
09
PPF Banka
Daniel Černý
Josef Bednář
Milan Mihál
Vanda Křivková
Zuzana Staňková
Dagmar Šetinová
Tamara Máselníková
Blanka Černá
Tomáš Hykl
Menclová
Jana
Soňa

PPF banka a.s.

(“PPF banka” or the “Bank”) is an integral part of the PPF financial group. The Bank provides financial, investing and consulting services to selected clients, offering them an individualised approach tailored to their business. This approach is designed to meet the client’s needs while maintaining maximum effectiveness of the Bank’s services.

In view of its strategy, PPF banka focuses primarily on corporate, project and acquisition financing and the provision of investment services. In the investment banking field, it specialises in securities trading in most markets of Europe, the USA, Russia and certain Asian countries, primarily for professional investors. PPF banka’s clients include mainly financial institutions, medium and large corporations with Czech capital and municipal entities.

PPF banka acts as the central treasury bank of PPF Group. For companies within PPF Group, it conducts international payment transactions as well as providing hedging and other investment services such as arranging for financing in the capital markets.

Over the years, PPF banka has built up a reputation, in the financial world and among clients, for being a solid, credible partner. This reputation, coupled with the Bank’s strategic role in PPF Group, allows us to achieve above-average financial performance.

Contents

PETR MILEV

Chairman of the Board of Directors

Letter from the Chairman

Dear shareholders, clients, business partners and colleagues,

2009 was another successful year in the history of PPF banka. In spite of it being a year of ongoing financial and economic crisis, during its course PPF banka increased its performance and ended the year with record results. According to the audited figures, PPF banka's total assets at year end were CZK 44.8 billion, for a 0.2% year-on-year stagnation, and the Bank posted record net profit of over CZK 811 million. The Return on Average Equity (ROAE) exceeded 25.7%, while the Return on Average Assets (ROAA) remained at a high level of 1.72% and management kept the company's efficiency indicator, CIR, at 57%.

The financial crisis of 2008 very quickly grew into an economic crisis in 2009. The Bank responded to the changed market conditions as early as the second half of 2008, and in 2009 it continued to implement the modified trading strategy. The Bank focused on deposits and diversified its income profile by entering the retail debt market through two subsidiaries. As in preceding years, in 2009 PPF banka continued to play a major role within PPF Group. In addition to companies from the Home Credit Group and companies related to the main PPF Group and the new Generali PPF holding structure, it expanded operations for the new platforms Energy and Industrial Holding and PPF ECM Holding.

As a major trader in the primary bond market, PPF banka successfully arranged the placement of two eurobond issues, totalling CZK 8 billion, for clients from PPF Group.

Even to other clients, who are no less important to us, we continued to provide the full range of our products. The stable volumes of client deposits and certificates of deposit, predominantly from municipal clients, attest to their satisfaction with us.

Our concentration on deposits and robust capitalisation enabled the Bank to maintain its consolidated total assets at 2008's level, i.e. CZK 44.8 billion. At the same time, we restricted corporate lending and made allowances at year end even for stable clients who had seen deterioration in their performance expectations. This contributed to an increase in classified receivables. The Bank profited from the recovery in the capital markets seen in 2009, which brought it above-average returns on investments in equities and bonds.

The performance achieved in 2009 enables the Bank to continue to develop by reinvesting in the business. In the course of 2010, the Bank will roll out several additional projects in corporate and private banking to ensure maximum diversification in the Bank's revenue structure and thereby stabilise performance over the entire economic cycle.

The unsettled year 2009 is behind us, and it was a very favourable time for the Bank. This year we expect the crisis in the real economy to subside in the second half and the subsequent recovery will be another challenge for us. We are convinced that our innovative approach combined with the full dedication of all our employees under the leadership of our experienced management team, which more than once has proven its ability to deal with difficult situations, will continue to bring the Bank positive results for shareholders, as well as quality products for our clients, whom we thank for their trust.

Prague, 30 April 2010

Petr Milev

Chairman of the Board of Directors

JOSEF ZEMAN

Vice Chairman of the Board of Directors

PAVEL LANGR

Member of the Board of Directors

Consolidated Financial Highlights

According to International Financial Reporting Standards

TCZK	2009	2008	2007	2006
Assets				
Financial assets	8,028,784	9,219,837	4,136,188	1,943,407
Loans and advances to banks	20,854,949	20,177,544	15,206,648	12,818,482
Loans and advances to customers	14,993,928	8,838,464	7,562,825	9,384,695
Other assets	932,190	6,474,236	511,187	351,880
Total assets	**44,809,851**	**44,710,081**	**27,416,848**	**24,498,464**
Liabilities and shareholders' equity				
Deposits from banks	67,335	383,585	563,286	10,621
Deposits from customers	29,343,753	34,947,996	20,897,707	18,467,682
Certificates of deposit	4,258,718	3,463,315	2,074,167	3,201,607
Financial liabilities at fair value through profit or loss	4,380,344	2,381,348	1,227,303	640,459
Subordinated liabilities	0	0	0	267,563
Shareholders' equity	3,513,506	2,673,827	2,170,673	1,630,400
Other liabilities	3,246,195	860,010	483,712	280,132
Total liabilities and shareholders' equity	**44,809,851**	**44,710,081**	**27,416,848**	**24,498,464**
Profit and loss statement				
Net interest income	1,658,120	1,156,212	883,597	529,159
Dividend income	408	24,428	23,382	14,624
Net fee and commission income	157,730	(113,795)	9,319	285,714
Gains/losses from financial operations	531,342	138,798	191,385	24,705
Other operating income	46,593	26,770	27,004	6,603
Operating income	2,394,193	1,232,413	1,134,687	860,805
Operating expenses	(1,357,866)	(662,070)	(443,153)	(489,006)
Net gain/loss from sale of subsidiary/associate	0	0	0	(111,937)
Income from associates	0	0	0	0
Profit before tax	1,036,327	570,343	691,534	259,862
Income tax	(224,946)	(28,019)	(163,688)	(95,530)
Net profit for the year	**811,381**	**542,324**	**527,846**	**164,332**
Basic ratio analysis				
ROE	25.73%	22.39%	27.77%	9.82%
ROA	1.72%	1.50%	2.03%	0.73%
Operating expenses / operating income	56.71%	53.72%	39.06%	56.81%
Non-interest operating income / operating income	30.74%	6.18%	22.13%	38.53%

People of PPF banka


PPF GATE
PPF Banka
Petr
Hájek
Libuše
Bejčková
Šárka
Vávrová
Felcman
Michaela
Tomáš
Krejčí
Luboš
Procházka
Eva
Becková
Henrieta
Charif Hartiníková
Kateřina
Hanušová Valešová
Dagmar
Pospíšilová

Corporate Profile

General Information

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

Registered capital:	TCZK 769,004
Shareholders' equity:	TCZK 2,673,988
Total assets:	TCZK 44,710,081
Shares:	unlisted, registered, ordinary, recorded in the Securities Centre

Note: figures as at 31 December 2008

Principal Businesses

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

PPF banka is a member of:

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

Shareholder Structure

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

Governing Bodies

as at 31 December 2009

Board of Directors

Josef Zeman

Chairman of the Board of Directors
of PPF banka
Managing Director, Deputy CEO

Pavel Langr

Deputy Chairman of the Board
of Directors of PPF banka
Managing Director, ICT

František Dombek

Member of the Board of Directors
of PPF banka
Managing Director, Municipal
and Corporate Banking
until 30 September 2009

Supervisory Board

Jiří Šmejc

Chairman of the Supervisory
Board of PPF banka

Radovan Šteiner

Deputy Chairman of the Supervisory
Board of PPF banka

Bohuslav Samec

Member of the Supervisory Board
of PPF banka since 16 January 2009

Jiří Witzany

Member of the Supervisory Board
of PPF banka

Martina Kučerová

Member of the Supervisory Board
of PPF banka since 7 January 2009

Lenka Baramová

Member of the Supervisory Board
of PPF banka since 7 January 2009

Audit Committee – members:

Jiří Šmejc

Valdemar Linek

Bohuslav Samec

Senior Management

Petr Milev

Chief Executive Officer
since 1 June 2005

Petr Jirásko

Managing Director, Financial Markets
since 30 April 2004

František Dombek

Managing Director, Municipal and Corporate Banking from 15 June 2002 to 30 September 2009

Jan Švoma

Managing Director, Municipal and Corporate Banking
since 19 October 2009

Pavel Langr

Managing Director, ICT
since 1 October 2002

Jaroslava Studenovská

Managing Director, Operations
since 1 May 2007

Josef Zeman

Managing Director, Risk Management from 1 December 2006 to October 2008
Managing Director, Deputy CEO
since 1 November 2008

Martina Kučerová

Managing Director, Legal
since 1 December 2006

František Vencl

Managing Director, Group Treasury
since 1 October 2006
Managing Director, Chief Finance Officer since 1 January 2009

Marek Ploc

Managing Director, Private Banking
since 1 November 2008

FRANTIŠEK VENCL
MARTINA KUČEROVÁ
MAREK PLOC

PETR JIRÁSKO
JAN ŠVOMA
JAROSLAVA STUDENOVSKÁ

People of PPF banka


PPF Banka
Ivana
Mathonová
Martin
Pavlík
Vanda
Křivková
Tomáš
Pekárek
Evžen
Šubrt
Dagmar
Šetinová
Soňa
Ratajová
Tatiana
Stránská
Marcela
Chadrabová
Václav
Zelenka

Report of the Board of Directors

Bank Financial Performance in 2009

Bank Financial Performance in 2009

Despite difficult conditions in the real economy, in 2009 PPF banka achieved a major improvement in performance compared to 2008, which had been the Bank's most successful year to-date. For the first time in PPF banka history, consolidated profit before tax according to International Financial Reporting Standards (IFRS) surpassed CZK 1 billion, growing 82% from 2008's figure of CZK 570.3 million. PPF banka consolidated net profit in 2009 was up nearly 50% from 2008's figure, to over CZK 800 million, i.e. CZK 811.4 million compared to CZK 542.3 million in 2008.

PPF banka's total operating income in 2009 reached CZK 2,393.2 million, having grown 94% from 2008's level of CZK 1,232.4 million. The growth in total revenue was driven primarily by interest revenue, which was up CZK 501.9 million year-on-year, returns from financing transactions, which contributed more CZK 392,5 million year-on-year and revenue from fees and commissions, which added another CZK 90.6 million year-on-year.

Growth in total revenue was driven primarily by net interest revenue, which was up CZK 501.9 million year-on-year, as well as by gains from financial operations, which rose CZK 392.5 million year-on-year, and revenue from fees and commissions, which added another CZK 90.6 million. Administrative expenses were up 40%, i.e. by CZK 151.9 million, in which expenses for servicing retail portfolios accounted for CZK 108.8 million and the remainder of the increase is attributable to PPF banka's charity activities. Staff expenses were down 3% from the previous year.

In conjunction with lower investment in property, plant and equipment and intangibles, depreciation and amortisation charges fell by over 50% compared to 2008. In keeping with the ongoing conservative strategy, creation and use of allowances and provisions for receivables and corporate loan guarantees, including losses from sales of bad loans, remained practically unchanged year-on-year, i.e. at CZK 210.2 million, while other allowances of CZK 781 million were created on the retail debt portfolio. The eight-fold jump in PPF banka's tax liability from CZK 28.0 million in 2008 to CZK 224.9 million in 2009 reflects the standard profile of tax-exempt revenues and the growth in profit before tax to over CZK 1 billion.

PPF banka's consolidated total assets were flat year-on-year, at CZK 44.8 billion in 2009 compared to CZK 44.7 billion in the previous year. In order to diversify its revenue streams, PPF banka used a portion of its surplus cash allocated in the Czech National Bank (CNB) and government bonds and entered the market for financing retail receivables from consumer financing products, thereby increasing lending volume by 70% to CZK 15.0 billion. Toward year end PPF banka realised gains from its portfolio of equities and corporate bonds, which shrunk by a total of 23%, i.e. by CZK 0.65 billion. The 31% growth in PPF banka's shareholders' equity had a positive impact on the shareholders' equity-to-total assets ratio, which rose to 8% from 6% in 2008.

PPF banka paid no dividends to shareholders in 2009; the undistributed profit from 2008 was used to increase PPF banka's shareholders' equity. The Return on Average Equity (ROAE) at 31 December 2009 was 25.73%, while the Return on Average Assets (ROAA) was 1.72% and the capital adequacy on consolidated basis was 10.52%.

Capital adequacy*

TCZK	2009	2008	2007	2006
Capital adequacy	10.52%	10.74%	13.49%	14.68%
Tier 1	2,636,082	2,074,944	1,556,627	1,251,885
Tier 2 and Tier 3	0	0	0	260,000
Sum of deductible items	0	0	0	0
Total capital	2,636,082	2,074,944	1,556,627	1,511,885
Capital requirements for investment portfolio	1,447,247	1,145,422	643,008	517,636
Capital requirements for trading portfolio	427,629	278,934	280,090	306,384
Capital requirements for operational risks	129,504	121,276	0	0
Risk weighted assets	21,534,979	14,317,773	8,037,603	6,470,444

* According to Czech Accounting Standards and criteria of Czech National Bank

Business Operations in 2009

Corporate and Municipal Banking

PPF banka met its goal for 2009 of maintaining a high-quality loan portfolio in a period of economic crisis, while continuing to cooperate with our long-term partners.

PPF banka continued to lend primarily to its key customers, particularly medium and large Czech corporations specialising in foreign trade, as well as companies within PPF Group. Overall, the PPF banka loan portfolio grew in year-on-year terms, due to the provision of loans to PPF banka's subsidiaries to finance acquisitions of retail receivables. Allowances created pursuant to the conservative strategy sufficiently covered credit risk.

In the public and municipal sector, PPF banka stepped up its activities both in terms of financing and accepting of deposits, as well as offering its customers alternative ways to generate returns on their surplus cash.

PPF banka's Group Treasury Activities in 2009

Since 2005, it has been a part of PPF banka's strategy to provide consulting services to the PPF Group. The Bank has long focused primarily on Asset Liability Management (ALM) and sourcing of debt and capital financing in international and domestic markets. PPF banka's activities in this area correlated to the expansion of PPF Group – especially that of the Group's retail arm, Home Credit. In 2009, we mainly provided ALM consulting with a focus on navigating the difficult conditions of the ongoing financial crisis.

PPF banka's Financial Market Activities in 2009

In 2009, PPF banka's financial market activities continued to focus primarily on acting as a broker for transactions in the money and capital markets. PPF banka is a primary dealer in mid-term government bonds and a member of the Prague Stock Exchange. Besides activities in the Czech market, the Bank also trades in the developed markets of the USA and Western Europe, as well as in emerging markets. Despite the demanding market conditions, which reduced client demand for investments in securities, the Bank's financial markets division manage to trade securities in a total volume of CZK 449.1 billion. This fantastic result reaffirms PPF banka's ability to respond to changing market conditions and reinforces its position in the capital markets.

PPF banka continued to build its position in the primary market for Czech government bonds in 2009. PPF banka was the fifth most active bank among primary Czech government bond dealers. Activities in foreign bonds actually grew substantially, with transaction volume increasing by 263% over 2008.

Here, the Bank traded primarily in corporate bonds that are highly liquid and have an above-average return/risk ratio. The Bank applies a strict policy with regard to credit risk and invests in bonds of issuers approved by its Risk Management department.

PPF banka continues to expand the number of international and domestic banks and financial institutions it works with by entering into framework agreements and bilateral operational frameworks, enabling us to offer competitive, market-driven prices to the clients we serve.

In June 2009 PPF banka, in the role of Sole Lead Manager, successfully placed a CZK 4 billion bond issue by the company HCBV. In December 2009 PPF banka, as Co-Manager, helped to subscribe a USD 200 million issue of three-year eurobonds by Nomos-Bank, which was the second-ever issue of eurobonds by a bank on the eurobond market in a period of global financial crisis.

Securities trading volume

CZK millions	2009	2008	2007
Domestic bonds	281,051	343,663	172,801
Foreign bonds	85,867	23,677	30,500
Total bonds	**366,918**	**367,340**	**203,301**
Domestic equities	43,484	56,948	12,470
Foreign equities	38 ,726	63,467	100,375
Total equities	**82,210**	**120,415**	**112 845**
Total	**449,128**	**487,755**	**316,146**

Information Technologies and Security Policy

2009 was a very important year for the Bank's Information and Communication Technologies (ICT) function, since it saw the implementation of a number of fundamental decisions in this area. For example, one of the most important was preparation for implementation of the Arbes OBS banking system, which will enable us to serve a new client segment. Other major steps included the implementation of a new system for processing payment transactions and modifications to financial market trading systems. Last but not least, we implemented a new back-up system to eliminate delays in the event data renewal is needed.

Certain other fundamental changes were begun in 2009 and will be finished in 2010. These include, for example, implementation of an internet banking system, in-house payment cards, and a completely new version of the Kondor system.

In accordance with the basic ICT goal, which is easily accessible operational support and active realisation of new solutions for PPF banka's trading and other operations, emphasis was placed on making work easier for users and minimising the necessity for subsequent operational interventions. All modifications made are strictly planned with regard to up-front cost and subsequent support.

In terms of business continuity, in 2009 we had to adapt to the changes that took place in the ICT area as well as to preceding changes in locations where the Bank began to operate. Operational risk management, which is closely linked to technology, saw very few damaging events in 2009, with losses at an absolute minimum.

The security and security policy area continually monitored all the changes, thereby maintaining the high standard it has held itself to in previous years.

Human Resources and Personnel Strategy

PPF banka's human resources management function always respects the overall corporate strategy of PPF Group, of which the Bank is a member.

The human resources management strategy at PPF banka is conceived in accordance with the plans and goals of the commercial strategy of PPF banka and the Group as a whole. Emphasis is placed above all on effective and ethical recruiting methods, continual improvements to the work environment and work conditions, identifying employee talent and leveraging it through professional development and training.

We also focus on monitoring and evaluating employee performance, motivating the workforce through the compensation system and the system of employee benefits, supporting teamwork and open communications and fostering a friendly environment, all of which contribute to improving the level of employees' work performance and their overall satisfaction.

The aim of the human resources strategy is to build a quality, modern, effective organisation that will continue to be a top employer with a high degree of employee retention that will help to improve the quality of the corporate and labour environment in the Czech Republic.

The average number of employees in 2009 was 109. At year end 2009 the employee headcount was 124.

Vision for Further Development and Outlook for 2010

2010 will be just as demanding a year as its predecessor: one the one hand, due to its momentum the crisis will continue to adversely affect the positions of certain market players, including growth in the number of insolvencies compared to 2009. On the other hand, we will endeavour to catch the beginning of the economic recovery. In terms of its human resources, products and organisation, PPF banka is prepared to handle an upswing in client trades while maintaining a prudent approach to risk.

The principal commercial priorities for 2010 are as follows:

- to take an active approach toward financing Czech corporate customers in general, and particularly those who export to regions offering huge commercial opportunities where PPF banka has specific know-how of the respective economic environment thanks to PPF Group's local operations: i.e., Russia, Belarus, Kazakhstan, Ukraine, Vietnam and China;
- to actively provide services to entities in the public and municipal sector, as well as to corporate clients, in the area of deposit products for the purpose of diversifying PPF banka's balance sheet;
- to improve the quality of client services and our personal approach to meeting clients' needs.

Public Benefit Projects

PPF banka, as a part of PPF Group, endeavours in this time of economic crisis to be a partner to socially beneficial projects encompassing the areas of education, culture & the arts, sports and charity.

Summer Shakespeare Festival

PPF Group has been General Partner of the Summer Shakespeare Festival for eleven years now. This highly attended outdoor theatre festival enjoys ever-larger interest on the part of viewers in the Czech Republic and Slovakia.

Jára Cimrman Theatre

The Jára Cimrman Theatre and its main protagonists, Messrs. Smoljak and Svěrák, have been entertaining drama buffs for over 40 years now. For many of those years, PPF Group has been supporting this unique theatre and counts itself among its admirers.

Sponsorship Donations

In 2009 PPF banka gave sponsorship donations to the PIPAN Bilingual Nursing School for Hearing Impaired Children, as well as to the Educa Foundation, which through scholarships and study programs supports the education of gifted, yet socially disadvantaged children and youth, the Foundation Fund for Support and Development of Civic Society in the European Union, the J&T Foundation Fund, whose purpose is to support projects and activities that are social in character and to support handicapped, ill, and socially weak and otherwise endangered children. We further supported the Association for Helping Handicapped Children in conjunction with a benefit concert in the Bethlehem Chapel.

Prague, 15 April 2010

Petr Milev

Chairman of the Board of Directors

Josef Zeman

Vice Chairman of the Board of Directors

Financial Section

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

We have audited the accompanying consolidated financial statements of PPF banka a.s., which comprise the statement of financial position as of 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements of PPF banka a.s. in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the assets, liabilities and the financial position of PPF banka a.s. as of 31 December 2009, and of its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the E.U.

Prague, 28 April 2010

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.

Licence number 71

Jindřich Vašina

Partner

Licence number 2059

Consolidated Financial Statements for the Year Ended 31 December 2009

According to International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

In thousands of CZK	Note	2009	2008
Interest and similar income	6	2,764,334	1,808,413
Interest expense and similar charges	6	(1,106,214)	(652,201)
Net interest income		**1,658,120**	**1,156,212**
Dividend income	7	408	24,428
Fee and commission income	8	296,955	127,828
Fee and commission expense	8	(139,225)	(241,623)
Net fee and commission income		**157,730**	**(113,795)**
Net trading income	9	531,342	(369,778)
Net income from other financial instruments carried at fair value	10	–	508,576
Other operating income	11	46,593	26,770
Operating income		2,394,193	1,232,413
General administrative expenses	12	(531,911)	(379,976)
Impairment (loss)/reversal	24	(768,673)	(210,301)
Other operating expenses	13	(57,282)	(71,793)
Operating expenses		(1,357,866)	(662,070)
Profit before income tax		**1,036,327**	**570,343**
Income tax expense	22	(224,946)	(28,019)
Net profit for the year		**811,381**	**542,324**
Other comprehensive income			
Fair value reserve (AFS financial assets)		28,072	(39,170)
Net change in fair value, net of tax		28,072	(31,724)
Net amount transferred to profit and loss, net of tax		–	(7,446)
Other comprehensive income for the period		**28,072**	**(39,170)**
Total comprehensive income for the period		**839,453**	**503,154**

The notes on pages 42 to 78 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 14 April 2010.

Signed on behalf of the Board of Directors by:

Petr Milev **Josef Zeman**

Consolidated Statement of Financial Position

In thousands of CZK	Note	2009	2008
Assets			
Cash and balances with the central bank	14	629,272	6,245,330
Trading assets	15	5,365,951	7,810,856
Financial assets available for sale	16	2,662,833	1,408,981
Loans and advances to banks	17	20,854,949	20,177,544
Loans and advances to customers	18	14,993,928	8,838,464
Property, plant and equipment	20	35,405	14,904
Intangible assets	21	44,673	48,972
Current tax assets	30	–	113,559
Deferred tax assets	22	–	7,040
Other assets	24	222,840	44,431
Total assets		**44,809,851**	**44,710,081**
Liabilities			
Deposits from banks	26	67,335	383,585
Deposits from customers	27	29,343,753	34,947,996
Debt securities issued	28	4,258,718	3,463,315
Trading liabilities	29	4,380,344	2,381,348
Income tax provision	30	139,269	–
Deferred tax liabilities	22	388	–
Other liabilities	31	3,106,538	860,010
Total liabilities		**41,296,345**	**42,036,254**
Shareholders' equity			
Issued capital	33	769,004	769,004
Share premium	33	411,545	411,545
Statutory reserve fund	34	141,124	113,958
Retained earnings		2,190,504	1,406,063
Fair value reserve		1,329	(26,743)
Total shareholders' equity		**3,513,506**	**2,673,827**
Total liabilities and shareholders' equity		**44,809,851**	**44,710,081**

Consolidated Statement of Cash Flows

In thousands of CZK	2009	2008
Profit before income tax	1,036,327	570,343
Adjustments for non-cash items		
Impairment (loss)/reversal	768,673	201,799
Depreciation and amortisation	27,012	55,098
Net interest income	(1,658,120)	(1,156,212)
Increase/decrease in fair value of financial instruments	(198,964)	1,506,602
Profit/(loss) on the sale of property and equipment	–	(4,866)
Profit/(loss) on the sale of securities	(874,563)	(795,509)
Operating profit before changes in operating assets and liabilities	**(999,635)**	**376,655**
Balances with central bank	(294,212)	(238)
Trading assets	4,746,309	(3,267,966)
Financial assets available for sale	(1,191,123)	(183,997)
Loans and advances to banks	(677,405)	(4,133,445)
Loans and advances to customers	(6,155,464)	(1,404,776)
Other assets	(74,012)	(96,808)
Deposits from banks	(316,250)	(179,701)
Deposits from customers	(4,808,840)	14,050,289
Trading liabilities	808,390	161,845
Taxes	(363,827)	(136,867)
Other liabilities	2,246,528	479,045
	7,079,541	5,703,206
Interest received	2,813,078	1,769,282
Interest paid	(2,245,344)	(652,193)
Cash flows from operating activities	**(6,511,807)**	**6,820,295**
Purchase of property, plant and equipment	(43,214)	(9,151)
Proceeds from sale of property, plant and equipment	100	4,867
Cash flow from investing activities	**(43,114)**	**(4,284)**
Net increase/(decrease) in cash and cash equivalents	(6,554,921)	6,816,011
Cash and cash equivalents at 1 January	**6,942,798**	**126,787**
Net cash flows from operating activities	(6,511,807)	6,820,295
Net cash flow from investing activities	(43,114)	(4,284)
Cash and cash equivalents at 31 December (see Note 38 (f))	**385,877**	**6,942,798**

Consolidated Statement of Changes in Equity

In thousands of CZK	Issued capital	Share Premium	Statutory Reserve Fund	Reserves from revaluation of available-for-sale	Retained Earnings	Total Equity
Balance at 1 January 2008	**769,004**	**411,545**	**87,515**	**12,427**	**890,182**	**2,170,673**
Total comprehensive income for the period						
Profit for 2008	–	–	–	–	542,324	542,324
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	(31,724)	–	(31,724)
Net amount of available-for-sale revaluation transferred to profit or loss	–	–	–	(7,446)	–	(7,446)
Transfers	–	–	26,443	–	(26,443)	–
Total comprehensive income for the period	**769,004**	**411,545**	**113,958**	**(26,743)**	**1,406,063**	**2,673,827**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2008	**769,004**	**411,545**	**113,958**	**(26,743)**	**1,406,063**	**2,673,827**
Balance at 1 January 2009	**769,004**	**411,545**	**113,958**	**(26,743)**	**1,406,063**	**2,673,827**
Total comprehensive income for the period						
Profit for 2009	–	–	–	–	811,381	811,381
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	28,072	–	28,072
Transfers	–	–	27,166	–	(26,940)	226
Total comprehensive income for the period	**769,004**	**411,545**	**141,124**	**1,329**	**2,190,504**	**3,513,506**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2009	**769,004**	**411,545**	**141,124**	**1,329**	**2,190,504**	**3,513,506**

Notes to the Consolidated Financial Statements

1. Introduction

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

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

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

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

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

The registered office of the Bank:

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

2. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“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 functional currency, rounded to the nearest thousand. The financial statements are prepared on the historical cost basis except for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and available-for-sale assets.

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

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

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

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

During 2009 the Bank acquired two subsidiries PPF B1 B.V. and PPF B2 B.V. and therefore the Bank prepares the consolidated financial statements in comparison to the individual financial statements for 2008.

(b) Foreign currency

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

(c) Financial instruments

(i) Classification

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

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

- those designated upon initial recognition as at fair value through profit or loss or available for sale, or
- those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration, which should be classified as available for sale.

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

(iv) Fair value measurement principles

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

(v) Gains and losses on subsequent measurement

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

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

(vi) Specific instruments

Cash and balances with the central bank

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

Loans and advances to banks and customers

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

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

Debt securities issued (Other liabilities supported by paper evidence)

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

(vii) Embedded Derivatives

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

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

(d) Derecognition

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

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

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

(e) Repurchase transactions

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

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

(f) Offsetting

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

(g) Impairment

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

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

Loans and advances and held-to-maturity investments

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

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

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

Provisions recognized on a portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties.

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

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

(h) Interest income and expense

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

(i) Fee and commission income

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

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

(j) Penalty fees

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

(k) Gains/Losses from financial operations

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

(l) Dividend income

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

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

(m) Property, plant and equipment

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

Buildings	10–30 years
Other	1–5 years

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

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

(n) Intangible assets

Software and other intangible assets

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

(o) Provisions

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

Provisions are recognised when:

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

(p) Income taxes

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

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

(q) Financial guarantees

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

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

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

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force, but which are already approved and will have an impact on the Bank's financial statements in the future.

IFRS 3 Business Combinations – a revised standard which incorporates changes, particularly in the area of contingent consideration and their subsequent changes. Further change is a possibility to measure any non-controlling interest at fair value at the acquisition date or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – effective from 1 July 2009 – clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment, effective from 1 January 2010, provides additional clarification of several definitions.

The Bank's management considers the impact of other already effective standards, which were not used in the preparation of the current financial statements, to be immaterial.

5. Critical Accounting Estimates and Judgements

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

Critical accounting estimates and assumptions

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

(i) Impairment of loans and receivables

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

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

- significant financial difficulty of the debtor;
- breach of contract, such as default in the payment of interest or principal payments;
- the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

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

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

(ii) Estimated market value of credit default swap

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

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

In 2009, the Bank made more extensive disclosures related to valuation of financial instruments and liquidity risk, as required by an amendment to IFRS 7 Financial Instruments – Disclosures. Information on fair valuation is presented based on the type of inputs used for fair value determination. The types of inputs are divided into three levels (for more information see Note 37):

- Level 1 – prices of identical assets or liabilities quoted in an active market (not adjusted)
- Level 2 – inputs that are not categorised as Level 1 but are objectively observable, either directly (i.e. prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs that do not result from observable market data (unobservable inputs).

Classification of fair value of financial assets and liabilities according to the fair value levels is presented in Note 37.

The changes related to liquidity risk represent “minimum information”, which is required for disclosures, e.g. analysis of the contractual maturity of financial liabilities. The information disclosed in accordance with this standard is presented in Note 38.

The Bank applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

6. Net Interest Income

TCZK	2009	2008
Interest and similar income		
Interest and similar income arise from		
Cash and balances with the central bank	5,673	17,756
Loans and advances to banks	620,081	685,194
Loans and advances to customers	1,778,901	817,893
Debt securities	359,679	287,570
	2,764,334	**1,808,413**
Interest expense and similar charges		
Interest expense and similar charges arise from		
Deposits from banks	(22,162)	(13,777)
Deposits from customers	(431,267)	(475,339)
Debt securities issued and short sales	(228,638)	(163,085)
Change in deferred purchase price	(424,147)	–
	(1,106,214)	**(652,201)**
Net interest income	**1,658,120**	**1,156,212**

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

Interest income includes interest revenues from loans granted to Home Credit Slovakia, a.s., Home Credit Kazakhstan JSC, Home Credit Bank CJSC and Home Credit Bank OAO (related parties) totalling TCZK 222,751 (see related party transactions Note 39). In 2008 interest income from loans granted to related parties was amounted to TCZK 339,112.

Interest expenses include interest on deposit promissory notes issued by the Bank to Home Credit a.s. amounting to TCZK 13,692 and interest on deposits due to Home Credit B.V. amounting to TCZK 508 (see related party transactions Note 39). The purpose of these deposits is to secure the loan provided to Home Credit Kazakhstan JSC. In 2008 interest expenses included interest on deposit notes issued by the Bank to Home Credit a.s. amounting to TCZK 33,503 and interest on deposits due to Home Credit B.V. amounting to TCZK 1,349.

7. Dividend Income

In 2009 the Bank received dividend payments amounting to TCZK 408 (2008: TCZK 24,428), all from ownership of trading securities. In 2008 TCZK 19,927 resulted from its ownership of Prague Stock Exchange shares.

8. Net Fee and Commission Income

TCZK	2009	2008
Fee and commission income		
Transaction fee with banks	31	494
Transaction fee with clients	260,517	103,159
Other	36,407	24,175
	296,955	**127,828**
Fee and commission expenses		
Transaction fee with banks	(12,813)	(10,505)
Transaction fee with clients	(126,412)	(231,118)
	(139,225)	**(241,623)**
Net fee and commission income	**157,730**	**(113,795)**

9. Net Trading Income

TCZK	2009	2008
Net profit/(loss) from FX transactions	(133)	(294)
Net profit/(loss) from securities/FX trading	121,005	(71,600)
Net profit/(loss) from derivatives	410,470	(297,884)
	531,342	**(369,778)**

10. Net Income from other Instruments Carried at Fair Value

TCZK	2009	2008
FX loss from financial assets available for sale	–	(604)
Net profit/(loss) from financial assets available for sale	–	509,180
	–	**508,576**

Net profit/(loss) from financial assets available for sale in 2008 represents profit from the sale of Prague Stock Exchange shares totalling TCZK 509,180.

11. Other Operating Income

TCZK	2009	2008
Reimbursement of expenses	–	55
Proceeds from ceded receivables	3,880	423
Reinvoicing and other similar income	4,967	8,089
Advisory services	37,600	12,600
Proceeds from sales of fixed assets	100	4,867
Other	46	736
	46,593	**26,770**

12. General Administrative Expenses

TCZK	2009	2008
Personal expenses		
Wages and salaries	(79,501)	(84,926)
Social expenses	(23,277)	(25,698)
Remuneration paid to		
Board of Directors	(8,827)	(14,660)
Supervisory Board	(4,270)	(4,577)
Executives	(30,543)	(21,141)
	(146,418)	(151,002)
Other general operating expenses	(385,493)	(228,974)
	(531,911)	**(379,976)**

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2009 and 2008 was as follows:

	2009	2008
Board of Directors	3	3
Supervisory Board	6	5
Executives	6	6
Employees	99	105

13. Other Operating Expenses

TCZK	2009	2008
Depreciation of fixed assets	(27,012)	(55,098)
Payment to Deposit Insurance Fund	(15,379)	(12,276)
Payment to Guarantee Fund	(1,968)	(3,271)
Other	(12,923)	(1,148)
	(57,282)	**(71,793)**

14. Cash and Balances with the Central Bank

TCZK	2009	2008
Cash on hand	12,381	17,865
Balances with the central bank	614,065	319,853
Nostro accounts with the central bank	2,826	7
Overnight loans to the central bank	–	5,907,605
	629,272	**6,245,330**

At 31 December 2009 cash and balances with the central bank included balances with the central bank amounting to TCZK 614,065 (2008: TCZK 319,853) representing the obligatory minimum reserves. These funds are not available for the Bank's daily business.

15. Trading Assets

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

TCZK	2009	2008
Bonds and notes issued by		
Government	2,218,028	4,446,315
Other issuers	1,245,495	1,225,829
Shares issued by		
Other issuers	540,930	752,574
Positive fair value of derivatives		
Other counterparties	1,361,498	1,386,138
Of which		
Listed instruments	4,043,202	6,433,278
Unlisted instruments	1,322,749	1,377,578
	5,365,951	**7,810,856**

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

Shares issued by Other issuers are traded on the stock exchange in Great Britain (2009: TCZK 11,630; 2008: TCZK 232,596), Slovakia (2009: TCZK 529,300; 2008: TCZK 0), United States of America (only 2008: TCZK 515,843) and Russian Federation (only 2008: TCZK 4,135).

16. Financial Assets Available for Sale

TCZK	2009	2008
Bonds and notes issued by		
Government	2,312,351	599,220
Other issuers	172,458	646,252
Shares issued by		
Other issuers	178,024	163,509
Of which		
Listed instruments	1,515,531	–
Unlisted instruments	1,147,302	1,408,981
	2,662,833	**1,408,981**

Interest income from financial assets available for sale is recognised in interest and similar income. The fair value of unlisted bonds and notes available for sale was estimated using discounted cash-flow techniques. The fair value of shares available for sale was estimated using the equity method and net asset value per mutual fund share.

17. Loans and Advances to Banks

TCZK	2009	2008
Loans to central bank under reverse repo transaction	7,501,002	6,702,510
Loans to banks	4,071,950	3,703,142
Money market transactions	8,911,327	8,827,118
Other (nostro / current account balances)	370,670	1,017,321
Total loans and advances to banks	20,854,949	20,250,091
Impairment loss on loans and advances to banks	–	(72,547)
Net loans and advances to banks	**20,854,949**	**20,177,544**

Specific allowances for impairment (loans and advances to banks):

TCZK	2009	2008
As at 1 January	72,547	–
Impairment of loans to banks	–	72,547
Reversal of impairment of loans to banks	(64,806)	–
Use of impairment on loans and receivables to banks	–	–
Exchange difference	(7,741)	–
	–	72,547
As at 31 December	**–**	**72,547**

18. Loans and Advances to Customers

TCZK	2009	2008
Corporate customers		
Financial institutions	378,453	1,544,179
Non-financial institutions	2,329,903	3,422,305
Self-employed	9	169
Public sector	26,567	26,078
Resident individuals	10,793,268	3,059
Non-residents	2,513,845	3,982,372
Total loans and advances to customers	16,042,045	8,978,162
Impairment loss on loans and advances to customers	(1,048,117)	(139,698)
Net loans and advances to customers	**14,993,928**	**8,838,464**

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

TCZK	2009	2008
As at 1 January	139,698	10,561
Impairment losses recognised in the statement of comprehensive income	334,232	140,765
Reversal of impairment of loans to customers	(59,106)	(3,126)
Use of impairment on loans and receivables	(148,178)	(8,502)
	126,948	129,137
As at 31 December	**266,646**	**139,698**

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

TCZK	2009	2008
As at 1 January	–	–
Balance of the purchase of subsidiaries	223,003	–
Impairment losses recognised in the statement of comprehensive income	558,468	–
Amount related to loans written off	–	–
	781,471	–
As at 31 December	**781,471**	–

19. Business Combinations

The Bank acquired 100% share of PPF B1 B.V. for TCZK 595 on 29 April 2009 and 100% share of PPF B2 B.V. for TCZK 509 on 21 July 2009. The assets of the above entities consisted solely of cash equivalents and respective registered capital. No goodwill or amount of any excess (previously referred as negative goodwill) arose from the acquisition as carrying amount equalled the fair value of the assets. The purchase price was settled in cash.

The profit of PPF B1 B.V. and PPF B2 B.V. since the acquisition date of TCZK 241 and TCZK 959 respectively is included in the calculation of consolidated profit.

The Bank had no participations with controlling influence as of 31 December 2008.

20. Property, Plant and Equipment

TCZK	Low value fixed assets	Building	Cars	Furniture and Fittings	Equipment	Works of art	Fixed assets not yet in use	Total
Cost								
At 1 January 2008	3,485	–	13,905	12,708	104,433	4	2,961	137,496
Additions	123	–	–	62	2,573	–	673	3,431
Transfers	–	–	–	–	2,961	–	(2,961)	–
Disposals	(1,388)	–	(13,905)	(938)	(22,462)	–	–	(38,693)
At 31 December 2008	**2,220**	–	–	**11,832**	**87,505**	**4**	**673**	**102,234**
At 1 January 2009	2,220	–	–	11,832	87,505	4	673	102,234
Additions	242	6,267	–	1,362	4,142	–	19,928	31,941
Transfers	11	–	–	78	584	–	(673)	–
Disposals	(521)	–	–	(176)	(122)	–	–	(819)
At 31 December 2009	**1,952**	**6,267**	–	**13,096**	**92,109**	**4**	**19,928**	**133,356**
Depreciation								
At 1 January 2008	3,485	–	4,625	11,734	80,554	–	–	100,398
Additions	123	–	9,280	612	15,610	–	–	25,625
Disposals	(1,388)	–	(13,905)	(938)	(22,462)	–	–	(38,693)
At 31 December 2008	**2,220**	–	–	**11,408**	**73,702**	–	–	**87,330**
At 1 January 2009	2,220	–	–	11,408	73,702	–	–	87,330
Additions	253	38	–	333	10,816	–	–	11,440
Disposals	(521)	–	–	(176)	(122)	–	–	(819)
At 31 December 2009	**1,952**	**38**	–	**11,565**	**84,396**	–	–	**97,951**
Net book value								
At 31 December 2008	–	–	–	424	13,803	4	673	14,904
At 31 December 2009	–	6,229	–	1,531	7,713	4	19,928	35,405

21. Intangible Assets

TCZK	Software	Total
Cost		
At 1 January 2008	173,444	173,444
Additions	5,719	5,719
Disposals	(14,862)	(14,862)
At 31 December 2008	**164,301**	**164,301**
At 1 January 2009	164,301	164,301
Additions	11,273	11,273
At 31 December 2009	**175,574**	**175,574**
Depreciation		
At 1 January 2008	100,671	100,671
Additions	29,520	29,520
Disposals	(14,862)	(14,862)
At 31 December 2008	**115,329**	**115,329**
At 1 January 2009	115,329	115,329
Additions	15,572	15,572
Disposals	–	–
At 31 December 2009	**130,901**	**130,901**
Net book value		
At 31 December 2008	48,972	48,972
At 31 December 2009	44,673	44,673

22. Deferred Tax and Current Tax

Deferred taxes are calculated from all temporary differences between the tax and accounting value of assets and liabilities. To determine the recognised deferred tax asset the Bank uses the income tax rate applicable in the periods in which the losses carried forward are expected to be utilised, i.e. 19% for the following years (2009 the tax rate was 20%).

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

TCZK	2009	2008
Deferred tax assets		
Deferred tax asset from financial assets available for sale	–	6,273
Deferred tax asset from unpaid social and health insurance	220	767
Deferred tax assets	**220**	**7,040**
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	(312)	–
Deferred tax liability from penalty interest not yet collected	(296)	–
Deferred tax liabilities	**(608)**	–
Total deferred tax assets / liabilities	**(388)**	**7,040**

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is TCZK 20 (2008: TCZK 335). There were no unrecognized item related to deferred tax.

Based on the profits generated in prior periods and the financial plan, the Board of Directors expects that future taxable profits will probably be sufficient to utilise the entire amount of the deferred tax asset from unpaid social security and health insurance of TCZK 220 (2008: TCZK 767) that was recognised in the statement of comprehensive income. The deferred tax liability from financial assets available for sale amounts to TCZK 312 (2008: deferred tax asset TCZK 6,273) and was recognised against the revaluation fund in the statement of changes in equity.

At 31 December 2009 the Bank recorded receivables from customers of penalty interest not yet collected of TCZK 1,561, where the relevant income is not included in the tax deductible. Therefore, the bank created a deferred tax liability of TCZK 296, all of which was recognised.

The total value of the deferred tax liabilities as at 31 December 2009 amounts to TCZK 388 (2008: deferred tax assets TCZK 7,040), all of which was recognised.

Income tax reconciliation:

TCZK	2009 Tax basis	2009 Tax	2008 Tax basis	2008 Tax
Tax rate		**20.0%**		**21.0%**
Profit from operations (before taxation)	1,036,327		570,343	
Computed taxation using applicable tax rate		207,265		114,069
Tax non-deductible expenses	205,314	41,063	115,029	24,156
Non-taxable income	(64,806)	(12,961)	(536,445)	(112,653)
Other items	(52,105)	(10,421)	(16,505)	(3,466)
Total income tax (expense)/income		**(224,946)**		**(28,019)**

Non-taxable income in 2008 represents mainly profit from the sale of Prague Stock Exchange shares (see Note 10).

23. Operating Leasing

Non-cancellable operating lease rentals are payable as follows:

TCZK	2009	2008
Less than one year	27,167	27,202
Between one and five years	25,962	52,055
More than five years	3,447	4,308
Total	**56,576**	**83,565**

The Bank leases branch and office premises under operating leases. The leases typically run for a period of up to 10 years, with an option to renew the lease after that date. The operating leasing expense was TCZK 27,264 in 2009 (2008: TCZK 19,116).

24. Other Assets

TCZK	2009	2008
Clearing with securities market	22,119	21,761
Prepayments and deferred expenses	18,059	11,954
Cash collateral to payment cards	68,311	–
Receivable related to accrued excess spread	96,144	–
Other	18,207	10,831
Impairment loss on Other assets	–	(115)
	222,840	**44,431**

Receivable related to accrued excess spread consists of the present value of the off-setting item the Bank believes can utilize in the future against excess spread liability.

25. Impairment Losses

TCZK	2009	2008
As at 1 January	212,360	10,561
Impairment losses related to portfolio acquisition	223,003	–
Impairment of loans to banks	–	72,547
Impairment of loans to customers	892,700	140,765
Impairment of other assets	–	115
Reversal of impairment of loans to banks	(64,806)	–
FX difference	(7,741)	–
Reversal of impairment of loans to customers	(59,106)	(3,126)
Reversal of impairment of other assets	(115)	–
Use of impairment on loans and receivables	(148,178)	(8,502)
	835,757	201,799
As at 31 December	**1,048,117**	**212,360**

26. Deposits from Banks

TCZK	2009	2008
Other deposits from banks	57,779	276,757
Other (loro account balances)	9,556	106,828
	67,335	**383,585**

27. Deposits from Customers

TCZK	2009	2008
Payable on demand		
Corporate customers		
Financial services	81,188	34,142
Non-financial institutions	1,653,371	601,493
Insurance institutions	58,324	87,934
Non-profit organisations	62,306	24,442
Self-employed	132,111	695,873
Public sector	7,055,273	7,796,247
Resident individuals	69,285	37,009
Non-residents	1,460,613	4,326,294
Total payable on demand	10,572,471	13,603,434
Term deposits		
Corporate customers		
Financial services	1,525,155	1,475,310
Non-financial institutions	1,308,035	1,899,027
Insurance institutions	8,475,288	2,827,270
Non-profit organisations	41,301	8,802
Self-employed	595,495	72,609
Public sector	2,981,489	7,246,656
Resident individuals	35,808	39,932
Non-residents	3,808,711	7,774,956
Total term deposits	18,771,282	21,344,562
	29,343,753	**34,947,996**

Interest is recognised in interest expense and similar charges.

28. Debt Securities Issued

TCZK	2009	2008
Financial services	–	868,121
Non-financial institutions	1,001,482	–
Public sector	3,257,236	2,573,861
Resident individuals	–	21,333
	4,258,718	**3,463,315**

29. Trading Liabilities

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

TCZK	2009	2008
Negative fair value of derivatives		
Interest rate contracts	561,625	436,037
Currency contracts	628,757	1,667,361
Equity contracts	–	193,423
Option contracts	–	84,288
Other contracts	224	239
Liabilities from short sales of securities	3,189,738	–
	4,380,344	**2,381,348**

30. Income Tax Asset and Provision

As of 31 December 2009 a tax provision of TCZK 223,753 (2008: TCZK 27,482) is offset against income tax advances totalling TCZK 84,484 (2008: TCZK 141,041).

31. Other Liabilities

TCZK	2009	2008
Payables to suppliers	58,239	37,148
Accrued expenses and deferred income	353,229	36,137
Cash deposited as pledge	1,141,458	627,016
Social and health insurance	3,192	2,036
Other liabilities to employees	15,242	15,100
Liabilities from securities transactions	61,199	65,099
Deposits insurance fund	15,379	12,276
Payable related to acquired receivables portfolios	300,082	–
Deferred part of purchase price of receivables	441,929	–
Subordinated debt	683,122	–
Other liabilities	33,467	65,198
	3,106,538	**860,010**

Deferred part of purchase price of receivables is calculated as a present value of expected interest collections. The calculation is based on expected gross yield of receivables portfolio acquired, defaults and deduction of expenses as defined by the receivables transfer agreement.

The agreement on subordinated debt allows postponing repayment of the debt if there are no sufficient cash flows in PPF B2 B.V. which might lead to the reduction of the carrying value of the subordinated debt.

32. Repurchase and Resale Agreements

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

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

TCZK	Carrying amounts of receivables	Fair value of assets held as collateral
Loans and advances at 31 December 2009		
to banks	10,000,933	9,846,727
to clients	1,238,551	1,568,680
Loans and advances at 31 December 2008		
to banks	6,842,823	6,706,054
to clients	2,199,242	2,825,491

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

Assets sold under repurchase agreements were as follows:

TCZK	Carrying amounts of liabilities	Fair value of assets given as collateral
Loans and advances at 31 December 2009		
from clients	4,230,462	4,214,349
Loans and advances at 31 December 2008		
from clients	–	–

33. Issued Capital

	Number of shares	Nominal value CZK	Registered capital TCZK
At 31 December 2009			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**
At 31 December 2008			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**

The shareholder structure as at 31 December 2009 was as follows:

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

No members of the management, the Board of Directors or the Supervisory Board held any shares of the Bank as at 31 December 2009 or as at 31 December 2008.

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

All shares of the Bank were fully paid resulting in share premium amounting to TCZK 411,545 (2008: TCZK 411,545).

34. Statutory Reserve Fund

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

35. Proposed Allocation of Net Profit for the Year

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

TCZK	Net profit for the year
Net profit for the year 2009	811,381
Proposed allocation of profit for 2009	
Transfer to reserve funds	(12,677)
Transfer to retained earnings	(798,704)
	–

36. Off Balance Sheet Items

(a) Commitments and contingent liabilities

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

TCZK	2009	2008
Guarantees issued	3,344,882	2,838,813
Undrawn credit commitments	2,675,472	2,635,729
	6,020,354	**5,474,542**

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

(b) Off-balance sheet financial instruments

TCZK	Notional value 2009	2008	Fair value 2009	2008
Derivatives held for trading				
Interest Rate Swaps	55,246,939	11,979,154	(43,169)	(164,260)
Interest Forwards			–	(5,921)
Purchase	–	670,015		
Sale	–	675,936		
Foreign Exchange derivatives			175,536	(644,913)
Purchase	42,938,308	39,535,408		
Sale	42,762,772	40,180,322		
Equity derivatives			–	(188,437)
Purchase	–	417,740		
Sale	–	605,177		
Options	–	1,994,070	–	–
Other derivatives			38,524	8,321
Purchase	2,145,490	215,555		
Sale	2,141,440	215,555		
			170,891	**(995,210)**

Other derivatives consisted of futures and credit default swap.

(c) Residual maturity of derivatives

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

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 year	Unspecified	Total
As at 31 December 2009						
Derivatives held for trading						
Interest Rate Swaps	–	–	54,896,939	350,000	–	55,246,939
FX derivatives (purchase)	31,523,292	9,076,184	2,338,832	–	–	42,938,308
FX derivatives (sale)	31,357,250	9,068,933	2,336,589	–	–	42,762,772
Other derivatives (purchase)	1,068,996	860,939	215,555	–	–	2,145,490
Other derivatives (sale)	1,073,940	851,945	215,555	–	–	2,141,440
As at 31 December 2008						
Derivatives held for trading						
Interest Rate Swaps	479,026	10,496,396	303,732	700,000	–	11,979,154
Interest Forwards (purchase)	507,438	162,577	–	–	–	670,015
Interest Forwards (sale)	513,563	162,373	–	–	–	675,936
FX derivatives (purchase)	18,164,254	21,371,154	–	–	–	39,535,408
FX derivatives (sale)	18,821,867	21,358,455	–	–	–	40,180,322
Equity derivatives (purchase)	417,740	–	–	–	–	417,740
Equity derivatives (sale)	606,177	–	–	–	–	606,177
Options	–	1,994,070	–	–	–	1,994,070
Other derivatives (purchase)	–	–	215,555	–	–	215,555
Other derivatives (sale)	–	–	215,555	–	–	215,555

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

37. Fair Value Disclosures

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

TCZK	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
Financial assets				
Cash and balances with the central bank	629,272	629,272	6,245,330	6,245,330
Loans and advances to banks	20,854,949	20,854,949	20,177,544	20,177,544
Loans and advances to customers	14,993,928	14,993,928	8,838,464	8,838,464
Financial liabilities				
Deposits from banks	67,335	67,335	383,585	383,585
Deposits from customers	29,343,753	29,343,753	34,947,996	34,947,996
Debt securities issued	4,258,718	4,258,718	3,463,315	3,463,315

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

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

Cash and balances with the central bank

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

Loans and advances to banks

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

Loans and advances to customers

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

Deposits from customers

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

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

Debt securities issued

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

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

TCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2009				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	2,858,140	612,582	533,731	4,004,453
Derivatives held for trading	–	1,361,498	–	1,361,498
Available-for-sale securities	1,515,531	974,844	172,458	2,662,833
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	3,189,737	–	–	3,189,737
Derivatives held for trading	–	1,190,606	–	1,190,606

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

	Financial assets at fair value through profit or loss		
TCZK	Securities for trading	Available-for-sale securities	Total
Balance as at 1 January 2009	**516,323**	**646,252**	**1,162,575**
Profit and loss from revaluation			
In profit or loss	726	–	726
In other comprehensive income	–	1,944	1,944
Purchases	529,300	172,144	701
Sales/ maturity	(512,618)	(674,872)	(1,160,490)
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	–	–
Balance as at 31 December 2009	**533,731**	**172,458**	**706,189**

Gain of TCZK 726 is included in Net trading income.

There were no movements in financial liabilities recognised at fair value which out-flowed from Level 3 in 2009.

38. Risk Management Disclosure

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

- credit risk
- liquidity risk
- market risks
- operational risks.

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

Trading

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

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

(a) Credit risk

Management of credit risk

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

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

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

The capital requirement for credit risk of investment portfolio amounted to TCZK 1,608,617 (2008: TCZK 1,145,422).

Exposure to credit risk

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

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

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

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

Impairment of individual loans

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

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

Collectively impaired portfolio of loans

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

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

Loans and advances to banks

TCZK	2009 Gross	2009 Net	2008 Gross	2008 Net
Not impaired				
Standard	20,854,949	20,854,949	19,515,439	19,515,439
Impaired				
Watched	–	–	734,652	662,105
Sub-standard	–	–	–	–
Doubtful	–	–	–	–
Loss loans	–	–	–	–
Total	**20,854,949**	**20,854,949**	**20,250,091**	**20,177,544**

The accrued interests to individually impaired loans and advances to banks represented as at 31 December 2009 TCZK 0 (2008: TCZK 9,177).

Loans and advances to customers (individually impaired)

TCZK	2009 Gross	2009 Net	2008 Gross	2008 Net
Not impaired				
Standard	3,826,441	3,826,441	8,311,972	8,311,972
Impaired				
Watched	531,417	503,430	48,393	39,302
Sub-standard	129,734	121,452	507,493	446,090
Doubtful	762,130	531,753	–	–
Loss loans	–	–	110,304	41,100
Total	**5,249,722**	**4,983,076**	**8,978,162**	**8,838,464**

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2009 TCZK 19,407 (2008: TCZK 17,445).

Loans and advances to customers (collectively impaired)

TCZK	2009	2008
Collectively impaired		
Gross amount	10,350,395	–
Due	8,375,497	–
Past due 1–90 days	1,366,680	–
Past due 91–360 days	608,218	–
Past due more than 360 days	–	–
Allowances for impairment	(781,471)	–
Net amount	9,568,924	–
Deferred purchase price of receivables	441,928	–
Carrying amount	10,010,852	–
Total	**10,010,852**	–

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

As at 31 December 2009	To maturity date	Up to 1 month	1 month to 3 months	6 months to 12 months	More than 12 months	Total
Loans and advances to customers	–	–	–	–	–	
Total	–	–	–	–	–	

As at 31 December 2008	To maturity date	Up to 1 month	1 month to 3 months	6 months to 12 months	More than 12 months	Total
Loans and advances to customers	394,434	3,116	–	–	–	397,550
Total	**394,434**	**3,116**	–	–	–	**397,550**

Loans and advances to customers – past due, but not impaired classified as "To maturity date" within the table above represent principals and accrued interests (which are due) of loans for which part of the interest was overdue as at 31 December 2009 and 2008.

As at 31 December 2009 and 2008 the Bank did not report any other assets as "Past due, but not impaired" apart from Loans and advances to customers.

Evaluation of collateral

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

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

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

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

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

TCZK	2009	2008
Personal guarantees	–	–
Property	3,720,913	6,148,097
Security held by the Bank	872	953,239
Unsecured	11,272,143	1,737,128
Total	**14,993,928**	**8,838,464**

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

TCZK	2009	2008
Property	775,041	412,692
Security held by the Bank	–	433
Unsecured	381,594	113,367
Total	**1,156,635**	**526,492**

The following table shows Loans and advances to customers past due, but not impaired according to type of collateral:

TCZK	2009	2008
Property	–	379,361
Unsecured	–	18,189
Total	**–**	**397,550**

Concentration of credit risks

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

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

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

ii) Concentration of credit risks according to geographical sectors

Loans and advances to customers

TCZK	2009	2008
Czech Republic	12,508,069	4,856,090
Slovak Republic	–	1,297,605
Russia	357,143	760,985
Cyprus	1,650,259	1,407,048
Netherlands	478,457	516,736
Total	**14,993,928**	**8,838,464**

Loans and advances to banks

TCZK	2009	2008
Czech Republic	16,303,330	13,348,454
Slovak Republic	396,982	4,788
Russia	1,978,870	1,065,443
Ukraine	967	662,619
Austria	661,636	1,616,096
France	–	1,616,026
United Kingdom	925,057	33,087
Netherlands	177,453	–
Kazakhstan	330,159	1,160,996
United States of America	9,290	481,873
Other	71,205	188,162
Total	**20,854,949**	**20,177,544**

Debt securities

TCZK	2009	2008
Czech Republic	5,230,302	5,293,253
Russia	435,760	669,905
Cyprus	–	398,534
Luxembourg	239,079	512,365
Ukraine	4,431	43,559
Kazakhstan	19,403	–
Ireland	19,357	–
Total	**5,948,332**	**6,917,616**

(b) Liquidity risk

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

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

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

Residual maturity of the Bank's assets and liabilities

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2009						
Cash and balances with the central bank	15,207	–	–	–	614,065	629,272
Trading assets	657,247	349,077	1,145,295	2,673,402	540,930	5,365,951
Financial assets available for sale	497,133	699,240	1,288,436	–	178,024	2,662,833
Loans and advances to banks	20,510,456	109,425	235,068	–	–	20,854,949
Loans and advances to customers	2,857,181	4,568,858	6,926,291	641,598	–	14,993,928
Property, plant and equipment	–	–	–	–	35,405	35,405
Intangible assets	–	–	–	–	44,673	44,673
Other assets	118,263	–	–	–	104,577	222,840
Total	**24,655,487**	**5,726,600**	**9,595,090**	**3,315,000**	**1,517,674**	**44,809,851**
Deposits from banks	67,335	–	–	–	–	67,335
Deposits from customers	26,882,012	1,799,114	1,345,840	–	–	29,349,931
Debt securities issued	2,192,866	2,065,852	–	–	–	4,258,718
Trading liabilities	3,573,374	193,292	562,135	51,242	–	4,380,344
Tax and other liabilities	1,838,191	684,050	415,154	156,848	145,927	3,240,170
Shareholders' equity	–	–	–	–	3,513,506	3,513,506
Total	**34,553,778**	**4,065,273**	**2,323,129**	**208,390**	**3,659,281**	**44,809,851**
Gap	**(9,898,291)**	**1,661,327**	**7,271,961**	**3,106,610**	**(2,141,607)**	**0**
Cumulative gap	**(9,898,291)**	**(8,236,964)**	**(965,003)**	**2,141,607**	**0**	**0**
At 31 December 2008						
Cash and balances with the central bank	5,925,478	–	–	–	319,852	6,245,330
Trading assets	247,085	1,705,666	2,311,398	1,407,995	2,138,712	7,810,856
Financial assets available for sale	1,245,472	–	–	–	163,509	1,408,981
Loans and advances to banks	19,149,337	921,713	106,494	–	–	20,177,544
Loans and advances to customers	4,127,596	1,778,163	2,603,004	329,701	–	8,838,464
Property, plant and equipment	–	–	–	–	14,904	14,904
Intangible assets	–	–	–	–	48,972	48,972
Tax and other assets	21,804	–	–	–	143,226	165,030
Total	**30,716,772**	**4,405,542**	**5,020,896**	**1,737,696**	**2,829,175**	**44,710,081**
Deposits from banks	106,828	276,757	–	–	–	383,585
Deposits from customers	34,291,797	652,247	3,952	–	–	34,947,996
Debt securities issued	2,207,614	1,255,701	–	–	–	3,463,315
Trading liabilities	–	–	–	–	2,381,348	2,381,348
Other liabilities	611,829	–	–	–	248,181	860,010
Shareholders' equity	–	–	–	–	2,673,827	2,673,827
Total	**37,218,068**	**2,184,705**	**3,952**	–	**5,303,356**	**44,710,081**
Gap	**(6,501,296)**	**2,220,837**	**5,016,944**	**1,737,696**	**(2,474,181)**	–
Cumulative gap	**(6,501,296)**	**(4,280,459)**	**736,485**	**2,474,181**	–	–

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

(c) Market risk

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

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

Value at risk

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

TCZK	31 December 2009	Average for 2009	31 December 2008	Average for 2008
VaR of interest instruments	9,500	10,484	8,905	8,926
VaR of currency instruments	114	840	365	381
VaR of equity instruments	1,350	11,642	39,391	30,709

Stress testing

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

i) Currency risk

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

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

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

ii) Interest rate risk

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

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

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

Interest sensitivity of the Bank's assets and liabilities

TCZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
At 31 December 2009						
Cash and balances with the central bank	15,207	–	–	–	614,065	629,272
Trading assets	1,169,697	401,240	3,254,084	–	540,930	5,365,951
Financial assets available for sale	497,133	1,619,040	368,636	–	178,024	2,662,833
Loans and advances to banks	20,745,524	109,425	–	–	–	20,854,949
Loans and advances to customers	4,549,304	3,801,165	6,268,720	374,739	–	14,993,928
Property, plant and equipment	–	–	–	–	35,405	35,405
Intangible assets	–	–	–	–	44,673	44,673
Other assets	–	–	–	–	222,840	222,840
Total	**26,976,859**	**5,930,870**	**9,891,440**	**374,739**	**1,635,943**	**44,809,851**
Deposits from banks	67,335	–	–	–	–	67,335
Deposits from customers	26,875,834	1,122,079	1,345,840	–	–	29,343,753
Debt securities issued	2,192,866	2,065,852	–	–	–	4,258,718
Trading liabilities	4,083,455	244,836	52,053	–	–	4,380,344
Tax and other liabilities	1,190,515	683,122	139,394	–	1,233,316	3,246,195
Shareholders' equity	–	–	–	–	3,513,354	3,513,506
Total	**34,410,005**	**4,115,889**	**1,537,287**	**–**	**4,746,670**	**44,809,851**
Gap	**(7,433,146)**	**1,814,981**	**8,354,153**	**374,739**	**(3,110,727)**	**–**
Cumulative gap	**(7,433,146)**	**(5,618,165)**	**2,735,988**	**3,110,727**	**–**	**–**
At 31 December 2008						
Cash and balances with the central bank	6,227,465	–	–	–	17,865	6,245,330
Trading assets	765,888	1,732,723	1,792,595	1,380,938	2,138,712	7,810,856
Financial assets available for sale	1,245,472	–	–	–	163,509	1,408,981
Loans and advances to banks	19,149,337	921,713	106,494	–	–	20,177,544
Loans and advances to customers	7,484,556	668,463	684,848	597	–	8,838,464
Property, plant and equipment	–	–	–	–	14,904	14,904
Intangible assets	–	–	–	–	48,972	48,972
Tax and other assets	–	–	–	–	165,030	165,030
Total	**34,872,718**	**3,322,899**	**2,583,937**	**1,381,535**	**2,548,992**	**44,710,081**
Deposits from banks	106,828	276,757	–	–	–	383,585
Deposits from customers	34,291,797	652,247	3,952	–	–	34,947,996
Debt securities issued	2,207,614	1,255,701	–	–	–	3,463,315
Trading liabilities	–	–	–	–	2,381,348	2,381,348
Other liabilities	611,829	–	–	–	248,181	860,010
Shareholders' equity	–	–	–	–	2,673,827	2,673,827
Total	**37,218,068**	**2,184,705**	**3,952**	**–**	**5,303,356**	**44,710,081**
Gap	**(2,345,350)**	**1,138,194**	**2,579,985**	**1,381,535**	**(2,754,364)**	**–**
Cumulative gap	**(2,345,350)**	**(1,207,156)**	**1,372,829**	**2,754,364**	**–**	**–**

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

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

Effective yield information

The effective yields on significant categories of financial assets and liabilities of the Bank as at 31 December 2009 and 2008 were as follows:

In %	2009	2008
Financial assets		
Cash and balances with the central bank	0.98	1.08
Trading assests	4.48*	4.57*
Financial assets available for sale	3.01*	4.14*
Loans and advances to banks	1.52	4.31
Loans and advances to customers	12.50	7.40
Financial liabilities		
Deposits from banks	3.76	0.12
Deposits from customers	0.72	2.60
Debt securities issued	2.36	4.09
Trading liabilities	3.01	–

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

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

Basis point value

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

As at 31 December 2009 BPVs for individual currencies were as follows:

TCZK Currency	BPV	Banking Book Limit	BPV	Trading book Limit
CZK	(64,203)	–	(12,877)	45,000
EUR	1,826	10,000	(21,648)	30,000
USD	(7,007)	10,000	(8,483)	45,000
RUB	(25)	10,000	–	30,000
SKK	–	10,000	–	10,000
KZT	(2)	10,000	–	10,000
UAH	–	10,000	(104)	10,000
GBP	–	10,000	–	30,000
Total BPV (absolute)	69,410	–	43,112	80,000

As of 31 December 2008 BPVs for individual currencies were as follows:

TCZK Currency	BPV	Banking Book Limit	BPV	Trading book Limit
CZK	(342)	15,000	(33,439)	40,000
EUR	3,049	10,000	(195)	30,000
USD	(8,767)	10,000	(7,196)	30,000
RUB	1,140	10,000	–	30,000
SKK	–	10,000	–	10,000
KZT	–	10,000	–	10,000
UAH	3	10,000	(142)	10,000
GBP	–	10,000	–	30,000
Total BPV (absolute)	13,301	15,000	40,972	60,000

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 (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

TCZK	2009 100 bp parallel increase	100 bp parallel decrease	2008 100 bp parallel increase	100 bp parallel decrease
At 31 December	69,410	69,410	54,273	54,273
Average for the period	26,125	26,125	43,996	43,996
Maximum for the period	69,410	69,410	81,053	81,053
Minimum for the period	6,141	6,141	10,122	10,122

iii) Equity risk

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

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

iv) Settlement risk

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

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

(d) Operational risk

Operational risks

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

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

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

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

Legal and other risks

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

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

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

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

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

Since 2008, the Bank has applied standard the Basel II standard approach to operational risk, which led to an increase in the capital requirement for operational risk from 0 to 121 million CZK. The Bank started calculating the capital requirement for operational risk under the basic indicators approach (BIA) as at 1 January 2008, i.e. as at the Basel II implementation date.

(e) Capital management

Regulatory capital

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

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

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

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

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

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

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

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

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

TCZK	2009	2008
Tier 1 capital	**2,636,082**	**2,074,944**
Issued capital	769,004	769,004
Share premium	411,545	411,545
Statutory reserve fund	141,124	113,958
Retained earnings	1,377,897	862,739
Negative change in fair value of		
financial assets available for sale	(18,815)	(33,331)
Less intangible assets	(44,673)	(48,972)
Tier 2 capital		
Qualifying subordinated liabilities	–	–
Total regulatory capital	**2,636,082**	**2,074,944**
Risk weigted assets	21,534,979	14,317,773
Capital requirements		
Capital requirement for credit risk of investment portfolio	1,447,247	1,145,422
Capital requirement for credit risk of trading portfolio	212,780	169,352
– for specific interest rate risk	104,396	100,737
– for specific equity risk	21,637	9,469
– for derivatives	86,747	59,146
Capital requirements for market risks	214,386	109,582
– for general interest rate risks of trading portfolio	167,984	68,996
– for general equity risks of trading portfolio	43,274	18,938
– for foreign exchange risks	3,128	21,648
Capital requirements for settlement risks	463	–
Capital requirements for operational risks	129,504	121,276
Total capital requirements	**2,004,380**	**1,545,632**
Capital adequacy ratio	**10.52%**	**10.74%**

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

Capital allocation

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

(f) Components of cash flow statement

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

TCZK	2009	2008
Cash on hand	12,381	17,865
Balances with the central bank	2,826	5,907,612
Nostro account balances	370,670	1,017,321
Total	**385,877**	**6,942,798**

39. Related Party Transactions

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

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

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

(a) Assets and liabilities

TCZK	Note	2009 Assets	2009 Liabilities	2008 Assets	2008 Liabilities
Anthiarose Ltd.	2	–	973	–	2,281
Bonacova Ltd.	2	–	26	–	–
ČP REINSURANCE COMPANY Ltd.	2	–	4,023	–	–
Crestfallen Ltd.	2	–	225	–	–
Facipero Investments Ltd.	2	–	1,034	–	–
Garco Group B.V.	2	–	5,622	–	–
Glancus Investments Inc.	2	–	501	–	–
HC Asia N.V.	2	–	744,346	–	1,903,776
HC Fin1 B.V.	2	–	1,288	–	5,526
HC Fin2 B.V.	2	–	18,192	–	–
HC SE (former HCES N.V.)	2	–	421	–	374
Home Credit a.s.	2	1,577	138,481	1,071	871,772
Home Credit and Finance Bank o.o.o.	2	60,249	92,057	327,189	788,809
Home Credit B.V.	2	110,151	532,182	303,275	2,096,304
CJSC Home Credit Bank (former Agrobank Ukraine)	2	–	5,168	666,934	25
OAO Home Credit Bank (Lorobank)	2	43,462	2,653	163,764	1,521
Home Credit International a.s.	2		193,783	–	862
Home Credit Bank Kazakhstan	2	243,481	0	–	–
Home Credit Slovakia, a.s.	2	828	41,607	893,800	412
Office Star One spol. s r.o.	2	1,892		5	–
Pearlmoon Ltd.	2	–	209	–	–
PPF a.s.	2	–	218,930	1,574	197,337
PPF Co1 B.V.	2	–	6,986	–	24,735
PPF Co2 B.V.	2	–	845	–	1,155
PPF Co3 B.V.	2	–	76	–	–
PPF Group N.V.	1	–	3,530,688	–	6,143,884
PPF Media a.s.	2	–	10,011	–	–
PPF Partners 1 GP Limited	2	–	1,607	–	–
PPF Partners Limited	2	–	48	–	–
PPF Real Estate s.r.o.	2	–	28,254	–	418
Redlione Ltd..	2	–	9,028	–	77
Russia Finance Corporation B.V.	2	–	49,467	–	9,886
Tenacity Ltd.	2	–	699	–	51
Torpera Ltd.	2	–	5,543	–	6,311
Tromson Enterprises Ltd.	2	–	68	–	–

Note:

(1) Shareholder

(2) Other related party

The assets due from OAO Home Credit Bank (Lorobank) and Home Credit Bank Kazakhstan represent loans granted by the Bank.

The asset due from Home Credit and Finance Bank o.o.o. consists of bonds.

The asset due from Home Credit B.V. represents mainly positive fair value of derivatives.

The assets relating to Home Credit a.s., Home Credit Slovakia, a.s. consist of invoices for consultancy and payment cards.

The asset of Office Star One spol. s r.o. relates to rental prepayment.

The liabilities due to PPF Group N.V. and Home Credit Fin2 B.V. relate mainly to term deposits.

The liabilities to Home Credit and Finance Bank o.o.o. and Home Credit B.V represent primarily securities deposit account and current accounts balances.

The liabilities due to other related party companies consist mainly of balances on current accounts.

		2009		2008
TCZK	Receivables	Payables	Receivables	Payables
Board of Directors	–	–	–	15
Supervisory Board	–	470	–	529
Executives	–	19,192	750	9,438

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

(b) Expenses and income

TCZK	Note	2009 Expenses	2009 Income	2008 Expenses	2008 Income
Anthiarose Ltd.	2	115	11	31	674
Crestfallen Ltd.	2	0	5	–	–
ČP REINSURANCE COMPANY Ltd.	2	3,805	944	78	129
Facipero Investments Ltd.	2	5	10	–	–
Garco Group B.V.	2	93	55	–	–
Glancus Investments Inc.	2	0	3	–	–
HC Asia N.V.	2	13,817	2,965	44,191	5,389
HC Fin1 B.V.	2	5	3	12	2
HC Fin2 B.V.	2	30	5	–	–
HC SE (former HCES N.V.)	2	2	8	–	4
Home Credit a.s.	2	5,540	22,468	55,914	3,607
Home Credit and Finance Bank o.o.o.	2	468,756	35,672	588,493	156,649
Home Credit B.V.	2	100,876	57,958	209,296	91,504
CJSC Home Credit Bank (former Agrobank Ukraine)	2	7,769	132,464	73,567	58,204
OAO Home Credit Bank (Lorobank)	2	19	19,809	3	3,223
Home Credit International a.s.	2	722	244	4	16
Home Credit Bank Kazakhstan	2		100,091	–	220,490
Home Credit Slovakia, a.s.	2	72	29,609	24	63,802
Nadace Educa	2			–	–
Office Star One spol. s r.o.	2	627		197	–
Pearlmoon Ltd.	2	2	13	–	–
PPF a.s.	2	69,836	250	45,589	214
PPF Co1 B.V.	2	38	97	841	89
PPF Co2 B.V.	2	1	1	4,582	11
PPF Co3 B.V.	2	0	0	–	–
PPF Gate a.s.	2	392	0	–	–
PPF Group N.V.	1	18,434	399,862	165,740	22,670
PPF Media a.s.	2	15	7	–	–
PPF Partners 1 GP Limited	2	10	20	–	–
PPF Partners Limited	2	0	4	–	–
PPF Real Estate s.r.o.	2	421	22	2	6
Redlione Ltd.	2	6	21	–	15
Russia Finance Corporation B.V.	2	51	34	23,442	30
Tenacity Ltd.	2	99	9	–	2
Torpera Ltd.	2	14	14	1	52
Tromson Enterprises Ltd.	2	0	5	–	–

Note:

(1) Shareholder

(2) Other related party

The expenses relating to Home Credit and Finance Bank o.o.o. mainly represent fair value revaluation of derivatives (swaps and forwards) as at the year end.

The expenses relating to Home Credit B.V. mainly represent fees from accounts held in the Bank and fair value revaluation of derivatives (swaps and forwards) as at the year end.

The expenses relating to PPF a.s. mainly represent expenses for advisory services and rent.

The income relating to Home Credit and Finance Bank o.o.o. mainly represents interests from term deposits and bonds held in the Bank's portfolio.

The income relating to Home Credit B.V. mainly represents fair value revaluation of derivatives and remuneration for advisory services and administration of securities.

The income relating to CJSC Home Credit Bank mainly comprises loan interests and release of loan allowances.

The income relating to Home Credit Bank Kazakhstan mainly represents loan interests.

The income relating to PPF Group N.V. mainly represents fair value revaluation of derivatives as at the year end.

(c) Off balance sheet items

As a related party transaction, as at 31 December 2009 the Bank provided a credit commitment to Home Credit Slovakia of TEUR 166 and Home Credit Bank Kazakhstan of TKZT 7,100,000. The Bank also issued a payment guarantees to Home Credit Asia N.V. of TEUR 19,250. The Bank accepted the collateral from Home Credit Bank Kazakhstan of TKZT 1,900,000 and TEUR 19,250 from HC Asia N.V.

40. Subsequent Events

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

Notes

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