF banka a.s. | 47116129 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Financial Holdings B.V. |
| PPF Beer Holdco 1 B.V. | 67330495 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Beer IM Holdco B.V. | 67331378 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Holdco 1 B.V. |
| PPF Beer Topholdco B.V. | 67420427 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Industrial Holding B.V. |
| PPF Capital Partners Fund B.V. | 55003982 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF CO 3 B.V. | 34360935 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF banka a.s. |
| PPF CYPRUS MANAGEMENT LIMITED | HE 224463 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF CYPRUS RE MANAGEMENT LIMITED | HE 251 908 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| PPF Financial Consulting s.r.o. | 24225657 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| PPF Financial Holdings B.V. | 61880353 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF FO Management B.V. | 34186296 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| PPF GATE a.s. | 27654524 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| PPF Group N.V. | 33264887 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| PPF Healthcare N.V. | 34308251 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Holdings B.V. | 34186294 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Holdings S.á r.l. |
| PPF Holdings S.á r.l. | B 186335 | Luxembourg | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| PPF Industrial Holding B.V. | 71500219 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Infrastructure B.V. | 65167899 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Arena 1 B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| PPF PROPERTY LIMITED | HE 189 164 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 23. 12. 2019 | GLANCUS INVESTMENTS INC., PPF CYPRUS RE MANAGEMENT LIMITED |
| PPF Real Estate Holding B.V. | 34276162 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF REAL ESTATE LIMITED | HE 188 089 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| PPF Real Estate s.r.o. | 27638987 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| PPF Real Estate I, Inc. | 7705173 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | from 15. 11. 2019 | PPF Real Estate s.r.o. |
| PPF reality a.s. | 29030072 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate s.r.o. |
| PPF SECRETARIAL LTD | HE 340708 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF CYPRUS MANAGEMENT LIMITED |
| PPF SERVICES LIMITED | HE 92432 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF Telco B.V. | 65167902 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Arena 1 B.V. |
| PPF TMT Bidco 1 B.V. | 70498288 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Arena 1 B.V. |
| PPF TMT Bidco 2 B.V (dříve PPF Beer Bidco B.V.) | 67332722 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF TMT Holdco 1 B.V. | 70498261 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PPF TMT Holdco 2 B.V. | 70526214 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF TMT Holdco 1 B.V. |
| Prague Entertainment Group B.V. | 63600757 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| PT Home Credit Indonesia | 03.193.870.7-021.000 | Republic of Indonesia | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Indonesia B.V. |
| Public Picture & Marketing a.s. | 25667254 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| Qazbiz partners LLP | 190740017254 | Kazakhstan | Entity controlled by the same controlling entity by means of an ownership interest | from 16. 7. 2019 | Vsegda Da N.V., Forward leasing LLP (KZ) |
| RC PROPERTIES S.R.L. | 12663031 | Romania | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate s.r.o. |
| Real Estate Russia B.V. | 63458373 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| REDLIONE LTD | HE 178 059 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| REPIENO LIMITED | HE 282 866 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Retail Star 22, spol. s r.o. | 24132161 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 10. 10. 2019 | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| RHASKOS FINANCE LIMITED | HE 316 591 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| Ruconfin B.V. | 55391176 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF banka a.s. |
| Saint World Limited | 1065677 | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| SALEMONTO LIMITED | HE 161 006 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Salonica Holding Limited | 1949492 | British Virgin Islands | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| SATACOTO Ltd. | HE 155018 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| SB JSC Bank Home Credit | 513-1900-AO (UI) | Kazakhstan | Entity controlled by the same controlling entity by means of an ownership interest | | LLC Home Credit & Finance Bank |
| SCI LA FORET | 309844371 | France | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| SEPTUS HOLDING LIMITED | HE 316 585 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| Seven Assets Holding B.V. | 58163050 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Shenzhen Home Credit Number One Consulting Co., Ltd. | 91440300664174257K | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Asia Limited |
| Shenzhen Home Credit Xinchi Consulting Co., Ltd. | 91440300796638527A | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Favour Ocean Limited |
| SIGURNO LIMITED | HE 172539 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Gilbey Holdings Limited |
| Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd. | 901510100660467589T | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Asia Limited |
| SILINE CONSULTING LIMITED | HE 281961 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Celestial Holdings Group Limited |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| SKODA Transportation Deutschland GmbH | HRD 208 725 | Germany | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Smart home security s.r.o. | 063 21 399 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Bolt Start Up Development a.s. |
| SOTIO a.s. | 24662623 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | Sotio N.V. |
| SOTIO Biotech AG | CHE-354.429.802 | Swiss Confederation | Entity controlled by the same controlling entity by means of an ownership interest | from 17. 12. 2019 | SOTIO a.s. |
| Sotio Medical Research (Beijing) Co. Ltd. | 110000410283022 | People's Republic of China | Entity controlled by the same controlling entity by means of an ownership interest | | Sotio N.V. |
| Sotio N.V. | 34302290 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| STEL-INVEST s.r.o. | 262 38 365 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | from 7. 5. 2019 | Česká telekomunikační infrastruktura a.s. |
| STEPHOLD LIMITED | HE 221 908 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| STINCTUM HOLDINGS LIMITED | HE 177 110 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | SALEMONTO LIMITED |
| SUNDOWN FARMS LIMITED | HE 310 721 | Cyprus | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | Vixon Resources Limited, Chelton Properties Limited |
| SYLANDER CAPITAL LIMITED | HE 316 597 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| ŠKODA CITY SERVICE s.r.o. | 29119057 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA DIGITAL s.r.o. (dříve LOKEL s.r.o.) | 01731530 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA ELECTRIC a.s. | 477 18 579 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA ICT s.r.o. | 279 94 902 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA INVESTMENT a.s. |
| ŠKODA INVESTMENT a.s. | 265 02 399 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| ŠKODA RAIL s.r.o. | 058 22 149 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA SERVIS s.r.o. | 263 51 277 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| ŠKODA TRANSPORTATION a.s. | 626 23 753 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| ŠKODA TRANSPORTATION UKRAINE, LLC | 42614252 | Ukraine | Entity controlled by the same controlling entity by means of an ownership interest | from 1. 1. 2019 | ŠKODA TRANSPORTATION a.s. |
| Škoda Transportation USA, LLC | 81-257769 | United States of America | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA TRANSTECH OY (dříve TRANSTECH OY) | 1098257-0 | Republic of Finland | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA TVC s.r.o. | 25247964 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| ŠKODA VAGONKA a.s. | 258 70 637 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| TALPA ESTERO LIMITED | HE 316 502 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit Group B.V. |
| TANAINA HOLDINGS LIMITED | HE 318 484 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | TOLESTO LIMITED |
| TANFORD LIMITED | HE 167 324 | | Entity controlled by the same controlling entity by means of an ownership interest | | Ing. Petr Kellner |
| TAPADEO LIMITED | HE 341 777 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 2. 12. 2019 | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| Tapito s.r.o. (dříve TapMedia s.r.o.) | 03853365 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | until 16. 5. 2019 | Bolt Start Up Development a.s. |
| Telematika a.s. | 054 18 046 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF a.s. |
| Telenor Bulgaria EAD | 130460283 | Republic of Bulgaria | Entity controlled by the same controlling entity by means of an ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor Common Operation Ztr. | 13-10-041370 | Hungary | Entity controlled by the same controlling entity by means of an ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Beograd | 20147229 | Republic of Serbia | Entity controlled by the same controlling entity by means of an ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Podgorica | 50017124 | Montenegro | Entity controlled by the same controlling entity by means of an ownership interest | | PPF TMT Bidco 1 B.V. |
| Telenor Direct d.o.o. Beograd | 20426306 | Republic of Serbia | Entity controlled by the same controlling entity by means of an ownership interest | until 15. 4. 2019 | Telenor d.o.o. Beograd |
| Telenor Direct MNE d.o.o. Podgorica | 50537063 | Republic of Serbia | Entity controlled by the same controlling entity by means of an ownership interest | until 17. 4. 2019 | Telenor d.o.o. Beograd |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Telenor Magyarország Zrt. | 13-10-040409 | Hungary | Entity controlled by the same controlling entity by means of an ownership interest | | TMT Hungary B.V. |
| Telenor Real Estate Hungary Ztr. | 13-10-041060 | Hungary | Entity controlled by the same controlling entity by means of an ownership interest | | TMT Hungary B.V. |
| TELISTAN LIMITED | HE 341 864 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | Eastern Properties B.V. |
| Tesco Mobile ČR s.r.o. | 29147506 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Czech Republic a.s. |
| Tesco Mobile Slovakia, s.r.o. | 36863521 | Slovak Republic | Entity controlled by the same controlling entity by means of an ownership interest | | O2 Slovakia, s. r. o. |
| TIMEWORTH HOLDINGS LTD | HE 187 475 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| TMT Hungary B.V. | 75752824 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | from 5. 9. 2019 | PPF TMT Bidco 1 B.V. |
| TOLESTO LIMITED | HE 322 834 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| TRADING RS Sp. z o.o. | NIP 7010213385 | Republic of Poland | Entity controlled by the same controlling entity by means of an ownership interest | | ŠKODA TRANSPORTATION a.s. |
| Trigon Berlin B.V. | 55440916 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | until 19. 12. 2019 | PPF Real Estate Holding B.V. |
| Trigon II B.V. | 56068948 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Trilogy Park Holding B.V. | 60006609 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| Trilogy Park Nizhny Novgorod Holding B.V. | 67330355 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |
| TV Bermuda Ltd. | 55011 | Bermuda Islands | Entity controlled by the same controlling entity by means of an ownership interest | from 16. 10. 2019 | TV Bidco B.V. |
| TV Bidco B.V. | 75994437 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | from 3. 10. 2019 | TV Holdco B.V. |
| TV Holdco B.V. | 75983613 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | from 2. 10. 2019 | PPF TMT Bidco 2 B.V. |
| UNILEAVE LIMITED v likvidaci | HE 179 204 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | until 22. 1. 2019 | PPF CYPRUS MANAGEMENT LIMITED |
| Usconfin 1 DAC | 619282 | Ireland | Entity controlled by the same controlling entity by means of an ownership interest | | PPF banka a.s. |
| VELTHEMIA LIMITED | HE 282 891 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | REPIENO LIMITED |

| Company name | Identification/ registration number | Country of registration | Method and means of control | Note | Controlled via |
|---|---|---|---|---|---|
| Velvon GmbH (dříve Innoble GmbH) | HRB 239796 | Germany | Entity controlled by the same controlling entity by means of an ownership interest | | AB-X Projekt GmbH |
| Vixon Resources Limited | 144 18 84 | British Virgin Islands | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | Renáta Kellnerová |
| Vox Ventures B.V. | 65879554 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Group N.V. |
| Vsegda Da N.V. (dříve Home Credit Lab N.V.) | 52695689 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | Home Credit N.V., Forward leasing LLP (KZ) |
| VÚKV a.s. | 452 74 100 | Czech Republic | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Beer Topholdco B.V. |
| Wagnerford Holdings Limited | HE 210154 | Cyprus | Entity controlled by the same controlling entity by means of an ownership interest | | MP Holding 2 B.V. |
| Wagnerford LLC | 5087746372819 | Russian Federation | Entity controlled by the same controlling entity by means of an ownership interest | | Wagnerford Holdings Limited |
| West Logistics Park LLC (WLP) | 35093235 | Ukraine | Entity controlled by the same controlling entity by means of an ownership interest | | Izotrem Investments Limited |
| Westminster JV a.s. | 05714354 | Czech Republic | Osoba ovládaná stejnou ovládající osobou jednáním ve shodě prostřednictvím majetkové účasti | | PPF Real Estate s.r.o., |
| Wilhelminaplein (Rotterdam) B.V. | 59494034 | Netherlands | Entity controlled by the same controlling entity by means of an ownership interest | | PPF Real Estate Holding B.V. |

# CONSOLIDATED ENTITIES

As PPF banka holds shares in two subsidiaries, it draws up prepares consolidated financial statements. The Bank consolidates the following subsidiaries:

| (Share in %) | 2019 | 2018 |
|---|---|---|
| Ruconfin B.V. | 100% | 100% |
| PPF Co3 B.V. | 100% | 100% |
| USconfin 1 DAC | 0% | 100% |

In 2012, the Bank established its subsidiary Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation. Ruconfin B.V. buys receivables from Home Credit and Finance Bank in the Russian Federation.

In 2016, Bank purchased PPF Co3 B.V. with the aim of entering the consumer credit segment in Asia.

In 2018, the Bank established its subsidiary USconfin 1 DAC with the aim of entering the consumer credit segment in the United States. In 2019 the Bank sold this company.

# KEY CONSOLIDATED FINANCIAL INFORMATION

(under International Financial Reporting Standards (IFRS))

## Profit before tax

| In millions of CZK | |
|---|---|
| 2011 | 761 |
| 2012 | 1,146 |
| 2013 | 757 |
| 2014 | 1,022 |
| 2015 | 1,442 |
| 2016 | 1,630 |
| 2017 | 2,118 |
| 2018 | 2,933 |
| 2019 | 2,917 |

## Total assets

| In millions of CZK | |
|---|---|
| 2011 | 67,064 |
| 2012 | 77,064 |
| 2013 | 105,047 |
| 2014 | 108,884 |
| 2015 | 103,517 |
| 2016 | 136,810 |
| 2017 | 233,055 |
| 2018 | 235,067 |
| 2019 | 226,774 |

# Key Consolidated Financial Information

(under International Financial Reporting Standards (IFRS))

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | 155,422 | 163,539 |
| Financial assets at fair value through profit or loss | 7,166 | 9,605 |
| Financial assets at fair value through other comprehensive income | 17,551 | 18,784 |
| Debt instruments at amortised cost | 4,174 | 3,051 |
| Receivables from banks | 5,364 | 6,173 |
| Receivables from customers | 36,427 | 33, 419 |
| Other assets | 678 | 496 |
| **Total assets** | **226,782** | **235,067** |
| **Equity and liabilities** | | |
| Deposits from banks | 24,950 | 66,306 |
| Deposits from customers | 171,093 | 132,398 |
| Debt securities issued | 3,536 | 2,583 |
| Financial liabilities at fair value through profit or loss | 9,054 | 16,180 |
| Other liabilities | 3,401 | 5,738 |
| Registered capital | 769 | 769 |
| Other components of equity | 13,979 | 11,093 |
| **Total equity and liabilities** | **226,782** | **235,067** |
| **Income statement** | | |
| Net interest income | 4,263 | 3,472 |
| Net fee and commission income | 163 | 167 |
| Net gain on trading and dividend income | 363 | 363 |
| General administrative expenses | -911 | -982 |
| Impairment losses | 233 | 16 |
| Other operating profit or loss | -349 | -103 |
| Income tax expense | -666 | -581 |
| **Profit or loss for the year** | **2,251** | **2,352** |
| **Key ratios** | | |
| Classified client loans/total client loans | 7.88% | 13.24% |
| ROAA | 0.98% | 1.01% |
| ROAE | 18.09% | 21.38% |
| Assets per employee (in CZK million) | 947 | 1,000 |
| Administrative expenses per employee (in CZK million) | 4 | 4 |
| Net profit per employee (in CZK million) | 10 | 10 |

**KPMG Česká republika Audit, s.r.o.**
Pobřežní 1a
186 00 Praha 8
Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

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

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of PPF banka a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2019, 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 notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra

*Emphasis of Matter – subsequent event*

We draw attention to Note 44 of the consolidated financial statements, where the Group's management, at the date of preparation of these consolidated financial statements, assessed the most recent information regarding the possible impact of SARS-CoV-2 and its COVID-19 disease on the Group's consolidated financial statements. Our opinion is not modified in respect of this matter.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Loss allowances for loans to and receivables from customers*

Loss allowances for loans and receivables from customers amounted to CZK 1,149 million as at 31 December 2019 (31 December 2018: CZK 1,442 million).

Refer to Note 3 (Significant accounting policies) and Note 18 (Loans and receivables) in the notes to the consolidated financial statements.

| Key audit matter | How the audit matter was addressed |
|---|---|
| The Group's management makes material and complex assumptions when estimating expected credit losses ("the Expected Credit Losses", "ECLs") in respect of loans to and receivables from customers (together "loans"). We consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.<br><br>The loans are assigned to one of three stages in line with IFRS 9 Financial instruments for the purposes of estimating the loss allowances. Stage 1 and Stage 2 loans are performing exposures. Stage 2 loans are exposures where a significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans.<br><br>Key inputs, assumptions and judgments relevant for the calculation of loss allowances for Stage 1 and Stage 2 loans comprise: | Assisted, where applicable, by our own credit risk and information technology specialists, we performed, among others, the procedures outlined below:<br><br>Applying our knowledge, experience and market standards, we critically assessed the Group's credit and accounting policies, and the processes related to estimating ECLs. As part of the procedure, we assessed the process of identifying indicators of default, significantly increased credit risk, and allocating of loans to particular stage levels. In addition, we tested IT control environment for data security and access.<br><br>We tested the design, implementation and operating effectiveness of IT-based and manual controls over the identification and timely consideration of significant increase in credit risk and credit-impairment. The tested controls comprised those over the calculation of the past due days of loans, matching of borrowers' repayments to loan instalments and calculation of ECL. We tested these controls by making inquiries of heads of risk, finance and IT department, |

| Key audit matter | How the audit matter was addressed |
| --- | --- |
| — definition of default and definition of significant increase in credit risk (SICR);<br><br>— probability of default (PD) - estimated by statistical models, based on historical data and forward looking information (FLI). For certain types of loans, the modelled PDs are either increased by coefficients set by the Group's management or replaced by PDs obtained from an external study on defaults of foreign debt exposures<br>— exposure at default (EAD) - decreased by the net realisable value of collateral;<br>— loss given default (LGD) - based on regulatory coefficients.<br><br>Loss allowances for all stage 3 loans are determined by discounting the probability-weighted scenarios of estimated future cash flows. The key judgments and assumptions consist in estimating the amount and timing of future cash repayments including the net realisable value of underlying collateral. | and other relevant IT and risk department personnel, in combination with observation, inspection and re-performance.<br><br>We tested the key inputs, assumptions and judgments relevant for the calculation of ECLs. As part of the procedure, for a sample of individual loans, by reference to respective loan files and inquiries of the credit risk personnel, we:<br><br>— determined whether a significant increase in credit risk occurred or whether the loan was credit-impaired;<br>— assessed the net realisable value of collateral;<br>— assessed whether appropriate PD and LGD was assigned to the loan;<br>— checked other characteristics of selected loans relevant for the ECL calculation.<br><br>In addition, for a sample of Stage 3 loans, we challenged the estimated cash flow scenarios and their probabilities. In performing the procedure, we focused on the key assumptions in relation to the amount and timing of estimated cash flows, which included primarily the value of the underlying collateral.<br><br>We evaluated the results of the back-testing of PD and LGD performed by the Group by reference to model PDs and historical defaults observed by the Group.<br><br>We critically assessed the overall reasonableness of the estimated Expected Credit Losses by comparing the ratios of loss allowances to gross loan receivables per stage and in total against market average ratios and the ratios of selected similar banks in the market.<br><br>We assessed the adequacy of the Group's disclosures on the loss allowances and credit risk management in the notes to the consolidated financial statements. |

### *Other Information*

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the separate and the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the separate and the consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

### *Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee is responsible for overseeing the Group's financial reporting process.

KPMG

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

*Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Group by the General Meeting of Shareholders on 26 April 2019 and our uninterrupted engagement has lasted for 21 years.

*Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 17 April 2020 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or consolidated annual report.

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*Statutory Auditor Responsible for the Engagement*

Jindřich Vašina is the statutory auditor responsible for the audit of the consolidated financial statements of PPF banka a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague
17 April 2020

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

Jindřich Vašina
Partner
Registration number 2059

# CONSOLIDATED FINANCIAL STATEMENTS

in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2019

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

| In millions of CZK | Note | 2019 | 2018 |
|---|---|---|---|
| Interest and similar income | 7 | 6,231 | 4,321 |
| Interest expense and similar charges | 7 | (1,968) | (849) |
| **Net interest and similar income** | | **4,263** | **3,472** |
| Dividend income | | 2 | 1 |
| Fee and commission income | 8 | 242 | 221 |
| Fee and commission expense | 8 | (79) | (54) |
| **Net fee and commission income** | | **163** | **167** |
| Net income from financial operations | 9 | (484) | 362 |
| Other operating income | 10 | 18 | 126 |
| Operating income | | 3,962 | 4,128 |
| General administrative expenses | 11 | (911) | (982) |
| Other operating expenses | 12 | (367) | (229) |
| **Operating expenses** | | **(1,278)** | **(1,211)** |
| Impairment (loss)/reversal | 26 | 233 | 16 |
| **Profit before income tax** | | **2,917** | **2,933** |
| Income tax expense | 22 | (699) | (581) |
| **Net profit for the year** | | **2,218** | **2,352** |
| **Other comprehensive income** | | **2019** | **2018** |
| **Items that are or may be reclassified to profit or loss** | | | |
| Foreign currency translation differences for foreign operations | | 48 | (45) |
| Fair value reserve (debt instruments measured at fair value through other comprehensive income): | | 722 | (855) |
| Net change in fair value | | 810 | (665) |
| Net amount transferred to profit or loss | | (88) | (190) |
| Deferred tax | | (132) | 129 |
| Items that will not be reclassified to profit or loss | | | |
| Fair value reserve (equity instruments designated at fair value through other comprehensive income): | | | |
| Net change in fair value | | (1) | 158 |
| **Other comprehensive income for the period** | | **637** | **(613)** |
| **Total comprehensive income for the period** | | **2,855** | **1,739** |

The notes on pages 8 to 113 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 17 April 2020.

Signed on behalf of the Board of Directors by:

**Petr Jirásko** **Miroslav Hudec**

# Consolidated Statement of Financial Positions

as at 31 December 2019

| In millions of CZK | Note | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 156,815 | 165,789 |
| Financial assets at fair value through profit or loss | 14 | 7,166 | 9,605 |
| Financial assets at fair value through other comprehensive income | 15 | 17,551 | 18,784 |
| Debt instruments at amortised cost | 16 | 4,174 | 3,051 |
| Loans and advances to banks | 17 | 3,971 | 3,923 |
| Loans and advances to customers | 18 | 36,427 | 33,419 |
| Property, plant and equipment | 20 | 167 | 38 |
| Intangible assets | 21 | 193 | 144 |
| Income tax assets | 31 | 9 | – |
| Deferred tax assets | 22 | – | 28 |
| Other assets | 25 | 301 | 286 |
| **Total assets** | | **226,774** | **235,067** |
| **Liabilities** | | | |
| Deposits from banks | 27 | 24,950 | 66,306 |
| Deposits from customers | 28 | 171,093 | 132,398 |
| Debt securities issued | 29 | 3,536 | 2,583 |
| Financial liabilities at fair value through profit or loss | 30 | 9,054 | 16,180 |
| Income tax liabilities | 31 | 61 | 218 |
| Deferred tax liabilities | 22 | 163 | – |
| Provisions | 33 | 183 | 240 |
| Other liabilities | 32 | 3,019 | 5,280 |
| **Total liabilities** | | **212,059** | **223,205** |
| **Shareholders’ equity** | | | |
| Issued capital | 36 | 769 | 769 |
| Share premium | 36 | 412 | 412 |
| Retained earnings | | 12,953 | 10,707 |
| Translation reserve | | (25) | (73) |
| Fair value reserve | 37 | 606 | 47 |
| **Total shareholders’ equity** | | **14,715** | **11,862** |
| **Total liabilities and shareholders’ equity** | | **226,774** | **235,067** |

# Consolidated Statement of Cash Flows

for the year ended 31 December 2019

| In millions of CZK | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 2,917 | 2,933 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 74 | 40 |
| Net impairment loss on investment securities | 12 | 6 |
| Net impairment loss on loans and advances | (156) | 28 |
| Net interest income | (4,263) | (3,472) |
| Revaluation of financial assets and liabilities at fair value through profit or loss | 207 | 82 |
| Net gain/loss on the sale of financial assets at fair value through other comprehensive income | (87) | (190) |
| Other non-cash adjustments | 318 | (321) |
| **Operating profit before the change in operating assets and liabilities** | **(978)** | **(894)** |
| **Changes in:** | | |
| Financial assets at fair value through profit or loss | 2,235 | (686) |
| Debt instruments at amortised cost | (1,123) | 200 |
| Loans and advances to banks | (48) | 7,009 |
| Loans and advances to customers | (2,852) | (6,902) |
| Other assets | (15) | (5) |
| Financial liabilities at fair value through profit or loss | (7,126) | 3,244 |
| Deposits from banks | (41,356) | 27,343 |
| Deposits from customers | 38,695 | (24,813) |
| Other liabilities and provisions | (2,295) | (3,258) |
| | (14,863) | 1,238 |
| Interest received | 6,171 | 4,353 |
| Dividends received | 2 | 1 |
| Interest paid | (1,780) | (917) |
| Income taxes paid | (801) | (629) |
| **Net cash from / (used in) operating activities** | **(11,271)** | **4,046** |
| **Cash flow from investing activities** | | |
| Acquisition of financial assets at fair value through other comprehensive income | (12,101) | (18,625) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | 13,562 | 25,648 |
| Acquisition of property and equipment | (16) | (21) |
| Acquisition of intangible assets | (74) | (69) |
| | 8 | – |
| **Net cash from / (used in) investing activities** | **1,379** | **6,933)** |
| **Cash flow from financing activities** | | |
| Proceeds from issue of debt securities | 1,611 | 220 |
| Repayment of debt securities issued | (658) | (818) |
| Repayment of subordinated debt | – | (1,525) |
| Leasing payments | (34) | – |
| **Net cash from / (used in) financing activities** | **919** | **(2,123)** |
| Net increase/(decrease) in cash and cash equivalents | (8,973) | 8,856 |
| Cash and cash equivalents at 1 January | 165,789 | 156,945 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | (1) | (12) |
| **Cash and cash equivalents at 31 December** | **156,815** | **165,789** |

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

| In millions of CZK | Issued capital | Share premium | Translation reserve | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **769** | **412** | **(73)** | **47** | **10,707** | **11,862** |
| **Total comprehensive income for the period** | | | | | | |
| Profit for 2019 | – | – | – | – | 2,218 | 2,218 |
| Other liabilities – Social Fund | – | – | – | – | (2) | (2) |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | 48 | – | – | 48 |
| Changes in fair value of financial assets at fair value through other comprehensive income, incl. tax | – | – | – | 589 | – | 589 |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | – | – | | (30) | 30 | – |
| **Total** | **769** | **412** | **(25)** | **606** | **12,953** | **14,715** |
| **Transactions with owners, contribution and distribution to owners** | | | | | | |
| Dividends paid | – | – | – | – | – | – |
| **Balance at 31 December 2019** | **769** | **412** | **(25)** | **606** | **12,953** | **14,715** |
| **Balance at 1 January 2018** | **769** | **412** | **(28)** | **615** | **8,357** | **10,125** |
| **Total comprehensive income for the period** | | | | | | |
| Profit for 2018 | – | – | – | – | 2,352 | 2,352 |
| Other liabilities – Social Fund | – | – | – | – | (2) | (2) |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | (45) | – | – | (45) |
| Changes in fair value of available-for-sale financial assets, net of tax | – | – | – | (568) | – | (568) |
| **Total** | **769** | **412** | **(73)** | **47** | **10,707** | **11,862** |
| **Transactions with owners, contribution and distribution to owners** | | | | | | |
| Dividends paid | – | – | – | – | – | – |
| **Balance at 31 December 2018** | **769** | **412** | **(73)** | **47** | **10,707** | **11,862** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

## 1. Introduction

PPF Banka a.s. ("the Bank") was established on 31 January 1995 as the successor to the former ROYAL BANKA CS,a.s. (operating on the market from 31 December 1992) by a resolution of the Prague City Council in order to create a strong financial partner for cities and municipalities. These consolidated financial statements encompass the Bank and its subsidiaries listed in note 19 (further as "group").

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 and abroad, to the extent permitted by relevant legislation and the licence granted by the Czech National Bank (CNB). The Bank may 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., with its registered office at Strawinskylaan 933, 1077 XX Amsterdam, Netherlands, registration number: 33264887.

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 ("IFRS") 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 Group'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 assets at fair value through other comprehensive income.

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.

Information about assumptions and estimation uncertainties that may have a significant effect on the financial statements in the year ended 31 December 2019 is included in the following notes:

— impairment of financial instruments, determining inputs into the ECL measurement model, including incorporation of forward-looking information in note 5;
— sensitivity analysis of loss allowance by relevant categories in note 42(a);
— determination of the fair value of financial instruments with significant unobservable inputs in note 3(d).

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.

Estimates which may have a significant effect on the financial statements in the next year regarding the standards that are not yet effective and are relevant for the financial statements are discussed in Note 4.

Information about judgements made in applying accounting policies that may have a significant effect on the consolidated financial statements is included in the following notes.

— classification of financial instruments, especially the assessment of the business model and assessment of whether contractual cash flows are solely payments of principal and interest from unpaid principal ("SPPI") in note 3(d);
— assessment of whether there has been a significant increase in the credit risk of a financial instrument since initial recognition considering all available and relevant information, including quantitative and qualitative information, analysis based on historical experience of the group and forward-looking information in note 5.

In 2012, the Bank established its subsidiary Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation. Ruconfin B.V. buys receivables from Home Credit and Finance Bank in the Russian Federation.

In 2016, the Bank purchased PPF Co3 B.V. with the aim of entering the consumer credit segment in Asia.

In 2018, the Bank established the subsidiary USconfin 1 DAC with the aim of entering the consumer credit segment in the United States. The Bank sold the company in 2019.

The Bank held no interest participation with significant influence as at 31 December 2019 and 31 December 2018.

Therefore, the Bank prepares consolidated financial statements.

## b) Basis of consolidation

### i. Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of the control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

### ii. Loss of control

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss.

### iii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent to which there is no evidence of impairment.

## c) Foreign currency

### i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group 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 recognised 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.

## d) Financial instruments

### i) Classification and measurement of financial assets

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (“AC”), fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified under one of these categories on initial recognition.

**Business model assessment**

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the management. The information considered includes:

— the stated policies and objectives for the portfolio and the operation of those policies in practice;
— how the performance of the portfolio is evaluated and reported to the Group's management;
— the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
— how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
— the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI")**

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

— contingent events that would change the amount and timing of cash flows;
— leverage features;
— prepayment and extension terms;
— terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
— features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

**POCI assets**

IFRS 9 also includes so called POCI assets. POCI assets are purchased or originated financial assets that are credit-impaired on initial recognition.

#### ii) Recognition

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

#### iii) Fair value measurement principles

Fair value is the price the bank would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date.

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

#### Valuation models

The Group 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 Group 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 Group 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 Group's Audit Committee.

### iv) 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 "Net income from financial operations".

Gains and losses arising from a change in the fair value of financial assets measured at fair value through other comprehensive income are recognised directly in other comprehensive income and become the equity item "Changes in fair value of financial assets at FVOCI".

### v) Specific financial instruments

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash deposited with banks and 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 are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. If contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, the financial assets are measured at amortised cost in line with IFRS 9. The financial assets are measured at fair value through profit or loss if the contractual terms do not meet the criteria specified above.

#### Debt securities issued

Own issued debt securities are recognised at amortised cost under "Debt securities issued". Upon initial recognition, own debt securities are measured at cost, which includes direct transaction costs.

#### Subordinated liabilities

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

### vi) Financial Derivatives

Financial derivatives with positive fair value are presented as "Financial assets measured at fair value through profit or loss". Financial derivatives with negative fair value are presented as "Financial liabilities measured at fair value through profit or loss".

For presentation purposes derivatives are split into

— derivatives held for trading; and
— hedging derivatives.

Derivatives held for trading are those which are not designated as hedging instruments. All kinds of non-hedging derivatives, without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, or purpose, i.e. both trading derivatives and derivatives held for risk management, are presented in this line item. Hedging derivatives are those which are designated as hedging instruments in hedges fulfilling the conditions of IFRS 9.

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

## e) Derecognition and contractual modification

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the financial asset, provided that the Group also transfers substantially all the risks and rewards of ownership of the financial asset.

Substantial modification of the contractual cash flows of a financial asset is considered by the Group to be the expiry of contractual rights to the financial asset. The Group uses internally defined quantitative and qualitative criteria to assess the significance of a change. As for the quantitative criteria, the Group considers contractual terms to be significantly changed if the discounted present value of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset as of the date of modification. As for the qualitative criteria, the Group considers contractual terms to be significantly changed if the new contractual cash flow would not meet SPPI criteria or there would be change of legal form, tax regime, currency of the financial assets or addition of a convertible option to the financial asset terms. If a quantitative or qualitative criterion is not met, this is taken to mean a significant change and the lapse of contractual rights attaching to the original financial asset. If at least one of the qualitative or qualitative criteria is not met, the Group derecognises the modified financial asset. Where the modification of a financial asset results in the derecognition of an existing financial asset and the subsequent recognition of a modified financial asset, the modified asset is treated as a new financial asset for the Group's purposes.

A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. Substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day they are delivered (settlement date accounting).

In case of derecognition of investments in equity instruments designated at fair value through other comprehensive income, the Group does not reclassify cumulative gain or loss from equity to profit or loss. The cumulative gain or loss is transferred within equity.

Debt instruments measured at amortised cost, loans and advances to banks and loans and advances to customers are derecognised on the day of maturity or on the day they are transferred by the Group.

In the event of the modification of a financial instrument not measured at fair value through profit or loss that does not result in derecognition, the Group recalculates the gross carrying amount of the financial asset (amortised cost of the financial liability) as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's (financial liability's) original effective interest rate and recognises the modification gain or loss in profit or loss.

## f) Repurchase transactions

The Group enters into purchases (sales) of financial assets under agreements to resell (repurchase) identical financial assets at a certain date in the future at a fixed price. Financial assets purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers or cash and cash equivalents. 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.

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 and similar income" or "Interest expense and similar charges".

## g) Offsetting

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

## h) Impairment

The Group assesses impairment loss on financial assets based on a forward-looking “expected credit loss” model in line with IFRS 9. The model assumptions and estimates are described in detail in note 5(i).

When the expected credit loss increases in the period, the amount of corresponding impairment loss on the financial asset is recognised in the statement of comprehensive income line item “Impairment loss”.

If the expected credit loss decreases in the subsequent period, the amount of corresponding impairment loss reversal is recognised in the statement of comprehensive income line item “Impairment reversal”.

When a financial asset is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the financial asset is written off directly to the statement of comprehensive income.

**Loans and advances to banks, loans and advances to customers, debt instruments measured at amortised cost**
Loans and advances to banks, loans and advances to customers and debt instruments measured at amortised cost are presented net of any loss allowance.

**Financial assets measured at fair value through other comprehensive income**
Financial assets measured at fair value through other comprehensive income are presented at fair value. The loss allowance for expected credit loss is recognised in the equity line item “Fair value reserve”.

**Financial guarantees, loan commitments and letters of credit**
Financial guarantees, loan commitments and letters of credit are presented at fair value. The loss allowance for expected credit loss is recognised in the statement of financial position line item “Provisions”.

## i) Net interest and similar income

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 include 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. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortised over the life of the loan.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, except for POCI financial assets and financial assets that have subsequently become credit-impaired financial assets.

For POCI financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. For financial assets that have subsequently become credit-impaired financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

## j) Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate and are therefore included in “Interest and similar income” or “Interest expense and similar charges”.

Other fee and commission income arises from financial services provided by the Group, 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.

Other fee and commission expenses relate mainly to transaction and service fees, account maintenance and brokerage fees which are expensed as the services are received.

## k) Penalty fees

Penalty fees that have not been claimed or that have been waived are excluded from profit or loss.

## l) Net income from financial operations

Net income from financial operations includes gains and losses arising from disposals of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, except for equity instruments designated at fair value through other comprehensive income. Net income from financial operations also includes gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss. This item also includes foreign exchange gains and losses.

## m) 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.

## n) 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 | 50 years |
| Other | 1–10 years |

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

**o) Intangible assets**

**Software and other intangible assets**

Software and other intangible assets that are acquired by the Group 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.

## p) Leases – applicable until 31. 12. 2018

A lease is classified as a finance lease if it transfers to the lessee all substantial risks and rewards incidental to ownership of the asset being leased. Otherwise it is an operating lease.

**From a lessee perspective:**

**Operating leases**

Lease payments are recognised as an expense on a straight-line basis over the lease term. Any payments relating to the early termination of the lease are charged to costs in the period in which the lease is terminated.

**Finance leases**

From its perspective as a lessee, the Group has not entered into any lease that qualifies as a finance lease.

**From a lessor perspective:**

The Group does not provide leasing services in the capacity of a lessor.

## q) Leases – applicable from 1. 1. 2019

**From a lessee perspective:**
The Group treats a contract as a lease if it conveys the right to control the use of a given asset for a period of time in exchange for consideration.

A right-of-use asset and a lease liability are recognised at the lease commencement date.

A right-of-use asset is initially measured at cost. The cost of a right-of-use asset comprises: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs; and an estimate of costs to be incurred in restoring the underlying asset. The asset is subsequently depreciated on a straight-line basis over the estimated useful life of the right-of-use asset, or until the end of the lease term, if earlier.

A right-of-use tangible asset is recognised as a tangible asset in the statement of financial position.

A lease liability recognised in other liabilities is measured at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, variable lease payments that depend on an index, amounts expected to be payable by the lessee under residual value guarantees, and the exercise price of a purchase option or an option to extend or terminate a lease if the Group is reasonably certain to exercise that option. Lease payments are discounted using the Group's incremental borrowing rate.

After the commencement date, the Group revises the remeasurement of lease liabilities to reflect changes to the lease payments. The Group also makes the corresponding adjustment to the value of the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises it in profit or loss.

Interest on the lease liability is recognised in interest expense.

**From a lessor perspective:**
The Group does not provide leasing services in the capacity of a lessor.

## r) 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.

## s) Income taxes

The income tax base is calculated from the current year profit. Expenses considered non-taxable expenses are added and income considered 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.

## t) Financial guarantees

Financial guarantees are contracts that require the Group 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.

# 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 2019, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations.

**Amendments to IAS 1** *Presentation of Financial Statements* and **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors* (Effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group assessed the new amendments to the standard and determined that they would have no major impact on its financial statements.

**Amendments to IFRS 10** and **IAS 28** *Sale or contribution of assets between an investor and its associate or joint venture* (The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

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

The Group assessed the new amendments to the standards and determined that they would have no major impact on its financial statements.

**Amendments to IFRS 3** *Business Combinations* (Effective for annual periods beginning on or after 1 January 2020. These amendments are not yet endorsed by the EU.)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group assessed the new amendments to the standard and determined that they would have no major impact 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 judgements

The Group 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 financial assets

The Group assesses impairment loss on financial assets based on a forward-looking “expected credit loss” (“ECL”) model in line with IFRS 9.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Financial assets for which the provision is reported at 12-month expected credit losses are referred to as stage 1 financial assets. Financial assets are classified under stage 1 if they are assigned a low credit risk or if their credit risk has not significantly increased since the initial recognition.

Financial assets for which the provision is reported at the level of lifelong expected credit losses are referred to as stage 2 financial assets. Financial assets are reclassified under stage 2 if their credit risk has significantly increased since initial recognition and they are not currently assigned a low credit risk.

Financial assets in default are classified as stage 3 financial assets.

### Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

— financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
— financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
— undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
— financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

### Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

— the borrower is unlikely to pay its credit obligations to the Group in full, without realising collateral; or
— the borrower is more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group mainly considers the following indicators:

— approval of the forced restructuring of the receivable, with the effect of a reduction in the borrower's financial liabilities;
— active insolvency proceedings against the borrower in the insolvency register;
— the removal of the borrower's licence for activity for which licensing is required;
— the declaration of a moratorium on payments to international creditors (valid only for Sovereigns);
— the initiation of steps by the Group to activate guarantees provided by guarantors for the borrower's commitments;
— a performing exposure with relief in the probationary period is more than 30 days past due during the probationary period;
— the borrower is unlikely (according to an assessment by the Group) to fully repay liabilities to the Group, the parent company or subsidiaries without the realisation of collateral;
— loss of the borrower's regular income intended for the repayment of liabilities to the Group;
— there are reasonable concerns about the borrower's future ability to generate stable and sufficient cash flows;
— a significant increase in the borrower's level of debt, or a reasonable expectation of such an increase;
— breach of covenants laid down in the contract with the borrower;
— a significant delay in the borrower's payments to other creditors is recorded in the Central Credit Register (or in another credit register);
— a crisis in the borrower's sector, accompanied by the borrower's weak position in that sector;
— the disappearance of an active market for a financial asset because of the borrower's financial difficulties;
— the default of another member in an economically linked group;
— a borrower facing financial difficulties receives material financial assistance (for more than 12 months) from the parent company, shareholders or another member of an economically linked group in order to meet liabilities, unless this is financial assistance pre-planned or expected during the lending approval procedure.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

**Credit risk grades**
The Group allocates each exposure a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure is allocated a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades are primary inputs in the determination of the probability of default (PD) development for exposures.

**Determining whether credit risk has increased significantly**
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting – based on availability and complexity – of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset becomes more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

For individually significant loans the Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

— the credit risk grade as at the reporting date; with
— the credit risk grade that was estimated on initial recognition of the exposure.

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition if the credit risk grade at the reporting date is determined to have increased – since initial recognition – by two notches or more.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the results of assessment are compliant with IFRS 9 and internal guidelines and settings.

**Inputs in the measurement of ECLs**
The key inputs in the measurement of ECLs are – in general – the following variables:

— probability of default (PD);
— loss given default (LGD); and
— exposure at default (EAD).

These parameters are – separately or collectively – derived from statistical models created on the basis of available market data. Models created on the basis of available market data are periodically back-tested on internal historical data. Failure probability estimates are estimates at a certain date that are calculated on the basis of statistical rating models and assessed using the rating tools established for different categories of counterparties and exposures. The migration of a counterparty or exposure between rating classes results in a change in the estimate of the associated PD.

For the consumer credit receivables portfolio, the Group uses the data sources of the original lender from whom it purchases the receivables and the methodology of the Home Credit group to measure expected credit losses. The Group has taken the view that this methodology is appropriate and sufficiently prudent.

Brief overview of methodologies used: The collective loss allowance for groups of homogenous loans is established by using statistical methods such as a roll rate model or a Markov chain (model). Both models use a statistical analysis of historical data on unpaid loans to estimate the amount of loss. The Group's management applies the assumption that the estimated loss amount calculated based on historical data is adequately adjusted to reflect economic conditions and product mixture at the date of the financial statements. Parameters of roll rate models and rates for the calculation of losses are regularly compared against current loss developments. In assessing the need for the creation of a collective loss allowance for losses, factors considered include credit quality, portfolio size, the rate of concentration and economic factors. To estimate the required loss allowance, the Group creates assumptions based on which it defines a way of modelling inherent losses and determines the required input parameters based on historical experience and the current economic situation. The accuracy of the loss allowance depends on model assumptions and parameters used in determining the loss allowance.

During 2019, the group assessed and subsequently revised its model assumptions. As a result the Group changed the credit loss estimate at the time of the write-off and aligned the estimate with latest expectation of recoveries. The impact of the change in the estimate was applied prospectively to the financial statements. It resulted in an increase in the amount of the consumer loan portfolio by MCZK 100 in the consolidated statement of financial position as at 31 December 2019 and a decrease in impairment losses by MCZK 97 in the consolidated statement of comprehensive income in 2019.

The migration of a counterparty or exposure between rating classes results in a change in the estimate of the associated PD.

Loss given default (LGD) is the amount of probable loss in the event of a default. For stage 1 and 2 exposures, the Group uses external comparative information to assess LGD parameters. For stage 3 exposures, the Group uses the difference between the gross carrying amount of an asset and the present value of estimated future cash flows, applying scenario probability weights to measure expected credit losses.

EAD represents the exposure in the event of default. The Group derives the EAD from the current exposure to the counterparty. The EAD of a financial asset is the gross carrying amount at default reduced by the net realisable value of collateral received.

**Forward-looking information**

Under IFRS 9, the Group incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of the measurement of ECLs. The external information used may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

On the strength of data availability and resource credibility, the Group uses historical data analysis to estimate the relationships between macroeconomic variables and probabilities of default that are used to measure expected credit losses.

## 6. Changes in accounting policies

There were no changes in accounting policies during the period from 1 January 2019 to 31 December 2019, except for those disclosed below.

The Group has adopted IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019), which supersedes IAS 17 Leases and related interpretations.

From the perspective of the Group as a lessee, the most significant changes occurred in leases previously classified as operating leases under IAS 17, where the Group, on implementing IFRS 16 as at 1 January 2019, recognised right-of-use assets of MCZK 162 under Tangible Assets and, similarly, lease liabilities at an amortised cost of MCZK 162 under Financial Liabilities. The weighted average Group incremental borrowing rate of 2.3% was applied to lease liabilities recognised in the statement of financial position at the date of initial application. The contracts mainly concerned office and branch leases.

In accordance with the transitional provisions of IFRS 16, the Bank adopted a modified retrospective approach, i.e. without adjusting the comparative information.

# 7. Net interest income and similar income

| MCZK | 2019 | 2018 |
|---|---|---|
| **Interest and similar income** | | |
| Cash and cash equivalents | 2,324 | 1,365 |
| Loans and advances to banks | 166 | 85 |
| Loans and advances to customers | 2,776 | 1,994 |
| Of which: | | |
| Unpaid interest income from impaired loans | 2 | 34 |
| Unpaid interest income from loans with forbearance | – | 10 |
| Debt securities | 965 | 877 |
| | **6,231** | **4,321** |
| **Interest expense and similar charges** | | |
| Deposits from banks | (147) | 13 |
| Deposits from customers | (1,582) | (571) |
| Debt securities issued and short sales | (236) | (244) |
| Lease liabilities | (3) | – |
| Subordinated liabilities | – | (47) |
| | **(1,968)** | **(849)** |
| **Net interest income and similar income** | **4,263** | **3,472** |

The Group did not waive any interest on late payment during the years 2019 and 2018.

# 8. Net fee and commission income

| MCZK | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Transaction fee with clients | 111 | 87 |
| Fees from guarantees provided | 25 | 19 |
| Penalties | 25 | 29 |
| Custody fees | 20 | 21 |
| Fees from administration of shares/bonds issue | 18 | 20 |
| Transaction fee with banks | 5 | 3 |
| Other | 38 | 42 |
| | **242** | **221** |
| **Fee and commission expense** | | |
| Transaction fee with other counterparties | (39) | (34) |
| Transaction fee with banks | (25) | (20) |
| Other | (15) | – |
| | **(79)** | **(54)** |
| **Net fee and commission income** | **163** | **167** |

# 9. Net income from financial operations

| MCZK | 2019 | 2018 |
|---|---|---|
| Net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss | (732) | 469 |
| Of which: | | |
| Net profit/(loss) from derivatives | (1,249) | 54 |
| Trading securities | 517 | 415 |
| Net realised gains/(losses) on financial assets at fair value through other comprehensive income | 88 | 190 |
| Of which: | | |
| Debt instruments | 88 | 190 |
| Net gains/(losses) on financial liabilities at amortised cost | – | (18) |
| Of which: | | |
| Debt instruments | – | (18) |
| Foreign exchange gains and losses | 160 | (279) |
| | **(484)** | **362** |

# 10. Other operating income

Other operating income comprises the net gain from sale of a subsidiary amounting to MCZK 8, income from re-invoicing and other similar income. In 2018, other operating income also comprised income from providing collateral in the amount of MCZK 90.

# 11. General administrative expenses

| MCZK | 2019 | 2018 |
|---|---|---|
| Personnel expenses | | |
| Wages and salaries | (252) | (244) |
| Social expenses | (83) | (85) |
| Liability insurance, pension insurance | (4) | (3) |
| Remuneration paid to key management personnel* | (54) | (50) |
| Other general operating expenses | (393) | (382) |
| Gifts | (210) | (200) |
| Consultancy services | (137) | (139) |
| Other | (171) | (261) |
| | (518) | (600) |
| **Total** | **(911)** | **(982)** |

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Group in the years 2019 and 2018 was as follows:

| | 2019 | 2018 |
|---|---|---|
| Board of Directors | 5 | 5 |
| Supervisory Board ** | 6 | 6 |
| Executives | 2 | 2 |
| Employees ** | 237 | 235 |

* Remuneration paid to key management personnel includes remuneration paid to the Board of Directors, Supervisory Board and executives.
** Two employees are also members of the Supervisory Board and are therefore included in both number of employees and the members of the Supervisory Board.

# 12. Other operating expenses

| MCZK | 2019 | 2018 |
|---|---|---|
| Payment to Resolution Fund | (291) | (181) |
| Depreciation of fixed assets | (74) | (40) |
| Payment to Deposit Insurance Fund | (1) | (1) |
| Payment to Guarantee Fund | (1) | (2) |
| Net loss on sale investment in subsidiary | – | (5) |
| | **(367)** | **(229)** |

The basis for the calculation of the payment to the Guarantee Fund for 2019 amounted to MCZK 68 (2018: MCZK 74).

# 13. Cash and cash equivalents

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Cash on hand | 35 | 41 |
| Nostro account balances | 1,749 | 3,141 |
| Term deposits with the central bank | 6,100 | – |
| Reverse repo with the central bank | 148,931 | 162,607 |
| Loss allowance | – | – |
| **Net cash and cash equivalents** | **156,815** | **165,789** |

The technical parameters of the reverse repo operation with the central bank are as follows: maturity of two weeks, interest rate set by CNB for two-week repo operations (the "2W repo rate").

# 14. Financial assets at fair value through profit or loss

All financial assets at fair value through profit or loss are classified as measured at fair value through profit or loss in accordance with IFRS 9. All financial assets listed below are held within the held-for-trading business model.

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bonds and notes issued by: | | |
| Government | 2,282 | 4,357 |
| Corporate | 250 | 1,364 |
| Positive fair value of derivatives: | | |
| Interest rate contracts | 3,048 | 2,514 |
| Currency contracts | 1,586 | 1,370 |
| Of which: | | |
| Listed instruments | 2,462 | 5,780 |
| Unlisted instruments | 4,704 | 3,825 |
| **Total** | **7,166** | **9,605** |

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

# 15. Financial assets at fair value through other comprehensive income

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bonds issued by: | | |
| Government | 4,892 | 6,125 |
| Corporate bonds | 12,482 | 11,912 |
| Equity instruments at fair value through other comprehensive income | | |
| Shares and other equity instruments issued by: | | |
| Other issuers | 177 | 747 |
| Of which: | | |
| Listed instruments | 15,259 | 15,251 |
| Unlisted instruments | 2,292 | 3,533 |
| **Total** | **17,551** | **18,784** |

Debt instruments at fair value through other comprehensive income were classified under this category on the basis of the Group's business model for managing financial assets.

Interest income from debt instruments at fair value through other comprehensive income is recognised in interest and similar income.

The fair value of unlisted bonds was estimated using discounted cash-flow techniques.

The loss allowance for the expected credit loss on debt instruments at fair value through other comprehensive income was MCZK 62 (2018: MCZK 54). The loss allowance for the expected credit loss is presented in the equity line item "Fair value reserve".

A credit risk analysis and a detailed overview of impairment loss on debt instruments at fair value through other comprehensive income are disclosed in note 42 (a).

The Group designated certain investments shown in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long term.

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Best Hotel Properties (ISIN: SK1120005105) | 176 | 196 |
| Swift S.C. (ISIN: BE0016790090) | 1 | 1 |
| Aphelium Real Estate (ISIN: MT7000022984) | – | 550 |
| **Total** | **177** | **747** |

The Group disposed of an investment during the year ended 31 December 2019 and transferred the cumulative gain of MCZK 30 within equity. No investments were disposed of during the year ended 31 December 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments. The result of the change in fair value on investments was a loss of MCZK 20 in 2019 (2018: profit of MCZK 145). The Group did not recognise any dividends related to these instruments in 2019 or 2018.

# 16. Debt instruments at amortised cost

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bills of exchange: | 4,175 | 3,053 |
| Corporate bills of exchange | 4,175 | 3,053 |
| Loss allowance | (1) | (2) |
| **Net debt instruments at amortised cost** | **4,174** | **3,051** |

A credit risk analysis and a detailed overview of impairment loss on debt instruments at amortised cost are disclosed in note 42 (a).

# 17. Loans and advances to banks

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Loans to banks | 77 | 1,031 |
| Money market transactions | 1,349 | 142 |
| Cash collateral for derivative instruments | 2,194 | 1,867 |
| Balances with the central bank | 356 | 891 |
| Loss allowance | (5) | (8) |
| **Net loans and advances to banks** | **3,971** | **3,923** |

At 31 December 2019, loans and advances to banks included balances with the central bank amounting to MCZK 356 (31. 12. 2018: MCZK 891) representing the obligatory minimum reserves. Compliance with the requirement to hold a certain level of obligatory minimum reserves is measured using the monthly average of daily closing balances. These funds are not available for the Group's daily business.

A credit risk analysis and a detailed overview of impairment loss on loans and advances are disclosed in note 42 (a).

# 18. Loans and advances to customers

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Total loans and advances to customers | 37,576 | 34,861 |
| Loss allowance | (1,149) | (1,442) |
| **Net loans and advances to customers** | **36,427** | **33,419** |

A credit risk analysis and a detailed overview of impairment loss on loans and advances are disclosed in note 42 (a).

# 19. Companies included in consolidated financial statements

The Bank consolidates the following subsidiaries:

| | Principal place of business | 31. 12. 2019 Share (%) | 31. 12. 2018 Share (%) |
|---|---|---|---|
| Ruconfin B.V. | RU | 100% | 100% |
| USconfin 1 DAC | US | 0% | 100% |
| PPF Co3 B.V. | ID, IN, PH, EU | 100% | 100% |

### Investment in subsidiaries

The Bank established the subsidiary Ruconfin B.V. with the aim of entering the consumer credit segment in the Russian Federation in 2012. Ruconfin B.V. buys receivables from Home Credit and Finance Bank in the Russian Federation.

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

In 2018, the Bank established its subsidiary USconfin 1 DAC with the aim of entering the consumer credit segment in the United States. The Bank sold the company in 2019.

The Bank held no interest participation with significant influence as at 31 December 2019 and 31 December 2018.

# 20. Property, plant and equipment

| MCZK | Low value fixed assets | Building | Furniture and fittings | Equipment | Fixed assets not in use yet | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2018 | 3 | 13 | 12 | 95 | 5 | 128 |
| Additions | 1 | – | 6 | 17 | 3 | 27 |
| Disposals | (1) | (6) | (3) | (24) | (5) | (39) |
| At 31 December 2018 | 3 | 7 | 15 | 88 | 3 | 116 |
| Recognition of right-of-use assets according to IFRS 16 | – | 162 | – | – | – | 162 |
| At 1 January 2019 | 3 | 169 | 15 | 88 | 3 | 278 |
| Additions | 1 | – | – | 17 | 3 | 21 |
| Disposals | – | – | – | (4) | (5) | (9) |
| At 31 December 2019 | 4 | 169 | 15 | 101 | 1 | 290 |
| **Depreciation** | | | | | | |
| At 1 January 2018 | 3 | 2 | 11 | 76 | – | 92 |
| Additions | – | 5 | 1 | 13 | – | 19 |
| Disposals | – | (6) | (3) | (24) | – | (33) |
| At 31 December 2018 | 3 | 1 | 9 | 65 | – | 78 |
| At 1 January 2019 | 3 | 1 | 9 | 65 | – | 78 |
| Additions | 1 | 32 | 1 | 15 | – | 49 |
| Disposals | – | – | – | (4) | – | (4) |
| At 31 December 2019 | 4 | 33 | 10 | 76 | – | 123 |
| **Net book value** | | | | | | |
| At 31 December 2018 | – | 6 | 6 | 23 | 3 | 38 |
| At 31 December 2019 | – | 136 | 5 | 25 | 1 | 167 |

At 31 December 2019, the Bank recorded right-of-use assets in the amount of MCZK 130 and related depreciation expense in the amount of MCZK 32.

# 21. Intangible assets

| MCZK | Software | Total |
|---|---|---|
| **Cost** | | |
| At 1 January 2018 | 408 | 408 |
| Additions | 69 | 69 |
| Disposals | – | – |
| At 31 December 2018 | 477 | 477 |
| At 1 January 2019 | 477 | 477 |
| Additions | 86 | 86 |
| Disposals | (12) | (12) |
| At 31 December 2019 | 551 | 551 |
| **Amortisation** | | |
| At 1 January 2018 | 312 | 312 |
| Additions | 21 | 21 |
| Disposals | – | – |
| At 31 December 2018 | 333 | 333 |
| At 1 January 2019 | 333 | 333 |
| Additions | 25 | 25 |
| Disposals | – | – |
| At 31 December 2019 | 358 | 358 |
| **Net book value** | | |
| At 31 December 2018 | 144 | 144 |
| At 31 December 2019 | 193 | 193 |

# 22. Deferred tax liability/asset and income tax

Deferred taxes are calculated from all temporary differences between the tax and accounting value of assets and liabilities. To determine the recognised deferred taxes the Group uses the income tax rate applicable in the periods in which deferred taxes are expected to be utilised, i.e. 19% for the following years (in 2019 and 2018 the tax rate in the Czech Republic was 19%). The income tax rate applicable to the countries of the subsidiaries' registered seat was 25% (2018: 25%) for the Netherlands and 25% for Ireland.

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax asset from wages and unpaid social and health insurance | 18 | 21 |
| Deferred tax asset from financial assets at fair value through other comprehensive income | – | 1 |
| Deferred tax asset from loans and advances to customers | – | 6 |
| **Deferred tax assets** | **18** | **28** |
| Deferred tax liabilities | | |
| Deferred tax liability from financial assets at fair value through other comprehensive income | (131) | – |
| Deferred tax liability from loans and advances to customers | (50) | – |
| **Deferred tax liabilities** | **(181)** | **–** |
| **Net deferred tax assets (liabilities)** | **(163)** | **28** |

The amount of deferred tax relating to changes at the tax rate applicable for the deferred tax calculation is MCZK 0 (2018: MCZK 0). There was no unrecognised item related to deferred tax.

At 31 December 2019, the Group recorded receivables from customers of penalty interest not yet collected of MCZK 133 (31. 12. 2018: MCZK 122) and increased the consumer loan portfolio by MCZK 100 due to a revision of its estimation of expected recoveries. In both cases, the relevant income is not taxable. Due to the application of IFRS 9 from 1 January 2018, the Group created a loss allowance for performing receivables in the amount of MCZK 151, which was a temporary difference for the year ended 31 December 2018. Therefore, the Group created a deferred tax liability in the amount of MCZK 50 (31. 12. 2018: deferred tax asset of MCZK 6), all of which was recognised.

A change in deferred tax from financial assets at fair value through other comprehensive income disclosed as at 31 December 2019 decreased other comprehensive income by MCZK 132 (2018: increased other comprehensive income by MCZK 129) and was included in the Bank's equity through the adjustment to the "Fair value reserve".

Taxes on income consist of current tax on income calculated based on the results reported for tax purposes and the change in deferred taxes.

| MCZK | 2019 | 2018 |
|---|---|---|
| Income tax – current | (644) | (601) |
| Income tax – related to prior years | 3 | (12) |
| Income tax – deferred | (58) | 32 |
| **Income tax expense** | **(699)** | **(581)** |

| MCZK | 2019 | 2018 |
|---|---|---|
| **Bank's domestic tax rate** | **19.0%** | **19.0%** |
| Profit from operations (before taxation) | 2,917 | 2,933 |
| Computed taxation using applicable tax rate | 554 | 557 |
| Tax non-deductible expenses | 106 | 113 |
| Non-taxable income | (63) | (66) |
| Effect of tax rates in foreign jurisdictions and other items | 44 | 9 |
| **Income tax (expense)/income – current** | **(641)** | **(613)** |
| **Effective tax rate** | **22.0%** | **20.9%** |

# 23. Operating leasing

Non-cancellable operating lease rentals are payable as follows:

| MCZK | 2019 | 2018 |
|---|---|---|
| Less than one year | – | 33 |
| Between one and five years | – | 127 |
| More than five years | – | 2 |
| **Total** | **–** | **162** |

In 2018, the Group leased branch and office premises under operating leases. The leases typically included an option to renew the lease after that date. The operating leasing expense was MCZK 38 in 2018.

# 24. Lease liabilities

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Lease liabilities | 131 | – |
| Current | 35 | – |
| Non-current | 96 | – |
| **Interest on lease liabilities** | **3** | **–** |

The Group leases branch and office premises under operating leases.

Variable lease payments depend on the consumer price index set by the Czech Statistical Office; payments are updated annually as at 1 January.

The lease liabilities are recognised under the item “Other liabilities” in the statement of financial position. Interest on lease liabilities is recognised in the income statement in the line item “Interest and similar income”.

Maturity analysis – contractual undiscounted cash flows:

| MCZK | 2019 | 2018 |
|---|---|---|
| Less than one year | 37 | – |
| Between one and five years | 97 | – |
| More than five years | 4 | – |
| **Total** | **138** | **–** |

# 25. Other assets

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Clearing with securities market | 42 | 17 |
| Prepaid expenses and accrued revenues | 20 | 34 |
| Cash collateral to payment cards | 166 | 165 |
| Other | 77 | 74 |
| Loss allowance | (4) | (4) |
| | **301** | **286** |

# 26. Impairment gains/losses

| MCZK | 2019 | 2018 |
|---|---|---|
| Gains/(Losses) from change in loss allowance: | | |
| Loans and advances to banks | 3 | 23 |
| Financial assets at amortised cost | 1 | 1 |
| Financial assets at fair value through other comprehensive income | (13) | (8) |
| Loans and advances to customers – specific loss allowance | 327 | (140) |
| Loans and advances to customers – portfolio loss allowance | (39) | 31 |
| Other assets | – | 1 |
| Specific write-offs – loans and advances to customers | (237) | – |
| Collective write-offs – loans and advances to customers | (2) | (31) |
| Revenues from previously written-off loans and advances to customers – collectively assessed | 191 | 101 |
| Gains/(Losses) from change in provisions – off-balance sheet assets | 2 | 38 |
| | **233** | **16** |

## 27. Deposits from banks

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Deposits from banks | 23,920 | 65,664 |
| Other (loro account balances) | 1,030 | 642 |
| | **24,950** | **66,306** |

## 28. Deposits from customers

| MCZK | Payable on demand | | Term deposits | | Repo operations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Financial institutions* | 36,544 | 14,551 | 14,136 | 13,266 | 62,848 | 41,733 | 113,528 | 69,550 |
| Public sector | 20,694 | 24,032 | 15,141 | 13,595 | – | – | 35,835 | 37,627 |
| Non-financial institutions | 11,301 | 9,998 | 4,699 | 7,180 | – | 3,099 | 16,000 | 20,277 |
| Households/Individuals | 5,333 | 4,792 | 397 | 152 | – | – | 5,730 | 4,944 |
| **Total** | **73,872** | **53,373** | **34,373** | **34,193** | **62,848** | **44,832** | **171,093** | **132,398** |

* Holdings included.

Interest is recognised in the item Interest expense and similar charges.

## 29. Debt securities issued

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial institutions | 3,496 | 2,187 |
| Non-financial institutions | 40 | 392 |
| Resident individuals | – | 4 |
| | **3,536** | **2,583** |

| MCZK | Interest | Maturity | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|---|---|
| Investment certificates | fixed | 2020–2022 | 3,496 | 2,188 |
| Issued notes | fixed | 2020 | 40 | 395 |
| | | | **3,536** | **2,583** |

The Group has not had any defaults of principal or interest or other breaches with respect to its debt securities issued during the years ended 31 December 2019 and 2018.

## 30. Financial liabilities at fair value through profit or loss

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Negative fair value of derivatives: | | |
| Interest rate contracts | 3,143 | 2,100 |
| Currency contracts | 1,954 | 1,587 |
| Liabilities from short sales of securities | 3,957 | 12,493 |
| | **9,054** | **16,180** |

# 31. Income tax assets/liabilities

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Income tax assets | 9 | – |
| Income tax liability | 61 | 218 |

As of 31 December 2019, the tax liabilities of the Group totalled MCZK 642 (31. 12. 2018: MCZK 601), the Group paid income tax advances totalling MCZK 472 (31. 12. 2018: MCZK 329) and tax paid abroad amounts to MCZK 118 (31. 12. 2018: MCZK 54).

# 32. Other liabilities

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Blocked accounts | 2,055 | 4,791 |
| Liabilities from clearing | 552 | 225 |
| Payables to suppliers | 159 | 155 |
| Lease liabilities | 131 | – |
| Other liabilities to employees | 20 | 19 |
| Accrued expenses and deferred income | 44 | 17 |
| Social and health insurance | 7 | 7 |
| Liabilities from securities transactions | 2 | 2 |
| Other payables | 49 | 64 |
| | **3,019** | **5,280** |

Blocked accounts mainly consist of collateral deposits for derivatives totalling MCZK 1,875 (31. 12. 2018: MCZK 3,960).

# 33. Provisions

The development of provisions is disclosed in the following table:

| MCZK | Provisions for guarantees provided | Legal provisions | Other provisions | Total |
|---|---|---|---|---|
| **Provisions at 1 January 2019** | **37** | **184** | **19** | **240** |
| Creation | 80 | 3 | – | 83 |
| Use | – | (57) | – | (57) |
| Release | (82) | – | (1) | (83) |
| Effect on profit for the year | (2) | (54) | (1) | (57) |
| **Provisions at 31 December 2019** | **35** | **130** | **18** | **183** |
| **Provisions at 1 January 2018** | **75** | **118** | **10** | **203** |
| Creation | 60 | 66 | 9 | 135 |
| Use | – | – | – | – |
| Release | (98) | – | – | (98) |
| Effect on profit for the year | (38) | 66 | 9 | 37 |
| **Provisions at 31 December 2018** | **37** | **184** | **19** | **240** |

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

The creation of legal provisions is mainly an ancillary action by the insolvency trustee that relates to an alleged ineffective legal action by the debtor towards the Group and litigation concerning the enforcement of a bank guarantee that has been provided. In 2019, the Group lost a court case disputing the eligibility of calling a bank guarantee and paid the amount of the bank guarantee, plus interest, charges and legal costs, to the counterparty. At the same time, an appeal on a point of law was lodged in this case. The Group created a provision for legal expenses in this appeal process.

# 34. Repurchase and resale agreements

The Group 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 2019:** | | |
| to banks (CNB included) | 148,931 | 147,410 |
| to clients | 261 | 476 |
| **Loans and advances at 31 December 2018:** | | |
| to banks (CNB included) | 162,607 | 161,329 |
| to clients | 390 | 689 |

The Group 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 2019:** | | |
| to banks | 23,920 | 26,856 |
| to clients | 62,848 | 61,450 |
| **Deposits at 31 December 2018:** | | |
| to banks | 65,574 | 71,248 |
| to clients | 44,832 | 43,880 |

# 35. Offsetting financial instruments

Financial assets subject to offsetting and potential offsetting agreements as at 31 December 2019

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral received | Non-cash financial collateral received | |
| Derivatives held for trading | 2,713 | 2,713 | (1,049) | – | 1,664 |
| Reverse repurchase agreements | 149,192 | 149,192 | – | (147,666) | 1,526 |
| **Total** | **151,905** | **151,905** | **(1,049)** | **(147,666)** | **3,190** |

Financial liabilities subject to offsetting and potential offsetting agreements as at 31 December 2019

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral provided | Non-cash financial collateral provided | |
| Derivatives held for trading | (4,234) | (4,234) | 1,646 | – | (2,588) |
| Repurchase agreements | (86,768) | (86,768) | – | 85,370 | (1,398) |
| **Total** | **(91,002)** | **(91,002)** | **1,646** | **85,370** | **(3,986)** |

Financial assets subject to offsetting and potential offsetting agreements as at 31 December 2018

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral received | Non-cash financial collateral received | |
| Derivatives held for trading | 2,986 | 2,986 | (1,175) | – | 1,811 |
| Reverse repurchase agreements | 162,997 | 162,997 | – | (161,719) | 1,278 |
| **Total** | **165,983** | **165,983** | **(1,175)** | **(161,719)** | **3,089** |

Financial liabilities subject to offsetting and potential offsetting agreements as at 31 December 2018

| MCZK | Gross amounts in balance sheet | Net amounts in balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting | | Net amount after potential offsetting |
|---|---|---|---|---|---|
| | | | Cash collateral provided | Non-cash financial collateral provided | |
| Derivatives held for trading | (2,232) | (2,232) | 1,031 | – | (1,201) |
| Repurchase agreements | (110,406) | (110,406) | – | 109,454 | (952) |
| **Total** | **(112,638)** | **(112,638)** | **1,031** | **109,454** | **(2,153)** |

The Group uses repurchase agreements and master netting agreements as a means of reducing the credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in the hands of the lender as collateral in case the borrower defaults in any obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received/pledged. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction, the value is capped at the level of the carrying amount. The remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

# 36. Issued capital

| | Number of shares | Nominal value CZK | Registered capital MCZK |
|---|---|---|---|
| **As at 31 December 2019:** | | | |
| | 192,131 | 2,602.5 | 500 |
| | 384,262 | 700.0 | 269 |
| | 576,393 | | 769 |
| **As at 31 December 2018:** | | | |
| | 192,131 | 2,602.5 | 500 |
| | 384,262 | 700.0 | 269 |
| | 576,393 | | 769 |

The shareholder structure as at 31 December 2019 and as at 31 December 2018 was as follows:

| Name | Residence | Number of shares | Share MCZK | Share % |
|---|---|---|---|---|
| PPF Financial Holdings B.V. | 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 Group as at as at 31 December 2019 or 31 December 2018.

The Group 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 Group were fully paid. The share premium amounts to MCZK 412 (31. 12. 2018: MCZK 412).

# 37. Nature and purpose of reserves

### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income and a loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income until the assets are derecognised.

### Foreign currency translation differences for foreign operations

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of Ruconfin B.V., PPF Co3 B.V. and USconfin 1 DAC.

# 38. Dividends paid

No dividends were paid by the Group in 2019 and 2018.

# 39. Proposed allocation of net profit for the year

The Group proposes to allocate its profit as follows

| MCZK | Net profit for the year |
|---|---|
| Net profit for the year 2019 | 2,218 |
| Proposed allocation of profit for 2019: | |
| Transfer to social funds | (2) |
| Transfer to retained earnings | (2,216) |
| | **–** |

The Social Fund is part of other liabilities.

# 40. 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 Group's credit activity.

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Guarantees issued | 1,126 | 1,596 |
| Undrawn credit commitments | 7,811 | 4,603 |
| Letters of credit | – | 34 |
| | **8,937** | **6,233** |

The total outstanding contractual commitments to extend the credits indicated above do not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

## b) Off-balance sheet financial instruments

| MCZK | Notional value | | Fair value | |
|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Derivatives | | | | |
| Interest Rate Swaps | 243,755 | 177,816 | (101) | 304 |
| Interest Rate Forwards | 50,700 | – | 6 | – |
| Foreign exchange derivatives | | | (368) | (218) |
| Purchase | 192,012 | 263,925 | | |
| Sale | 192,375 | 264,157 | | |
| Options | – | – | – | – |
| Other derivatives | | | 45 | 110 |
| Purchase | 43 | 1,368 | | |
| Sale | 43 | 1,373 | | |
| | | | **(463)** | **196** |

Other derivatives consist of futures (2018: 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 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2019** | | | | | | |
| Interest Rate Swaps | 7,945 | 25,625 | 74,273 | 135,912 | – | 243,755 |
| Interest Rate Forwards – FRA | – | 50,700 | – | – | – | 50,700 |
| FX derivatives (purchase) | 82,422 | 46,571 | 63,019 | – | – | 192,012 |
| FX derivatives (sale) | 82,514 | 46,802 | 63,059 | – | – | 192,375 |
| Options | – | | | – | – | |
| Other derivatives (purchase) | 43 | – | – | – | – | 43 |
| Other derivatives (sale) | 43 | – | – | – | – | 43 |
| **As at 31 December 2018** | | | | | | |
| Interest Rate Swaps | 3,531 | 20,406 | 58,872 | 95,007 | – | 177,816 |
| Interest Rate Forwards – FRA | – | – | – | – | – | 0 |
| FX derivatives (purchase) | 78,045 | 127,478 | 58,634 | – | – | 264,157 |
| FX derivatives (sale) | 77,958 | 127,399 | 58,568 | – | – | 263,925 |
| Options | | | | – | – | 0 |
| Other derivatives (purchase) | 1,368 | – | – | – | – | 1,368 |
| Other derivatives (sale) | 1,373 | – | – | – | – | 1,373 |

# 41. 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 2019** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | 156,815 | – | 156,815 | 156,815 |
| Loans and advances to banks | – | 3,971 | – | 3,971 | 3,971 |
| Loans and advances to customers | – | – | 36,339 | 36,339 | 36,427 |
| Debt instruments at amortised cost | – | – | 4,197 | 4,197 | 4,174 |
| **Financial liabilities** | | | | | |
| Deposits from banks | – | 24,950 | – | 24,950 | 24,950 |
| Deposits from customers | – | 171,093 | – | 171,093 | 171,093 |
| Debt securities issued | – | 3,469 | – | 3,469 | 3,536 |

| MCZK | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | 165,789 | – | 165,789 | 165,789 |
| Loans and advances to banks | – | 3,923 | – | 3,923 | 3,923 |
| Loans and advances to customers | – | – | 33,315 | 33,315 | 33,419 |
| Debt instruments at amortised cost | – | – | 3,038 | 3,038 | 3,051 |
| **Financial liabilities** | | | | | |
| Deposits from banks | – | 66,306 | – | 66,306 | 66,306 |
| Deposits from customers | – | 132,398 | – | 132,398 | 132,398 |
| Debt securities issued | – | 2,549 | – | 2,549 | 2,583 |

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 cash equivalents

For cash and cash equivalents 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.

### Debt instruments at amortised cost

Debt instruments at amortised cost are net of specific and other provisions for impairment. The estimated fair value of debt instruments at amortised cost represents the discounted amount of the estimated future cash flows expected to be received.

### Deposits from banks

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

### Deposits from customers

The estimated fair value of current and deposit accounts without a stated maturity was deemed to be equal to the carrying value. All fixed rate term deposits are renewed regularly at market rates; thus the fair value is deemed to be equal to the carrying value.

### Debt securities issued

For issued debt securities, the fair value is calculated based on market inputs.

### Subordinated liabilities

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

The following table analyses 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 (d) (iii):

| MCZK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Securities held for trading | 2,462 | 70 | – | 2,532 |
| Derivatives held for trading | – | 4,634 | – | 4,634 |
| Financial assets at fair value through other comprehensive income | 15,259 | 2,292 | – | 17,551 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Securities held for trading | 3,957 | – | – | 3,957 |
| Derivatives held for trading | – | 5,097 | – | 5,097 |

| MCZK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2018** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Securities held for trading | 5,664 | 57 | – | 5,721 |
| Derivatives held for trading | 115 | 3,769 | – | 3,884 |
| Financial assets at fair value through other comprehensive income | 15,251 | 3,533 | – | 18,784 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Securities held for trading | 8,033 | 4,460 | – | 12,493 |
| Derivatives held for trading | – | 3,687 | – | 3,687 |

In 2019, there were no transfers of financial assets recognised at fair value to or from Level 3. The following table states the transfers of financial assets recognised at fair value to and from Level 3 in 2018:

| MCZK | Financial assets at fair value through other comprehensive income | Total |
|---|---|---|
| **Balance as at 1 January 2018** | **52** | **52** |
| Profit and loss from revaluation | – | – |
| In profit or loss | – | – |
| In other comprehensive income | – | – |
| Purchases | – | – |
| Sales | – | – |
| Transfers into Level 3 | – | – |
| Transfers out of Level 3 | (52) | (52) |
| Transfers between portfolios | | – |
| **Balance as at 31 December 2018** | **–** | **–** |

# 42. Risk management disclosure

This section provides details of the Group'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 Group is exposed are:

a) credit risk
b) liquidity risk
c) market risk
d) operational risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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.

## a) Credit risk

The Group is exposed to credit risks in relation to its business activities. Credit risks are managed at the consolidated business case, client and the entire portfolio level. The Credit Risk Management department, part of the Risk Management division, is primarily responsible for the management of credit risks. The Credit Risk Management department is independent of the Sales division in terms of organisation and reports directly to the member of the Board of Directors in charge of the Risk Management division.

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

### Managing credit risk at individual level

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

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

An internal rating is assigned to each client constituting a credit risk to the Group, i.e. representing an exposure in both the investment and the trading portfolios. The exposures evaluated include both balance sheet and off-balance sheet exposures. The internal rating system comprises 14 ratings (A1–A4, B1–B6, C1–C4). Clients with default receivables must always be assigned one of the C2–C4 grades. The Group has plotted this internal scale to reflect the rating scales of prominent external rating agencies. Below is a table showing the indicative pairing of the risk level with external ratings.

| | External rating |
|---|---|
| Very low risk | AAA–AA |
| Low to fair risk | A–BBB |
| Medium risk | BB–B |
| High risk | CCC |
| Default | CC and lower |

### Credit risk management at the portfolio level

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

With consumer credit receivables, credit risk is managed by setting qualitative and quantitative criteria that receivables must meet upon purchase for the portfolio. The criteria used in particular include qualitative criteria applied to the debtor (the debtor is not in insolvency, meets all qualitative criteria of the original creditor, number of instalments paid, maximum number of days past due, interest calculation method, minimum applicable interest rate, number of remaining instalments or maximum concentration per debtor). Subsequently, the migration of the receivables portfolio between the delinquency bands is regularly monitored. Findings regarding credit risk developments may be taken into account when adjusting the criteria for further purchases.

### Classification of receivables, assessment of impairment losses

The Group classifies receivables into the following categories:

— performing receivables (without the default of the debtor)
— non-performing receivables (debtor in default)

The Group assesses the impairment loss on performing receivables at an amount equal to the 12-month expected credit losses (stage 1 under IFRS9) or to the lifetime expected credit losses (stage 2 under IFRS9).

The Group assesses the impairment loss on non-performing receivables at an amount equal to the lifetime expected credit losses (stage 3 under IFRS). To determine the impairment loss, the Group applies the method of discounting estimated future cash flows. The loss is determined as the difference between the asset's gross carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset. The original effective interest rate is the effective interest rate ascertained upon the establishment of the receivable or on the last date the modification of the contractual cash flow or interest income was made.

The Group writes off a receivable when it does not expect any income from the receivable or from received collateral related to such receivable.

Loans in the consumer loan portfolio of PPF Co3 B.V. are written off by the Group when any amount of the receivable is more than 360 days past due.

The Group partially writes off the loan in the consumer loan portfolio of Ruconfin B.V., at the amount of the expected credit loss, when any amount of a receivable is more than 180 days past due. The Group writes off loans in this portfolio completely when they are 1,800 days past due.

Set out below is an analysis of the gross and net (of allowances for impairment) carrying amounts (or fair value where applicable) of financial assets individually impaired by internal rating system grades and classification of the asset as at year end. The amounts represent the Group's maximum exposure to credit risk.

The tables analysing changes in provisions in the respective categories present the development of provisions and reserves during the year. These were affected by various factors during the year, such as:

— a change in the stage of a financial asset (see below – an increase or decrease in a provision/reserve within the scope of a transfer, as reported in the values of a provision/reserve corresponding to the appropriate stage);
— the emergence of new assets (i.e. the recognition of a new provision/reserve reported at the stage under which a financial asset was classified at the end of the accounting period);
— the derecognition or write-off of financial assets (i.e. the derecognition of the corresponding provision/reserve);
— a change in the PD/EAD/LGD of individual financial assets (i.e. an increase or decrease in the provision/reserve);
— a change in the calculation methodology, a modification of the cash flows of financial assets, or a change in the exchange rates of financial assets (and provisions/reserves) in foreign currencies during the year.

The Group did not recognise any financial asset in 2019 or 2018 that has been modified since initial recognition and transferred from stage 2 or 3 (the loss allowance measured at an amount equal to lifetime expected credit losses) to stage 1 (the loss allowance measured at an amount equal to 12-month expected credit losses).

Financial assets at fair value through other comprehensive income (excluding equity instruments designated at fair value through other comprehensive income)

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| | Fair value | Fair value |
| Debt instruments | 17,374 | 18,037 |
| **Total** | **17,374** | **18,037** |

| MCZK | | | 31. 12. 2019 | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 4,789 | – | – | – | 4,789 |
| Low to fair risk | 7,011 | – | – | – | 7,011 |
| Medium risk | 4,282 | 1,118 | – | – | 5,400 |
| High risk | 174 | – | – | – | 174 |
| Default | – | – | – | – | – |
| **Fair value** | **16,256** | **1,118** | **–** | **–** | **17,374** |
| Loss allowance | (39) | (28) | – | – | (67) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 5,775 | – | – | – | 5,775 |
| Low to fair risk | 7,310 | – | – | – | 7,310 |
| Medium risk | 4,419 | 533 | – | – | 4,952 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Fair value** | **17,504** | **533** | **–** | **–** | **18,037** |
| Loss allowance | (41) | (13) | – | – | (54) |

The loss allowance for the expected credit loss on debt instruments at fair value through other comprehensive income is presented in the equity line item "Fair value reserve".

Set out below is an analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 41 | 13 | – | – | 54 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | 1 | (8) | – | – | (7) |
| Transfer to stage 2 | (1) | 6 | – | – | 5 |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 12 | 1 | – | – | 13 |
| Changes in PD/LGD/EADs, unwind of discount | (4) | 17 | – | – | 13 |
| Derecognition of financial asset | (11) | – | – | – | (11) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | (1) | – | – | – |
| **Net change in 2018** | **(2)** | **15** | **–** | **–** | **13** |
| Loss allowance as at 31. 12. 2019 | 39 | 28 | – | – | 67 |

Set out below is an analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 34 | 10 | – | – | 44 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | 6 | – | – | 6 |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 7 | – | – | – | 7 |
| Changes in PD/LGD/EADs, unwind of discount | 11 | – | – | – | 11 |
| Derecognition of financial asset | (12) | (4) | – | – | (16) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | 1 | – | – | 2 |
| **Net change in 2018** | **7** | **3** | **–** | **–** | **10** |
| Loss allowance as at 31. 12. 2018 | 41 | 13 | – | – | 54 |

## Debt instruments at amortised cost

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Bills of exchange | 4,175 | (1) | 4,174 | 3,053 | (2) | 3,051 |
| **Total** | **4,175** | **(1)** | **4,174** | **3,053** | **(2)** | **3,051** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 4,175 | – | – | – | 4,175 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **4,175** | **–** | **–** | **–** | **4,175** |
| Loss allowance | (1) | – | – | – | (1) |
| **Net carrying amount** | **4,174** | **–** | **–** | **–** | **4,174** |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 3,053 | – | – | – | 3,053 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **3,053** | **–** | **–** | **–** | **3,053** |
| Loss allowance | (2) | – | – | – | (2) |
| **Net carrying amount** | **3,051** | **–** | **–** | **–** | **3,051** |

Set out below is the analysis of changes in loss allowances by relevant categories:

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 2 | – | – | – | 2 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 2 | – | – | – | 2 |
| Changes in PD/LGD/EADs, unwind of discount | (1) | – | – | – | (1) |
| Derecognition of financial asset | (2) | – | – | – | (2) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2019** | **(1)** | **–** | **–** | **–** | **(1)** |
| Loss allowance as at 31. 12. 2019 | 1 | – | – | – | 1 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 3 | – | – | – | 3 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 3 | – | – | – | 3 |
| Changes in PD/LGD/EADs, unwind of discount | (1) | – | – | – | (1) |
| Derecognition of financial asset | (3) | – | – | – | (3) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2018** | **(1)** | **–** | **–** | **–** | **(1)** |
| Loss allowance as at 31. 12. 2018 | 2 | – | – | – | 2 |

## Balances with the central bank and loans and advances to banks

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Nostro account balances | 1,749 | – | 1,749 | 3,141 | – | 3,141 |
| Term deposits with the central bank | 6,100 | – | 6,100 | – | – | – |
| Reverse repo with the central bank | 148,931 | – | 148,931 | 162,607 | – | 162,607 |
| Loans and advances to banks | 3,976 | (5) | 3,971 | 3,931 | (8) | 3,923 |
| **Total** | **160,756** | **(5)** | **160,751** | **169,679** | **(8)** | **169,671** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stupeň 1 | Stupeň 2 | Stupeň 3 | POCI | Total |
| Very low risk | 155,947 | – | – | – | 155,947 |
| Low to fair risk | 3,133 | – | – | – | 3,133 |
| Medium risk | 1,638 | 38 | – | – | 1,676 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **160,718** | **38** | **–** | **–** | **160,756** |
| Loss allowance | (5) | – | – | – | (5) |
| **Net carrying amount** | **160,713** | **38** | **–** | **–** | **160,751** |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | 166,521 | – | – | – | 166,521 |
| Low to fair risk | 1,889 | – | – | – | 1,889 |
| Medium risk | 1,184 | 85 | – | – | ,1,269 |
| High risk | – | – | – | – | – |
| Default | – | – | – | – | – |
| **Gross carrying amount** | **169,594** | **85** | **–** | **–** | **169,679** |
| Loss allowance | (7) | (1) | – | – | (8) |
| **Net carrying amount** | **169,587** | **84** | **–** | **–** | **169,671** |

The Group did not report any interest accrued to individually impaired loans and advances to banks as at 31 December 2019 and 2018.

Set out below is an analysis of changes in loss allowances by relevant categories:

## Loans and advances to customers (individually impaired)

| MCZK | 31. 12. 2019 | | | 31. 12. 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| Loans and advances to customers | 37,576 | (1,149) | 36,427 | 34,861 | (1,442) | 33,419 |
| **Total** | **37,576** | **(1,149)** | **36,427** | **34,861** | **(1,442)** | **33,419** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Individually impaired | | | | | |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 394 | – | – | – | 394 |
| Medium risk | 30,702 | 835 | – | – | 31,537 |
| High risk | 1,353 | 56 | – | – | 1,409 |
| Default | – | – | 2,861 | – | 2,861 |
| Collectively impaired | | | | | |
| Consumer financing | 1,263 | 12 | 100 | – | 1,375 |
| **Gross carrying amount** | **33,712** | **903** | **2,961** | **–** | **37,576** |
| Loss allowance | (299) | (26) | (824) | – | (1,149) |
| **Net carrying amount** | **33,413** | **877** | **2,137** | **–** | **36,427** |

Set out below is an analysis of changes in loss allowances by relevant categories:

## Loans and advances to customers

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 326 | – | – | – | 326 |
| Medium risk | 28,374 | 974 | – | – | 29,348 |
| High risk | 563 | – | – | – | 563 |
| Default | – | – | 4,612 | – | 4,612 |
| Portfolio level | | | | | |
| Consumer financing | 8 | 1 | 3 | – | 12 |
| **Gross carrying amount** | **29,271** | **975** | **4,615** | **–** | **34,861** |
| Loss allowance | (269) | (9) | (1,164) | – | (1,442) |
| **Net carrying amount** | **29,002** | **966** | **3,451** | **–** | **33,419** |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 269 | 9 | 1,164 | – | 1,442 |
| Transfers between stages: | | | | | |
| Transfer to stage 1 | – | (1) | – | – | (1) |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | (1) | – | 21 | – | 20 |
| New financial assets originated or purchased | 194 | 18 | 22 | – | 234 |
| Changes in PD/LGD/EADs, unwind of discount | (14) | 1 | 10 | – | (3) |
| Derecognition of financial asset | (145) | (1) | (153) | – | (299) |
| Write-offs | – | – | (239) | – | (239) |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | (4) | – | (1) | – | (5) |
| **Net change in 2019** | **30** | **17** | **(340)** | **–** | **(293)** |
| Loss allowance as at 31. 12. 2019 | 299 | 26 | 824 | – | 1,149 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 214 | 15 | 1,099 | – | 1,328 |
| Transfers between stages: | | | | | |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | (1) | 2 | | – | 1 |
| Transfer to stage 3 | (1) | | 8 | – | 7 |
| New financial assets originated or purchased | 143 | 3 | – | – | 146 |
| Changes in PD/LGD/EADs, unwind of discount | (34) | (3) | 117 | – | 80 |
| Derecognition of financial asset | (53) | (7) | (34) | | (94) |
| Write-offs | – | – | (31) | – | (31) |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | 1 | (1) | 5 | – | 5 |
| **Net change in 2018** | **55** | **(6)** | **65** | | **114** |
| Loss allowance as at 31. 12. 2018 | 269 | 9 | 1,164 | – | 1,442 |

Interest accrued to credit-impaired loans and advances to customers was reported in the amount of MCZK 161 as at 31 December 2019 (31. 12. 2018: MCZK 182).

### Loans and advances to customers (individually impaired)

| MCZK | 2019 | 2018 |
|---|---|---|
| Gross | 36,201 | 34,849 |
| Performing | 33,340 | 30,237 |
| Due | 33,112 | 30,031 |
| Past due 1–90 days | 228 | 206 |
| Past due 91–360 days | – | – |
| Past due more than 360 days | – | – |
| Non-performing | 2,861 | 4,612 |
| Allowances for impairment | (1,108) | (1,439) |
| **Total** | **35,093** | **33,410** |

### Loans and advances to customers (collectively impaired)

| MCZK | 2019 | 2018 |
|---|---|---|
| Gross | 1,375 | 12 |
| Due | 1,092 | 8 |
| Past due 1–90 days | 183 | 1 |
| Past due 91–360 days | – | 3 |
| Past due more than 360 days | 100 | – |
| Allowances for impairment | (41) | (3) |
| **Total** | **1,334** | **9** |

### Loan commitments

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 7,340 | 394 | – | – | 7,734 |
| High risk | 75 | – | – | – | 75 |
| Default | – | – | 2 | – | 2 |
| **Gross amount** | **7,425** | **394** | **2** | **–** | **7,811** |
| Loss allowance | (20) | – | – | – | (20) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | 10 | – | – | – | 10 |
| Medium risk | 4,571 | 2 | – | – | 4,573 |
| High risk | 20 | – | – | – | 20 |
| Default | – | – | – | – | – |
| **Gross amount** | **4,601** | **2** | **–** | **–** | **4,603** |
| Loss allowance | (22) | – | – | – | (22) |

## Financial guarantees, letters of credit

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 589 | 521 | – | – | 1,110 |
| High risk | – | – | – | – | – |
| Default | – | – | 16 | – | 16 |
| **Gross amount** | **589** | **521** | **16** | **–** | **1,126** |
| Loss allowance | (1) | (1) | (13) | – | (15) |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Very low risk | – | – | – | – | – |
| Low to fair risk | – | – | – | – | – |
| Medium risk | 1,355 | 256 | – | – | 1,611 |
| High risk | – | – | – | – | – |
| Default | – | – | 19 | – | 19 |
| **Gross amount** | **1,355** | **256** | **19** | **–** | **1,630** |
| Loss allowance | (8) | (1) | (6) | – | (15) |

| MCZK | 31. 12. 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2019 | 30 | 1 | 6 | – | 37 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | – | – | – | – | – |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | 2 | – | 2 |
| New financial assets originated or purchased | 30 | 1 | – | – | 31 |
| Changes in PD/LGD/EADs, unwind of discount | (24) | – | 6 | – | (18) |
| Derecognition of financial asset | (15) | (1) | (1) | – | (17) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | – |
| **Net change in 2019** | **(9)** | **–** | **7** | **–** | **(2)** |
| Loss allowance as at 31. 12. 2019 | 21 | 1 | 13 | – | 35 |

| MCZK | 31. 12. 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Loss allowance as at 1. 1. 2018 | 20 | 2 | 53 | – | 75 |
| Transfers between stages: | – | – | – | – | – |
| Transfer to stage 1 | 1 | – | – | – | 1 |
| Transfer to stage 2 | – | – | – | – | – |
| Transfer to stage 3 | – | – | – | – | – |
| New financial assets originated or purchased | 25 | 2 | | – | 27 |
| Changes in PD/LGD/EADs, unwind of discount | (8) | (1) | 3 | – | (6) |
| Derecognition of financial asset | (8) | (2) | (50) | – | (60) |
| Write-offs | – | – | – | – | – |
| Changes to methodologies | – | – | – | – | – |
| Modification of contractual cash flows of financial assets | – | – | – | – | – |
| FX differences and other changes | – | – | – | – | |
| **Net change in 2018** | **10** | **(1)** | **(47)** | **–** | **(38)** |
| Loss allowance as at 31. 12. 2018 | 30 | 1 | 6 | – | 37 |

## Other assets – Past due, but not impaired

As at 31 December 2019, the Group reported MCZK 0 of other assets as “Past due, but not impaired” (31. 12. 2018: MCZK: 0).

## Sensitivity analysis of loss allowance by relevant categories

### Individually impaired

Set out below is the analysis of changes in loss allowance which would occur in case of an increase of PD by 10 %:

| 2019<br>MCZK | Loss allowance in the baseline scenario | Increase of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 67 | 74 | 7 | 10% |
| Nostro accounts, deposits with central banks and loans and advances to banks | 5 | 5 | 0 | 10% |
| Loans and advances to customers | 1,108 | 1,138 | 30 | 3% |
| Loan commitments, financial guarantees and letters of credit | 35 | 37 | 2 | 7% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Increase of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 54 | 59 | 5 | 10% |
| Nostro accounts, deposits with central banks and loans and advances to banks | 8 | 9 | 1 | 10% |
| Loans and advances to customers | 1,439 | 1,467 | 28 | 2% |
| Loan commitments, financial guarantees and letters of credit | 37 | 40 | 3 | 8% |

### Sensitivity analysis of loss allowance by relevant categories

Set out below is the analysis of changes in loss allowance which would occur in case of a decrease of PD by 10 %:

| 2019<br>MCZK | Loss allowance in the baseline scenario | Decrease of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 67 | 60 | (7) | (10%) |
| Nostro accounts, deposits with central banks and loans and advances to banks | 5 | 5 | 0 | (10%) |
| Loans and advances to customers | 1,108 | 1,081 | (27) | (2%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 33 | (2) | (5%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Decrease of PD by 10 % | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Financial assets at fair value through other comprehensive income (excluding equity instruments) | 54 | 49 | (5) | (10%) |
| Nostro accounts, deposits with central banks and loans and advances to banks | 8 | 7 | (1) | (10%) |
| Loans and advances to customers | 1,439 | 1,411 | (28) | (2%) |
| Loan commitments, financial guarantees and letters of credit | 37 | 34 | (3) | (8%) |

For loans and advances to customers, loan commitments, financial guarantees and letters of credit, the Group also discloses its analysis of the sensitivity of loss allowance to changes in rating grades.

| 2019<br>MCZK | Loss allowance in the baseline scenario | Improvement of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,108 | 1,033 | (75) | (7%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 29 | (6) | (17%) |

| 2019<br>MCZK | Loss allowance in the baseline scenario | Deterioration of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,108 | 1,722 | 614 | 55% |
| Loan commitments, financial guarantees and letters of credit | 35 | 48 | 13 | 37% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Improvement of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,439 | 1,358 | (81) | (6%) |
| Loan commitments, financial guarantees and letters of credit | 37 | 25 | (12) | (32%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Deterioration of rating by 1 notch on internal rating scale | | |
|---|---|---|---|---|
| | | Loss allowance | Absolute difference | Relative difference |
| Loans and advances to customers | 1,439 | 1,594 | 155 | 11% |
| Loan commitments, financial guarantees and letters of credit | 37 | 49 | 12 | 32% |

For loans and advances to customers, loan commitments, financial guarantees and letters of credit, the Group also discloses its analysis of the sensitivity of loss allowance to changes in forward-looking information, specifically to the change in expected GDP developments.

| 2019<br>MCZK | Loss allowance in the baseline scenario | Increase in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,108 | 1,075 | (33) | (3%) |
| Loan commitments, financial guarantees and letters of credit | 35 | 33 | (2) | (6%) |

| 2019<br>MCZK | Loss allowance in the baseline scenario | Decrease in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,108 | 1,150 | 42 | 4% |
| Loan commitments, financial guarantees and letters of credit | 35 | 38 | 3 | 9% |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Increase in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,439 | 1,417 | (22) | (2%) |
| Loan commitments, financial guarantees and letters of credit | 37 | 35 | (2) | (6%) |

| 2018<br>MCZK | Loss allowance in the baseline scenario | Decrease in GDP by 3 p.p. compared to base case scenario | | |
|---|---|---|---|---|
| | | Loss allowance/ Provisions | Absolute difference | Relative difference |
| Loans and advances to customers | 1,439 | 1,465 | 26 | 2% |
| Loan commitments, financial guarantees and letters of credit | 37 | 40 | 3 | 7% |

### Collectively impaired

The consumer loans portfolio is subject to estimation uncertainty as identification on an individual contract level is not practical due to the large quantity of such exposures. The Group has estimated the impairment on loans to customers in accordance with the accounting policy described in Note 5(i). Changes in collection estimates could significantly affect the impairment losses recognised. The Group creates collective impairment losses based on the probability of default and loss given default ("LGD"). A change in the LGD parameter by +/- 10%, would result in a change in the allowance for impairment as at 31 December 2019 by +/- CZK 4 million (2018: +/- CZK 0,3 million).

### Evaluation of collateral

The Group generally requires collateral before providing loans to certain debtors. However, the Group does not usually require collateral for consumer loans. To reduce gross credit exposure, the Group considers the following to be acceptable types of collateral:

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

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

### Loans with renegotiated terms and the Group's forbearance policy

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

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

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

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Not credit-impaired | 34,290 | 30,033 |
| Of which: | | |
| Loans and advances to customers with forbearance: | 30 | 27 |
| Credit-impaired | 2,137 | 3,386 |
| Of which: | | |
| Loans and advances to customers with forbearance: | 1,622 | 2,652 |
| **Total** | **36,427** | **33,419** |

The following table shows loans and advances to customers with forbearance and without forbearance, split by sectors:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Loans and advances to customers without forbearance: | 34,775 | 30,740 |
| Residents: | | |
| Financial institutions | 1,317 | 1,585 |
| Non-financial institutions | 14,074 | 11,061 |
| Households/individuals | 117 | 130 |
| Public sector | 74 | 150 |
| Non-residents | 19,193 | 17,814 |
| Loans and advances to customers with forbearance: | 1,652 | 2,679 |
| Residents: | | |
| Financial institutions | – | – |
| Non-financial institutions | 58 | 65 |
| Households/individuals | – | – |
| Public sector | – | – |
| Non-residents | 1,594 | 2,614 |
| **Total** | **36,427** | **33,419** |

The following table shows gross carrying amounts of loans and advances to customers, loan commitments, financial guarantees and letters of credit, split according to the type of collateral:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bank guarantees | 941 | 2,195 |
| Property | 8,204 | 9,459 |
| Financial guarantees | 547 | 536 |
| Other | 9,717 | 5,177 |
| Unsecured | 27,104 | 24,342 |
| **Total** | **46,513** | **41,709** |

The following table shows gross carrying amounts of loans and advances to customers, loan commitments, financial guarantees and letters of credit classified as non-performing, according to the type of collateral:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Bank guarantees | 826 | 1,850 |
| Property | 1,204 | 1,335 |
| Financial guarantees | – | – |
| Other | 26 | 9 |
| Unsecured | 923 | 1,440 |
| **Total** | **2,979** | **4,634** |

The “Unsecured” category also includes loans and advances to customers, loan commitments, financial guarantees and letters of credit that are secured by collateral, but the Group assigns zero accounting value to the collateral.

### Concentration of credit risks

The concentration of credit risks arises as a result of the existence of loans with similar economic characteristics affecting the debtor’s ability to meet its obligations.

The Group manages the exposure limits in line with the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), such that the Group shall not incur an exposure, after taking into account the effect of the credit risk to a client or group of connected clients, the value of which exceeds 25% of its eligible capital. Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25% of the institution’s eligible capital or EUR 150 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in relation to all connected clients that are not institutions, does not exceed 25% of the institution’s eligible capital.

The Group did not exceed any exposure limits towards consolidated debtors or related parties in the reporting period.

The Group calculates the capital requirement for the credit risk of the investment portfolio using a standardised approach in accordance with the Basel III standard under the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR).

### Concentration of credit risks according to economic sector/industry

| MCZK | Loans and advances to banks | | Loans and dvances to customers | | Debt securities | |
|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Concentration according to economic sector/industry: | | | | | | |
| Financial institutions* | 3,971 | 3,923 | 15,843 | 14,895 | 9,765 | 9,836 |
| Public sector | – | – | 75 | 150 | 7,174 | 10,482 |
| Non-financial institutions | – | – | 19,028 | 18,198 | 7,141 | 6,492 |
| Real estate | – | – | 7,524 | 9,920 | – | – |
| Production and distribution of electricity, gas and heat | – | – | 3,015 | 2,175 | 699 | 760 |
| Wholesale | – | – | 1,061 | 1,447 | 844 | 581 |
| Accommodation | – | – | 1,008 | 1,136 | – | – |
| Other | – | – | 6,420 | 3,520 | 5,598 | 5,151 |
| Households/Individuals | – | – | 1,481 | 176 | – | – |
| | **3,971** | **3,923** | **36,427** | **,33,419** | **24,080** | **26,810** |

* Holding entities included.

### Concentration of credit risk according to geographical areas by country of risk

| MCZK | Loans and advances to banks | | Loans and dvances to customers | | Debt securities | |
|---|---|---|---|---|---|---|
| | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 | 31. 12. 2019 | 31. 12. 2018 |
| Concentration according to geographical sectors | | | | | | |
| Czech Republic | 500 | 913 | 15,271 | 13,494 | 10,308 | 13,810 |
| Slovak Republic | – | – | 1,812 | 2,151 | 529 | 281 |
| Netherlands | – | – | – | 767 | 893 | 1,210 |
| Other EU countries | 1,430 | 1,658 | 2 960 | 3,331 | 3,268 | 4,106 |
| Russian Federation | 948 | 143 | 723 | 1,570 | 1,998 | 2,330 |
| Asia | 335 | 892 | 15 661 | 11,498 | 2,417 | 625 |
| North America | 602 | 186 | – | 608 | 3,376 | 2,911 |
| Other | 156 | 131 | – | – | 1,291 | 1,537 |
| **Total** | **3,971** | **3,923** | **36,427** | **33,419** | **24,080** | **26,810** |

## b) Liquidity risk

The liquidity risk represents the Group's risk of incurring losses due to momentary insolvency. The Group may also suffer a loss as a result of low liquidity in the market for the financial instruments included in the Group's portfolios. The liquidity risk threatens the Group'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 may substantially worsen the Group's position.

The Group 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 any one financing source. The Group 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 Group 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 Group's assets and liabilities

The following table shows the carrying amounts of the Bank's assets and liabilities on the basis of their earliest possible contractual maturity.

The amounts on the basis of their expected recovery or settlement are essentially the same as the carrying amounts of 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 2019** | | | | | | |
| Cash and cash equivalents | 156,815 | – | – | – | – | 156,815 |
| Financial assets at fair value through profit or loss | 687 | 577 | 1,118 | 4,784 | – | 7,166 |
| Financial assets at fair value through other comprehensive income | 484 | 1,244 | 9,845 | 5,801 | 177 | 17,551 |
| Debt instruments at amortised cost | 1,512 | 2,134 | 528 | – | – | 4,174 |
| Loans and advances to banks | 3,919 | 26 | 26 | – | – | 3,971 |
| Loans and advances to customers | 6,397 | 10,466 | 17,417 | 2,147 | | 36,427 |
| Other assets | 285 | – | – | – | 385 | 670 |
| **Total** | **170,099** | **14,447** | **28,934** | **12,732** | **562** | **226,774** |
| Deposits from banks | 24,950 | – | – | – | – | 24,950 |
| Deposits from customers | 150,079 | 13,103 | 7,911 | – | – | 171,093 |
| Debt securities issued | 738 | 1,696 | 1,102 | – | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 743 | 847 | 1,918 | 5,546 | – | 9,054 |
| Tax and other liabilities and provisions | 2,845 | 24 | 93 | 4 | 460 | 3,426 |
| Shareholders' equity | | – | – | – | 14,715 | 14,715 |
| **Total** | **179,355** | **15,670** | **11,024** | **5,550** | **15,175** | **226,774** |
| **At 31 December 2018** | | | | | | |
| Cash and cash equivalents | 165,789 | – | – | – | – | 165,789 |
| Financial assets at fair value through profit or loss | 451 | 1,130 | 1,904 | 6,120 | – | 9,605 |
| Financial assets at fair value through other comprehensive income | 77 | 1,004 | 12,296 | 4,660 | 747 | 18,784 |
| Debt instruments at amortised cost | 1,179 | 823 | 1,049 | | | 3,051 |
| Loans and advances to banks | 3,819 | 26 | 78 | – | – | 3,923 |
| Loans and advances to customers | 1,691 | 11,883 | 16,694 | 3,151 | – | 33,419 |
| Other assets | – | – | – | – | 496 | 496 |
| **Total** | **173,006** | **14,866** | **32,021** | **13,931** | **1,243** | **235,067** |
| Deposits from banks | 66,306 | – | – | – | – | 66,306 |
| Deposits from customers | 115,947 | 9,922 | 6,529 | – | – | 132,398 |
| Debt securities issued | 83 | 315 | 2,185 | – | – | 2,583 |
| Financial liabilities at fair value through profit or loss | 413 | 5,557 | 1,394 | 8,816 | – | 16,180 |
| Tax and other liabilities and provisions | 5,520 | 218 | – | – | – | 5,738 |
| Shareholders' equity | – | – | – | – | 11,862 | 11,862 |
| **Total** | **188,269** | **16,012** | **10,108** | **8,816** | **11,862** | **235,067** |

### Residual maturity of the Group's off-balance-sheet items

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Commitments provided | 396 | 3,530 | 3,885 | – | – | 7,811 |
| Guarantees provided | 145 | 101 | 335 | 1 | – | 582 |
| **Total** | **541** | **3,631** | **4,220** | **1** | **–** | **8,393** |
| **At 31 December 2018** | | | | | | |
| Commitments provided | 303 | 2,305 | 1,993 | – | – | 4,602 |
| Guarantees provided | 39 | 658 | 336 | 1 | – | 1,034 |
| **Total** | **342** | **2,963** | **2,329** | **1** | **–** | **5,636** |

The following table shows undiscounted cash flows on the Group's financial 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 2019** | | | | | | |
| Deposits from banks | 24,958 | – | – | – | – | 24,958 |
| Deposits from customers | 150,080 | 13,103 | 7,911 | – | – | 171,094 |
| Debt securities issued | 738 | 1,696 | 1,102 | – | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 743 | 847 | 1,918 | 5,547 | – | 9,055 |
| **Total** | **176 519** | **15 646** | **10 931** | **5 547** | **–** | **208,643** |
| **At 31 December 2018** | | | | | | |
| Deposits from banks | 66,304 | – | – | – | – | 66,304 |
| Deposits from customers | 115,832 | 10,139 | 6,646 | – | – | 132,617 |
| Debt securities issued | 84 | 316 | 2,185 | – | – | 2,585 |
| Financial liabilities at fair value through profit or loss | 413 | 5,557 | 1,394 | 8,816 | – | 16,180 |
| **Total** | **182,633** | **16,012** | **10,225** | **8,816** | **–** | **217,686** |

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

### Trading

The Group holds trading positions in certain financial instruments. The majority of the Group'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 Group's business strategy is thus affected by speculative expectation and market creation and its goal is to maximise net income from trading.

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

### Value at risk

Market risks arising from the Group'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 Group determines the Value at Risk using the parametric method based on the historical development of interest rates, exchange rates and prices of equity instruments. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. That means that there is a 1% probability that the Group will lose more than a certain amount over a one-day period.

| MCZK | 31 December 2019 | Average for 2019 | 31 December 2018 | Average for 2018 |
|---|---|---|---|---|
| VaR of interest instruments | 20 | 23 | 24 | 13 |
| VaR of currency instruments | 1 | 5 | 2 | 5 |
| VaR of equity instruments | – | 3 | – | 2 |

The data in the table above is assessed primarily on an individual basis, taking into account the data of subsidiaries.

### Stress testing

The Group carries out daily stress testing of interest rate and 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 Group'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 Group'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 Group has set currency risk limits based on its net currency exposure in individual currencies according to their significance. The Group also sets a limit with respect to the total net currency exposure.

### Currency risk exposure

| mil. Kč | CZK | EUR | USD | INR | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| Financial assets | 182,724 | 17,756 | 14,228 | 8,066 | 367 | 3,198 | 226,339 |
| Financial liabilities | 145,197 | 60,755 | 3,725 | 108 | 258 | 1,554 | 211,597 |
| FX derivatives | (22,182) | 42,942 | (10,464) | (8,590) | (180) | (1,889) | (363) |
| Net exposure | 15,345 | (57) | 39 | (632) | (71) | (245) | |

| MCZK | CZK | EUR | USD | INR | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| Financial assets | 192,489 | 18,002 | 15,947 | 5,348 | 230 | 3,311 | 235,327 |
| Financial liabilities | 156,302 | 59,135 | 5,872 | 7 | 262 | 1,141 | 222,719 |
| FX derivatives | (24,047) | 41,863 | (10,349) | (5,755) | 188 | (2,133) | (233) |
| Net exposure | 12,140 | 730 | (274) | (414) | 156 | 37 | |

### 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 Group 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 Group in accordance with the strategy approved by its Board of Directors.

Part of the Group'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 Group's assets and liabilities

The following table shows the carrying amounts of the Group's financial assets and liabilities on the basis of their earliest possible repricing.

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Cash and cash equivalents | 156,815 | – | – | – | – | 156,815 |
| Financial assets at fair value through profit or loss | 689 | 602 | 1,115 | 4,760 | – | 7,166 |
| Financial assets at fair value through other comprehensive income | 1,305 | 6,585 | 6,971 | 2,513 | 177 | 17,551 |
| Debt instruments at amortised cost | 1,512 | 2,134 | 528 | – | – | 4,174 |
| Loans and advances to banks | 3,919 | 26 | 26 | – | – | 3,971 |
| Loans and advances to customers | 21,087 | 6,494 | 8,732 | 114 | – | 36,427 |
| Other assets | 285 | – | – | – | 385 | 670 |
| **Total** | **185,612** | **15,841** | **17,372** | **7,387** | **562** | **226,774** |
| Deposits from banks | 24,950 | – | – | – | – | 24,950 |
| Deposits from customers | 150,079 | 13,103 | 7,911 | – | – | 171,093 |
| Debt securities issued | 738 | 1,696 | 1,102 | – | – | 3,536 |
| Financial liabilities at fair value through profit or loss | 1,821 | 823 | 1,707 | 4,703 | – | 9,054 |
| Tax and other liabilities and provisions | 2,845 | 24 | 93 | 4 | 460 | 3,426 |
| Shareholders' equity | – | – | – | – | 14,715 | 14,715 |
| **Total** | **180,433** | **15,646** | **10,813** | **4,707** | **15,175** | **226,774** |
| **Gap** | **5,179** | **195** | **6,559** | **2,680** | **(14,613)** | **–** |
| **Cumulative gap** | **5,179** | **5,374** | **11,933** | **14,613** | **–** | **–** |

| MCZK | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Cash and cash equivalents | 165,789 | – | – | – | – | 165,789 |
| Financial assets at fair value through profit or loss | 451 | 1,865 | 1,199 | 6,090 | – | 9,605 |
| Financial assets at fair value through other comprehensive income | 1,657 | 7,343 | 7,690 | 1,347 | 747 | 18,784 |
| Debt instruments at amortised cost | 1,179 | 823 | 1,049 | | | 3,051 |
| Loans and advances to banks | 3,923 | – | – | – | – | 3,923 |
| Loans and advances to customers | 16,483 | 10,169 | 6,064 | 703 | – | 33,419 |
| Other assets | – | – | – | – | 496 | 496 |
| **Total** | **189,482** | **20,200** | **16,002** | **8,140** | **1,243** | **235,067** |
| Deposits from banks | 66,306 | – | – | – | – | 66,306 |
| Deposits from customers | 115,943 | 9,926 | 6,529 | – | – | 132,398 |
| Debt securities issued | 83 | 315 | 2,185 | – | – | 2,583 |
| Financial liabilities at fair value through profit or loss | 414 | 5,768 | 1,394 | 8,604 | – | 16,180 |
| Tax and other liabilities and provisions | 5,520 | 218 | – | – | – | 5,738 |
| Shareholders' equity | | – | – | – | 11,862 | 11,862 |
| **Total** | **188,266** | **16,227** | **10,108** | **8,604** | **11,862** | **235,067** |
| **Gap** | **1,216** | **3,973** | **5,894** | **(464)** | **(10,619)** | |
| **Cumulative gap** | **1,216** | **5,189** | **11,083** | **10,619** | **–** | |

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, whichever occurs earlier.

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

### Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Group as at 31 December 2018 and 2017 were as follows:

| In % p.a. | 2019 | 2018 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 1,98 | 1,72 |
| Financial assets at fair value through profit or loss | 2,24 | 3,29 |
| Financial assets at fair value through other comprehensive income* | 3,99 | 3,47 |
| Debt instruments at amortised cost | 3,91 | 3,69 |
| Loans and advances to banks | 1,13 | 1,88 |
| Loans and advances to customers | 6,68 | 6,53 |
| **Financial liabilities** | | |
| Deposits from banks | 0,36 | 0,01 |
| Deposits from customers | 0,69 | (0,36) |
| Debt securities issued | 0,34 | 0,79 |
| Financial liabilities at fair value through profit or loss | 3,44 | 1,57 |

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

Apart from the gap analysis as indicated above, the Group 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 Group's overall position or shift of interest rate yield curves.

### Basis point value

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

As at 31 December 2019, BPVs for individual currencies were as follows:

| MCZK<br>Currency | Banking Book<br>BPV | Trading book<br>BPV |
|---|---|---|
| CZK | 186 | (5) |
| EUR | (74) | (73) |
| USD | (322) | (6) |
| RUB | – | – |
| HUF | 1 | – |
| KZT | (4) | – |
| GBP | – | – |
| INR | – | – |
| IDR | – | – |
| **Total BPV (absolute)** | **587** | **84** |

As at 31 December 2018 BPVs for individual currencies were as follows:

| MCZK<br>Currency | Banking Book<br>BPV | Trading book<br>BPV |
|---|---|---|
| CZK | 251 | 116 |
| EUR | (30) | 22 |
| USD | (256) | (28) |
| RUB | – | (1) |
| JPY | – | – |
| KZT | – | 1 |
| UAH | – | – |
| GBP | – | 1 |
| VND | – | – |
| **Total BPV (absolute)** | **537** | **169** |

The data in the table above is assessed primarily on an individual basis, taking into account the data of subsidiaries.

### Stress testing

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group'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 Group in related yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates in terms of fair value changes (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

| MCZK | 2019 | | 2018 | |
|---|---|---|---|---|
| | 100 bp<br>parallel increase | 100 bp<br>parallel decrease | 100 bp<br>parallel increase | 100 bp<br>parallel decrease |
| At 31 December | (85) | 85 | 91 | 65 |
| Average for the period | 30 | (30) | 190 | 256 |
| Maximum for the period | 257 | 142 | 243 | 341 |
| Minimum for the period | (142) | (257) | 91 | 65 |

The data in the table above is assessed primarily on an individual basis, taking into account the data of subsidiaries.

### 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 Group 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 Group measures equity risk via the Value at Risk method as described above in the section "Value at Risk".

### iv) Settlement risk

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

## d) Operational risk

### i) Operational risks

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

Operational risks are usually the cause of an increase in the Group's expenses, a decrease in the Group's income, fines, penalties, damage, loss of the Group's, tangible and intangible assets and the failure of information systems.

The Security and Operational Risk Management department prepares the operational risk management methodology, identifies, monitors, measures and assesses the operational risks, and proposes measures to mitigate the operational risks. As part of operational risk management, it is further responsible for physical security and the information system security management system, it monitors, measures and assesses physical and information security, and it prepares the methodology for the management and mitigation of the risks.

The Security and Operational Risk Management department manages the access of employees, clients and other authorised persons to tangible and intangible assets, and manages the risk in terms of arranging supplies of banking services, the launch of new products, and the utilisation of outsourcing by the Group. It also manages insurance and legal risk. The Security and Operational Risk Management department also regularly informs the management and relevant employees about operational risks and significant events that have arisen. Furthermore, it secures training for employees on the identification, reporting and handling of operational risks.

The management and employees in charge of managing operational risks within a division or department are also involved in the management of operational risks. After an operational risk is identified, they propose and arrange the implementation of operational, controlling or organisational measures to mitigate or eliminate the operational risk. In proposing the measures to mitigate operational risk, they also assess the impact on expenses and income.

### ii) Other risks

Legal risk management consists of minimising the uncertainties relating to the enforceability of contracts with insufficient documentation, and changes in the regulatory environment, including accepted case-law and uncertainties in counterparties' acts. The aim is to reduce the risk of loss, the risk of possible or questionable claims against the Group, or penalties, including damage to the Group's reputation.

The Compliance department performs activities aimed at harmonising the Group's internal policies and processes with external regulations. The main compliance activities are to ensure the compliance of internal guidelines with external standards, the mutual compliance of internal guidelines, the compliance of the Bank's activities with internal guidelines and external standards, and the ongoing monitoring of compliance with legal obligations and responsibilities arising from the internal regulations of the Group, to establish preconditions for achieving this harmonisation, to establish preconditions for the fair provision of services to customers and to refrain from giving preferential treatment to the Group and its employees compared to customers, to prevent conflicts of interest, and to mitigate acts which would result in market abuse. It also engages in anti-money laundering activities and activities to combat financial terrorism (AML-CFT), runs checks on these activities, and handles claims and complaints.

Where compliance activities are not performed directly by the Compliance department, but are delegated to another department of the Group, the Group's managers or the Group's employees at the Compliance department act as coordinator.

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

## e) Capital management

### Regulatory capital

The reporting of the Group's regulatory capital on a consolidated basis (for the Bank and its subsidiaries) is not required because, since 2015, reporting and capital management is carried out at the regulated consolidated group of PPF Financial Holdings B.V.

# 43. Related-party transactions

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

The Group has a related-party relationship with its parent company, PPF Financial Holdings B.V. and the ultimate controlling entity, PPF Group N.V., and with its subsidiaries and associates.

The Group also has related-party relationships with its key management personnel, and enterprises with which it has key management personnel in common.

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

## a) Transaction with the parent company

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | 23 | 30 |
| Other assets | – | 20 |
| Deposits from customers | (3,006) | (4,496) |
| **Total** | **(2,983)** | **(4,446)** |

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

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

| MCZK | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 1 | 1 |
| Interest expense and similar charges | – | (1) |
| Fee and commission income | 1 | 22 |
| **Total** | **2** | **22** |

## b) Transactions with other related parties

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

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | 696 | 399 |
| Financial assets at fair value through other comprehensive income | 555 | 260 |
| Debt instruments at amortised cost | 2,186 | 1,049 |
| Loans and advances to banks | 593 | 1,044 |
| Loans and advances to customers | 14,569 | 11,342 |
| Other assets | 38 | 28 |
| Deposits from customers | (32,144) | (8,923) |
| Deposits from banks | (853) | (555) |
| Financial liabilities at fair value through profit or loss | (632) | (371) |
| Other liabilities | (626) | (414) |
| **Total** | **(15,618)** | **3,859** |

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

| MCZK | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 1,675 | 1,015 |
| Interest expense and similar charges | (64) | (87) |
| Fee and commission income | 67 | 54 |
| Fee and commission expense | (1) | – |
| Net trading income | 726 | 223 |
| Net impairment losses on financial assets | (40) | (10) |
| Other operating income | 5 | – |
| General administrative expenses | (158) | (151) |
| **Total** | **2,210** | **1,044** |

## c) Key management personnel

The below stated balances are included in the statement of financial position and represented transactions with key management personnel:

| MCZK | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Financial liabilities at fair value through profit or loss | (1) | – |
| Deposits from customers | (58) | (94) |

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

The below stated balances are included in the statement of other comprehensive income and represented transactions with key management personnel:

| MCZK | 2019 | 2018 |
|---|---|---|
| Net income from financial operations | (1) | (1) |

## d) Off-balance sheet items

As a related-party transaction, as at 31 December 2019 the Group provided a credit commitment to related parties of MCZK 4,033 (31. 12. 2018: MCZK 1,689), a guarantee commitment and a guarantee in the amount of MCZK 100 (31. 12. 2018: MCZK 111).

# 44. Subsequent events

The World Health Organisation did not declare coronavirus a global health emergency until the end of January 2020, and no significant measures were taken by governments until early 2020. Furthermore, the effects of the SARS CoV-2 (COVID-19) outbreak did not have a significant impact on global markets and share prices until February 2020. Therefore, based on information about the outbreak that was reasonably available as at 31 December 2019, the Group made no adjustments to its forecasting based on assessments of the information available and associated risks as at that date. We therefore take the view that the disruption is a change in economic conditions that arose after the year-end date. In other words, it is a non-adjusting subsequent event.

In the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak.

The Group is closely monitoring the evolving market and environment and is responding accordingly. All key indicators and the current market situation will be considered and used as baseline parameters for the concept and calculation of stress scenarios.

The Group is mindful of the fact that the spread of COVID-19 and the measures taken by government authorities to contain the disease are a challenging situation for the Group and for the banking sector in general. It affects existing risks and will give rise to new, specific ones.

The COVID-19 epidemic is likely to have negative repercussions not only for banking operations, but also for the Group's financial performance, both in the short and the longer term. The quality of the loan portfolio is expected to be adversely affected, in particular, by the increasing number of clients who indicate a deterioration in their financial situation due to the measures taken by individual governments and seek to negotiate a solution to their predicament. We project that the situation may result in an increase in the number of repayment schedule adjustments in part of the client portfolio, with a rise in the number of defaults and increased risk costs in the longer run. The volume of new business can also be expected to decline.

In addition, the Group is exposed to market risk, i.e. a downturn on global markets. Financial stability may be dented by a further decline on the stock market and limited financing opportunities.

Since the beginning of 2020, the Group has become much more prudent in assessing the credit risk posed by loans newly submitted for approval. In its customer relations, the Group is not only monitoring the situation, but is also in close contact with clients to pre-empt any potential impacts. When assessing what impact the current situation will have on the corporate loan portfolio, the Group defines the expected macroeconomic scenarios of future development and analyses the macroeconomic effect on the creation of provisions and other relevant factors. The corporate bond portfolio was revised in tandem with the approach established for corporate risk assessment since the beginning of 2020. Parallel to this, the Group is monitoring financial market developments.

However, high uncertainty surrounding the current spread of COVID-19 and further economic developments means that quantifying all the impacts is difficult to predict.

Assumptions and estimation uncertainties that may have a significant effect on the financial statements for the year ended 31 December 2019, impairment of financial instruments, determination of inputs for the ECL measurement model, including the incorporation of forward-looking information

Up to the reporting date, i.e. 31 December 2019, very little was known about the virus and what sort of impact it was expected to have. The ECL at 31 December 2019 was estimated based on a range of economic conditions forecast as at that date.

Taking into account PPFB's segment focus, i.e. the absence of both a retail and an SME segment, any potential impacts of COVID-19 on corporate clients are expected to be felt with a slight time lag, i.e. in Q2-3 2020. Due to the changing situation and the difficulty of validating individual assumptions, no new expectations were incorporated into the ECL model at the time of preparation.

Any potential impacts of COVID-19 on corporate clients are expected to be felt with a slight time lag, i.e. in Q2-3 2020. For the part of the portfolio focused on financing retail receivables, the Group is secured by the financing structure itself and by the territorial breakdown. Due to the changing situation and the difficulty of validating individual assumptions, no new expectations were incorporated into the ECL model at the time of preparation.

The actual market situation will be considered when determining the ECL estimate under IFRS 9 in 2020.

The Group conducted stress testing on the basis of all available information. On the strength of the results, the Group is not expecting its functioning to be threatened.

In order to ensure its financial stability, the Group also plans to delay the payment of dividends or other steps that could in any way compromise its resilience.

The Group's management cannot exclude the possibility that the prolongation or tightening of restrictive measures or the consequent negative impact of such measures on the economic landscape in which it operates will not adversely affect the Group, its financial situation and its operating results in both the medium and the long term. The Group's management will continue to monitor closely and respond to developments in order to mitigate the consequences of events and circumstances.

The Group believes that it has sufficient capital and liquidity reserves to cover credit losses, capital requirements and any outage of financing sources.

The Group has analysed all the risks and severe but plausible scenarios and concluded that there is no material uncertainty related to its going-concern status.

# DATA ON PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND THE EXAMINATION OF THE FINANCIAL STATEMENTS

## Affirmation

I declare that the disclosures in the Presentation Section of the Annual Report of PPF banka a.s. for 2019 are accurate and that no material circumstances have been neglected or distorted.

**Petr Jirásko**
Chairman of the Board of Directors

I declare that the disclosures in the Financial Section of the Annual Report of PPF banka a.s. for 2019 are accurate and that no material circumstances have been neglected or distorted.

**Miroslav Hudec**
Managing Director of Financial Management

Prague, 11 April 2020

# CONTACTS

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

Registration number: 47116129
VAT number: CZ47116129
Incorporated by entry
in the Commercial Register
kept by the Municipal Court
in Prague, File B 1834

Tel.: +420 224 175 888
Fax: +420 224 175 980
E-mail: info@ppfbanka.cz
Telex: +420 212 1515 PM BD C
SWIFT CODE: PMBP CZ PP
Internet: www.ppfbanka.cz

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