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PPF Banka

PPF banka a.s.

PPF banka a.s. (“PPF banka” or the “Bank”) is an integral part of the PPF financial group. The Bank focuses, in particular, on providing financial, investment, and consulting services to selected customers who, due to the character of their business, require an individual approach in addressing their needs, while maintaining maximum effectiveness of the Bank’s services.

In terms of its strategy, PPF banka specializes primarily in corporate, structured, and acquisition finance and the provision of investment services. Since 2010, PPF banka has been successfully developing an export financing business with the support of EGAP. In the investment banking field, the Bank specializes in securities trading in most markets of Europe, the USA, Russia, and certain Asian countries, mostly for professional investors. PPF banka acts as the central treasury bank of PPF Group. For other companies within PPF Group, it conducts international payment transactions, as well as providing hedging and other investment services – e.g., arranging for financing in capital markets. PPF banka’s customer base is comprised mainly of financial institutions, medium and large corporations with Czech capital, and entities from the municipal sector.

Over the past few years, PPF banka has built up a reputation, both in the financial world and amongst its customers, of being a solid, trustworthy partner. This renown, combined with our strategic role in PPF Group, enables the Bank to achieve above-average financial performance.

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PPF banka a.s. 2010 Report on Business Activities

PMI

Petr Milev

Chairman of the Board of Directors

Letter from the Chairman

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Dear shareholders, customers, business partners and colleagues,

After the successful year 2009, in which our Bank posted its best earnings result in history, it was not easy to succeed in 2010 – especially if we define “success” as maintaining our performance and further diversifying revenues so as to make the Bank more resistant to changes related to the economic cycle. In this letter, I have the pleasure to announce that we managed – with greater or lesser degrees of success – to meet our goals and for that I want to thank everyone who had a hand in the results presented herein.

In 2010, our business was affected, in particular, by economic and political developments in the country. As the year progressed, no clear end emerged to the economic crisis of 2008 and 2009: the indications of a recovery in markets here at home and especially in Germany were very fragile, and the markets adopted a passive, “wait-and-see” attitude. Czech Koruna interest rates went the whole year without any significant rise, and Koruna exchange rates did not move significantly, either. Economic growth was weak, and this dampened any appetite for risk in lending transactions. The market was influenced by the “debt” crisis that originated in Greece and Ireland, and expanded into Hungary and other economies. Here, however, it must be said that the markets calmed somewhat compared to preceding years, and this resulted in fewer opportunities for investment returns.

2010 was marked by elections – first to Parliament and then at the municipal level as well. The creation of a coalition Government brought much-needed stability after over a year of election campaigning, but on the other hand the end of the municipal elections period gave rise to a certain lethargy in the municipal sector, which has traditionally been a key component in the Bank’s customer base.

Despite these factors, PPF banka maintained its performance and posted solid results for 2010. According to the audited figures, total assets were CZK 54 billion at year end, up 21% year-on-year on a net profit of over CZK 662 million. The Return on Average Equity (ROAE) exceeded 20%, Return on Average Assets (ROAA) was 1.26% for the year, and management kept the Company’s efficiency indicator, CIR, under 40%.

The Bank opened two entirely new business lines – export and structured finance, and private banking for corporate customers. Good market penetration was achieved in both lines: we participated in major transactions of Czech exporters, launched collaboration with EGAP, and gained a number of new SME (small and medium enterprise) customers. In a related move, we also opened a new customer services center in Prague 4, and we are preparing to open another in Prague 10. In the municipal business, the Bank focused on deposits, products for cash-flow management, and expanding the customer base into new areas of the Czech Republic. Like in previous years, in 2010 PPF banka continued to play a key role in PPF Group – particularly for companies in the Home Credit Group, core PPF Group companies, the Generali PPF Holding, and newly for the Energy and Industrial Holding as well.

The Bank’s total assets figure, which grew over CZK 9 billion compared to 2009, i.e. to CZK 54 billion, moved us out of the small banks category and into the segment of medium-sized banks. In 2010 we expanded in corporate lending as well as in export and structured finance, leading to a 35% year-on-year increase in loan portfolio volume. The previous cautious strategy of making allowances enabled the Bank in 2010 to reverse CZK 6 million in corporate allowances more than it made. Risk costs of corporate loans in 2010 were practically zero. The proportion of classified debts (according to Czech National Bank criteria) in total receivables from customers fell substantially year-on-year, to 17.21% in 2010 from 21.78% at 31 December 2009.

Considering the course of 2010, both economic and political, the results achieved by the Bank are very good and confirm that the strategy of diversifying the Bank’s business is the right one. The Bank’s further long-term growth is enabled by fact that returns are reinvested in the business. During 2011, we expect to see the acquisition activities we undertook in 2010 begin to bear fruit, and we will continue to develop more projects in the private banking segment as well.

Of great significance for the Bank is the fact that it came out of the turbulent crisis years with very good results. It is fully prepared for a further expansion that will definitively give it a place amongst the leading Czech financial institutions. The Bank’s selected strategy of expansion is certainly not the easy road, and we must thank the Bank’s employees for their dedication and professionalism, the shareholders for the trust they have placed in the Bank’s management, and customers for inspiring us and trusting in our products and ability. I am confident that our innovative approach, as well as our ability to address complex situations and find advantageous solutions, will bring the Bank positive results once again in 2011. I thank everyone who participated in our operations and helped make 2010 so successful for the Bank. Especially, I would like to thank our customers, for whom we aspire to continue to be a flexible, reliable, and advantageous business partner.

Prague, 5 April 2011

Petr Milev
Chairman of the Board of Directors

JZE

Josef Zeman

Vice Chairman of the Board of Directors

PLA

Pavel Langr

Member of the Board of Directors

Consolidated Financial Highlights

According to International Financial Reporting Standards

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CZK thousands (TCZK)	2010	2009	2008	2007	2006
Assets					
Financial assets	10,640,365	8,028,784	9,219,837	4,136,188	1,943,407
Loans and advances to banks	22,342,506	20,854,949	20,177,544	15,206,648	12,818,482
Loans and advances to customers	20,175,278	14,993,928	8,838,464	7,562,825	9,384,695
Other assets	1,007,742	932,190	6,474,236	511,187	351,880
Total assets	**54,165,892**	**44,809,851**	**44,710,081**	**27,416,848**	**24,498,464**
Liabilities and shareholders' equity					
Deposits from banks	1,898,257	67,335	383,585	563,286	10,621
Deposits from customers	35,997,964	29,343,753	34,947,996	20,897,707	18,467,682
Certificates of deposit	3,203,552	4,258,718	3,463,315	2,074,167	3,201,607
Financial liabilities at fair value through profit or loss	3,970,780	4,380,344	2,381,348	1,227,303	640,459
Subordinated liabilities	0	0	0	0	267,563
Shareholders' equity	4,172,664	3,513,506	2,673,827	2,170,673	1,630,400
Other liabilities	4,922,675	3,246,195	860,010	483,712	280,132
Total liabilities and shareholders' equity	**54,165,892**	**44,809,851**	**44,710,081**	**27,416,848**	**24,498,464**
Profit and loss statement					
Net interest income	2,039,135	1,658,120	1,156,212	883,597	529,159
Dividend income	96	408	24,428	23,382	14,624
Net fee and commission income	580,700	157,730	(113,795)	9,319	285,714
Gains/losses from financial operations	141,016	531,342	138,798	191,385	24,705
Other operating income	24,028	46,593	26,770	27,004	6,603
Operating income	2,784,976	2,394,193	1,232,413	1,134,687	860,805
Operating expenses	(1,978,429)	(1,357,866)	(662,070)	(443,153)	(489,006)
Net gain/loss from sale of subsidiary/associate	0	0	0	0	(111,937)
Income from associates	0	0	0	0	0
Profit before tax	806,546	1,036,327	570,343	691,534	259,862
Income tax	(144,009)	(224,946)	(28,019)	(163,688)	(95,530)
Net profit for the year	**662,537**	**811,381**	**542,324**	**527,846**	**164,332**
Basic ratio analysis					
ROE	20.31%	25.73%	22.39%	27.77%	9.82%
ROA	1.26%	1.72%	1.50%	2.03%	0.73%
Operating expenses/operating income	71.04%	56.71%	53.72%	39.06%	56.81%
Non-interest operating income/operating income	26.78%	30.74%	6.18%	22.13%	38.53%

Corporate Profile

General Information

Name	PPF banka a.s.
Legal form	joint stock company
Seat	Evropská 2690/17, Prague 6, Czech Republic
ID number	47116129
Registry court	Municipal Court in Prague, part B, insert 1834
Date of incorporation	31 December 1992

Registered capital	CZK 769,004,000
Shareholders' equity	CZK 4,170,324,000
Total assets	CZK 52,360,785,000
Shares	unlisted, registered ordinary, recorded in the Central Securities Depository Prague

Note: figures as at 31 December 2010

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, in particular, at Czech customers in the municipal and corporate segments. The Bank specializes in financial and capital markets operations, in the scope stipulated by applicable law and on the basis of the licenses granted by the Czech National Bank.

PPF banka is a member of:

– Czech Banking Association,

– Czech Institute of Internal Auditors,

– Union of Banks and Insurance Companies,

– Prague Economic Chamber,

– Prague Stock Exchange,

– Chamber for Economic Relations with CIS.

Shareholder Structure

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

People of PPF banka

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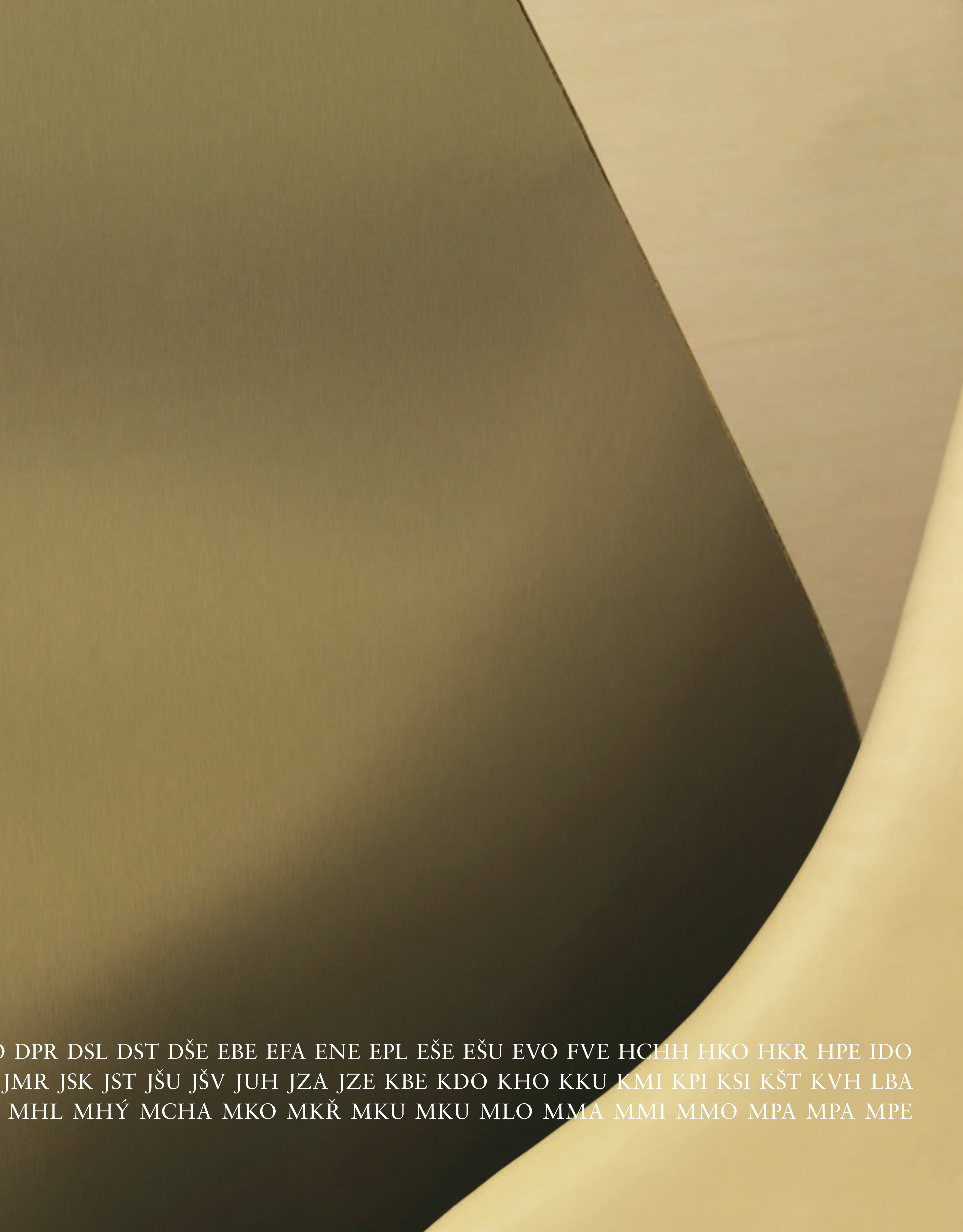
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JMR JSK JST JŠU JŠV JUH JZA JZE KBE KDO KHO KKU KMI KPI KSI KŠT KVH LBA
MHL MHÝ MCHA MKO MKŘ MKU MKU MLO MMA MMI MMO MPA MPA MPE

Governing Bodies

Board of Directors

Petr Milev
Chairman of the Board of Directors of PPF banka,
Chief Executive Officer

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

Pavel Langr
Member of the Board of Directors of PPF banka,
Managing Director, ICT

Supervisory Board

Jiří Šmejc
Chairman of the Supervisory Board of PPF banka

Radovan Šteiner
Vice Chairman of the Supervisory Board of PPF banka
until 30 September 2010

Bohuslav Samec
Member of the Supervisory Board of PPF banka

Jiří Witzany
Member of the Supervisory Board of PPF banka

Martina Kučerová
Member of the Supervisory Board of PPF banka

Lenka Baramová
Member of the Supervisory Board of PPF banka

Audit Committee

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

Jan Švoma
Managing Director, Corporate and Municipal 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 since 1 December 2006

Martina Kučerová
Managing Director, Legal since 1 December 2006

František Vencl
Chief Financial Officer since 1 January 2009

Marek Ploc
Managing Director, Private Banking since 1 November 2008

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

František Vencl Břetislav Tichánek

Martina Kučerová

Marek Ploc

Petr Jirásko Jaroslava Studenovská

Jan Švoma

Report of the Board of Directors

Bank Financial Performance in 2010

Despite difficult conditions in the real economy, in 2010 PPF banka achieved excellent results. Although the 2009 performance was better, the Bank's results surpassed those of 2008. In general, the business continues to grow and this is reflected in the overall results. Consolidated profit before tax according to International Financial Reporting Standards (IFRS) exceeded CZK 800 million. PPF banka's consolidated net profit in 2010 was down 18% from 2009's figure, to CZK 662.5 million from CZK 811.4 million in 2009.

PPF banka's total operating income reached CZK 2,784.9 million in 2010, having grown 16% from 2009's level of CZK 2,394.2 million. The growth in total revenue was driven primarily by interest revenue, which was up CZK 381.0 million year-on-year, and revenue from fees and commissions, which added another CZK 422.9 million year-on-year. On the other hand, revenues from financing transactions decreased, so they contributed CZK 390.3 million year-on-year less. Administrative expenses were up 25%, i.e. by CZK 130.4 million; of this figure, an increase in expenses for servicing retail portfolios accounted for CZK 108.5 million and the remainder of the increase is attributable to staff expenses. Those, for their part, were up 30% from the previous year due to investments in new business lines, i.e. private banking and export and structured finance.

In conjunction with new projects, PPF banka engaged in renewed investment in property, plant and equipment and intangibles, and depreciation and amortization charges grew by over 10% compared to 2009. 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 during 2008 and 2009, had a positive, CZK 216.8 million impact on 2010 profit, while other allowances of CZK 548 million were created on the retail debt portfolio. The drop in PPF banka's tax liability from CZK 224.9 million in 2009 to CZK 144.0 million in 2010 reflects lower profit before tax and dissolving of tax-exempt reserves.

PPF banka's consolidated total assets grew 21% year-on-year, to CZK 54.2 billion in 2010 from CZK 44.8 billion in the previous year. In order to diversify its revenue streams, PPF banka used a portion of its surplus cash to enter the export and structured finance market, thereby increasing lending volume by 35% to CZK 20.2 billion. The 19% growth in PPF banka's shareholders' equity had a positive impact on the shareholders' equity-to-total assets ratio, which kept steady at 8% in 2010.

The NPLs ratio for the corporate loan book – i.e., the proportion of classified loans – decreased year-to-year by 5% from 10.28% in 2009 to 5.36% in 2010. The volume of classified corporate loans decreased CZK 400 million, to CZK 1 billion at year end 2010.

PPF banka paid no dividends to shareholders in 2010; the undistributed profit from 2009 was used to increase PPF banka's shareholders' equity. The Return on Average Equity (ROAE) at 31 December 2010 was 20.31%, the Return on Average Assets (ROAA) was 1.26%, and capital adequacy on a consolidated basis was 11.55%.

Capital and Capital Adequacy*

TCZK	2010	2009	2008	2007	2006
Capital adequacy	11.55%	10.52%	10.74%	13.49%	14.68%
Tier 1	3,442,653	2,636,082	2,074,944	1,556,627	1,251,885
Tier 2 and Tier 3	0	0	0	0	260,000
Sum of deductible items	0	0	0	0	0
Total capital	3,442,653	2,636,082	2,074,944	1,556,627	1,511,885
Capital requirements for investment portfolio	1,769,937	1,447,247	1,145,422	643,008	517,636
Capital requirements for trading portfolio	436,349	427,629	278,934	280,090	306,384
Capital requirements for operational risks	179,177	129,504	121,276	0	0
Risk weighted assets	22,677,646	21,534,979	14,317,773	8,037,603	6,470,444

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

Business Operations in 2010

PPF banka's Financial Market Activities

As it did in previous years, in 2010 PPF banka continued to develop long-term relations with customers and improve the quality and efficiency of its services. In particular, we further developed our financial markets business, focusing primarily on brokering trades on the money and capital markets. PPF banka is a primary trader of medium term government bonds and a member of the Prague Stock Exchange. In addition to our activities in the Czech market, we also conduct operations in the advanced markets of the USA and western Europe, as well as in emerging markets. The financial markets division posted total trading volume of CZK 335.8 billion in the year in question.

For a long time now, PPF banka has been an active participant in both the primary and secondary markets for Czech government bonds, both as a primary dealer and as one of the key market makers. In 2010, we were the fifth most active bank in the primary market for domestic government bonds and one of the three most active traders in the secondary market, on the Prague Stock Exchange.

In the foreign bonds segment, PPF banka posted trading volume in excess of CZK 48 billion. Here, the Bank focuses on trading in corporate bonds that are highly liquid and have an above-average risk-adjusted return. PPF banka takes a strict approach to credit risk, choosing instruments and issuers in accordance with approved risk limits.

In an effort to further improve financial markets access for a broad spectrum of customers, PPF banka continues to focus on increasing the number of counterparties. In particular, we are striving to expand the range of banks and financial institutions, both international and domestic, by entering into framework arrangements and setting up bilateral operating frameworks, enabling us to provide customers with competitive pricing in line with the market.

In September 2010 PPF banka, acting in the role of Lead Manager, successfully placed a zero-coupon bond issue of HCBV with a total face value of CZK 2.9 billion.

PPF banka's Group Treasury Activities

Since mid-2005, PPF banka's strategy has also included the provision of consulting services to 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. As PPF Group – and especially the Group's retail arm, Home Credit – has expanded, PPF banka's activities in this area have kept pace. Last year, our consulting focused on ALM and liquidity management in the challenging conditions of the ongoing financial crisis.

Corporate and Municipal Banking

2010 was characterized by growing customer business. While continuing to provide loan support to its key customers, PPF banka embarked on a path of expanding its customer portfolio. PPF banka concentrated on acquiring new medium-sized corporate customers with predominantly domestic capital and a focus on foreign trade. As a result, the customer portfolio grew by several billion CZK at a time when most of the banking sector was cautiously waiting for signals confirming that the Czech Republic was definitely out of the turbulent waters of the economic crisis. PPF banka endeavors to support domestic exporters, particularly in developing markets and with emphasis on markets of the former Soviet Union, where Czech goods have an undeniable advantage.

Last year, PPF banka once again met its goal of maintaining a clean loan book. In other words, it avoided any fundamental growth in classified loans/allowances even in this post-crisis year.

In the public sector, PPF banka distributed its operations over the entire territory of the Czech Republic. Major public entities joined us as our customers and our regional presence was strengthened. Particularly successful were: collaboration with agencies that direct subsidy programs, financial engagement in healthcare, and the development of a number of products parameterized to customer specifications.

Securities Trading Volume

CZK millions	2010	2009	2008
Domestic bonds	217,895	281,051	343,663
Foreign bonds	48,546	85,867	23,677
Subtotal – bonds	**266,442**	**366,918**	**367,340**
Domestic equities	14,332	43,484	56,948
Foreign equities	55,049	38,726	63,467
Subtotal – equities	**69,382**	**82,210**	**120,415**
Total	**335,824**	449,128	**487,755**

In the municipal segment, PPF banka emphasized the flexibility and speed of the solutions and products it offers, while respecting the segment's conservative investment profile. The year 2010 laid a good foundation for further expansion in the municipal and public sector, which is perceived as highly competitive and comprises a major challenge for PPF banka.

Export and Structured Finance

Structured finance is a traditional pillar of PPF banka's business. Our highly experience team maintained a healthy pace of growth in both assets and returns, and carried out a number of transactions in the Czech Republic and abroad. In 2010, PPF banka newly expanded into the specialized area of export finance. In so doing, we responded to the significant recovery in foreign trade seen last year. The end of the recession brought big demand for services and financing in the area of foreign trade, and export in particular. During the first year of export finance operations, PPF banka's relatively small team managed to stake out a good position by entering into several major transactions in the given segment of the Czech market, and won the trust of a number of domestic manufacturers, whom we are helping to do business abroad.

SMEs and Specialized Professions

In 2010, PPF banka added a new focus: the SME (small and medium enterprise) segment. Under the name Private Businesses, we offer these companies and their owners – private individuals – a full range of banking services, from deposits to transactional services to lending.

Further growth was seen in the area of banking services for attorneys, notaries, executors, and insolvency administrators, to whom PPF banka is newly offering products that address the specific needs of these professions.

In order to serve these customers, PPF banka opened a new customer services center in Prague 4 and, in the future, we are planning to expand the network of such centers so as to provide the best possible service to this promising customer segment.

Information Technologies and Security Policy

PPF banka implemented a number of decisions in 2010 that had a substantial impact on its information technologies as well as its security policy. In June, we completed a new customer services center at a site in the Kavčí Hory district of Prague, using efficient technologies thanks to which it was not necessary to build out a full-fledged server facility.

Since February, the Bank has been utilizing a new PPF banka payments system. Also in 2010, two more major projects were implemented with a substantial impact on information technologies: the addition of our own debit cards to the services portfolio, and their complete implementation.

The most significant project of all was the implementation and pilot operation of an Internet banking system, which as of year-end entered into full operation and is now available to all PPF banka customers. Another important step was the preparation of a new version of the Kondor system, the implementation of which will be completed in 2011, along with additional modules. A number of other changes were made in the area of basic IT and telecommunications infrastructure, and in the area of data management and storage in particular. Further, PPF banka implemented new information system modules for automated processing of CNB Clearing payments transactions. That was another step in expediting critical customer transactions. The changes were made with the objective of continuing to streamline operational support and minimize downtime and subsequent interventions in the systems.

The above activities of 2010 were carried out with maximum focus on bolstering the quality of PPF banka's products and increasing "comfort of support" of the trading and operating functions while keeping within budget. This objective was further supported by the formation of a specialized department for supporting and dealing with customer requests in the area of direct banking channels, which resulted in a clear improvement in service quality, in terms of not just customer support, but internal support for the trading functions as well. The areas of security and security policy were an important part of these activities, and there was a major expansion in Internet banking-related activities in particular – in direct proportion to the risk that must be addressed, which ensues from the character of this product.

People of PPF banka

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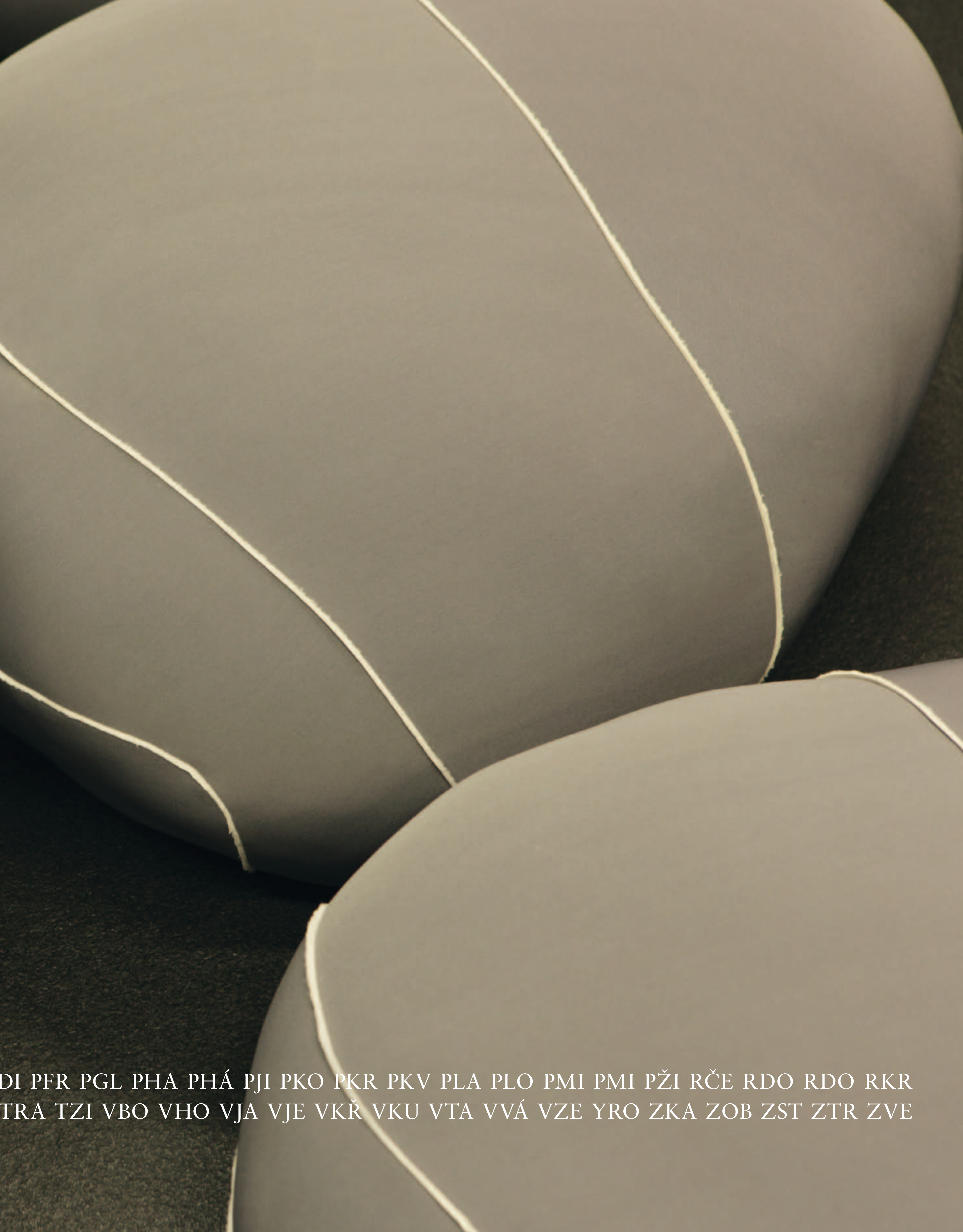

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Human Resources and Personnel Strategy

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 accords fully with the plans and goals of the commercial strategy of PPF banka and of the Group as a whole.

At PPF banka, emphasis is placed above all on maintaining a pleasant and friendly work environment, mutual trust among employees, and the continual process of improving employee efficiency and performance, which relies primarily on a systematic training process. We achieve our goals through a variety of means, including frank and open communications, cultivation of the corporate culture, openness, and support for young talents.

We motivate our employees through the compensation system and the system of employee benefits, and we also focus on achieving overall employee satisfaction, which is a necessary prerequisite for good teamwork, without which we would not be able to lay firm foundations for loyalty and effectiveness. Having come through the crisis years of 2008–2009 with flying colors, we can state with pride that PPF banka is growing its business activities and, as a result, our work force is growing. This trend is also supported by the success and flexibility of our job searches.

Our goal is to create a reliable, flexible, and dynamic company team, for whom working and achieving success together is both pride and joy. We believe that, through this strategy, we will secure a good environment for employees which, after all, is a necessary precondition for customer satisfaction.

The average number of employees in 2010 was 151. The number of employees at year end was 154.

Directions of Further Growth and Outlook for 2011

What can we expect in 2011?

The Czech economy – small and open – is dependent on geopolitical factors. On the positive side, the economy of our neighbor, Germany, is growing. Germany is a traditional trading partner of the Czech Republic, providing a destination for approximately 30% of Czech exports. On the risk side, we have the impact of higher crude oil prices (import of inflation).

The Eurozone debt crisis is strengthening the Czech Republic's credit and, with it, the Koruna-to-Euro exchange rate; further strengthening of the Koruna is not expected to reach a point where it would become a factor limiting growth of Czech exports.

In the domestic market, the drop in spending on solar power plants is expected to slow growth in gross fixed capital formation. (At the same time, however, the end of imports of solar-specific capital components will result in an improved contribution of net exports to the Czech Republic's GDP growth.) Inflation will continue to be under control, and the real estate market is expected to be flat or grow very slightly.

The election victory of parties on the right in 2010 is good news for long awaited and delayed reforms of the healthcare and pension systems, although the impression one gets from the current state of these reforms – as this text is being written – is somewhat mixed. These reforms reduce government spending, and an announced VAT increase from the fourth quarter of this year will put a damper of domestic consumption. The overall outlook for growth in the Czech economy, then, is cautiously optimistic.

For PPF banka to be able to maintain the growth trend in its primary indicators in such a complicated environment, it must continue with the established strategy and principles: i.e., diversification of business activities and greater focus on market customers.

The main business priorities for 2011 are as follows:

– expand activities in export, structured, and acquisition finance with the aim of leveraging market opportunities and ensuring long-term returns with above-average margins,

– develop Private Businesses as a high-potential segment for the domestic market and bring about the related expansion in the customer network,

– develop investment banking services and financial market operations with the aim of improving the quality of customer services,

– actively provide services to the corporate and municipal segments for the purpose of expanding the customer base,

– enter the private banking for individuals market.

Public Benefit Projects

PPF Group has a long-standing tradition of supporting public-benefit projects. PPF banka, too, endeavors to contribute – at least financially – to the development of culture and education.

Summer Shakespeare Festival and Jára Cimrman Theatre

For many years now, PPF Group has been General Partner of the Summer Shakespeare Festival, which continues to grow in popularity. It also supports the Jára Cimrman Theatre and its original humor.

Sponsorship Donations

In 2010, PPF banka supported the PIPAN Bilingual Nursery School for the Hearing-Impaired, the Educa Foundation (which cares for gifted children and youth coming from socially disadvantaged backgrounds) and the civic associations Health Reform.cz and Help Handicapped Children. In conjunction with the floods in the North Bohemia Region in August 2010, the Bank provided financial assistance to the Region of Liberec and the Kellner Family Foundation to help clean up and repair the damage left behind by these floods.

Prague, 28 March 2011

Petr Milev
Chairman of the Board of Directors

Josef Zeman
Vice Chairman of the Board of Directors

Financial Section

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

We have audited the accompanying consolidated financial statements of PPF banka a.s., which comprise the statement of financial position as of 31 December 2010, 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 financial statements.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities of PPF banka a.s. as of 31 December 2010, and of its expenses, revenues and net result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague, 15 April 2011

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 2010

According to International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

In thousands of CZK	Note	2010	2009
Interest and similar income	6	3,564,656	2,764,334
Interest expense and similar charges	6	(1,525,521)	(1,106,214)
Net interest income		**2,039,135**	**1,658,120**
Dividend income	7	96	408
Fee and commission income	8	635,248	296,955
Fee and commission expense	8	(54,548)	(139,225)
Net fee and commission income		**580,700**	**157,730**
Net trading income	9	141,016	531,342
Other operating income	11	24,028	46,593
Operating income		2,784,976	2,394,193
General administrative expenses	12	(662,264)	(531,911)
Impairment (loss)/reversal	24	(1,257,057)	(768,673)
Other operating expenses	13	(59,108)	(57,282)
Operating expenses		(1,978,429)	(1,357,866)
Profit before income tax		**806,546**	**1,036,327**
Income tax expense	22	(144,009)	(224,946)
Net profit for the year		**662,537**	**811,381**
Other comprehensive income			
Fair value reserve (AFS financial assets)		(1,381)	28,072
Net change in fair value, net of tax		(1,381)	28,072
Net amount transferred to profit and loss, net of tax		–	–
Other comprehensive income for the period		**(1,381)**	**28,072**
Total comprehensive income for the period		**661,156**	**839,453**

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 11 April 2011.

Signed on behalf of the Board of Directors by:

Petr Milev **Josef Zeman**

Consolidated Statement of Financial Position

In thousands of CZK	Note	2010	2009
Assets			
Cash and balances with the central bank	14	558,631	629,272
Trading assets	15	6,537,114	5,365,951
Financial assets available for sale	16	4,103,251	2,662,833
Loans and advances to banks	17	22,342,506	20,854,949
Loans and advances to customers	18	20,175,278	14,993,928
Property, plant and equipment	20	43,860	35,405
Intangible assets	21	58,346	44,673
Other assets	24	346,906	222,840
Total assets		**54,165,892**	**44,809,851**
Liabilities			
Deposits from banks	26	1,898,257	67,335
Deposits from customers	27	35,997,964	29,343,753
Debt securities issued	28	3,203,552	4,258,718
Trading liabilities	29	3,970,780	4,380,344
Income tax provision	30	25,758	139,269
Deferred tax liabilities	22	10,119	388
Other liabilities	31	4,886,798	3,106,538
Total liabilities		**49,993,228**	**41,296,345**
Shareholders' equity			
Issued capital	33	769,004	769,004
Share premium	33	411,545	411,545
Statutory reserve fund	34	153,801	141,124
Retained earnings		2,838,366	2,190,504
Fair value reserve		(52)	1,329
Total shareholders' equity		**4,172,664**	**3,513,506**
Total liabilities and shareholders' equity		**54,165,892**	**44,809,851**

Consolidated Statement of Cash Flows

In thousands of CZK	2010	2009
Profit before income tax	806,546	1,036,327
Adjustments for non-cash items		
Impairment (loss)/reversal	1,257,049	768,673
Depreciation and amortisation	29,763	27,012
Net interest income	(2,039,135)	(1,658,120)
Increase/decrease in fair value of financial instruments	(35,922)	(991,166)
Profit/(loss) on the sale of property and equipment	(121)	(67)
Profit/(loss) on the sale of securities	(186,396)	366,614
Operating profit before changes in operating assets and liabilities	**(168,216)**	**(450,727)**
Changes in operating assets and liabilities		
Balances with central bank	90,738	(294,212)
Trading assets	(1,521,163)	2,094,905
Loans and advances to banks	(1,487,557)	(677,405)
Loans and advances to customers	(5,181,350)	(6,155,464)
Other assets	(124,066)	(57,810)
Deposits from banks	1,830,922	(316,250)
Deposits from customers	5,599,045	(4,808,840)
Trading liabilities	(759,564)	1,648,996
Taxes	(103,780)	139,657
Other liabilities	1,780,261	2,246,528
	(44,731)	(6,630,622)
Interest received	3,304,787	2,825,687
Interest paid	(1,656,973)	(1,136,276)
Cash flows from operating activities	**1,603,083**	**(4,941,211)**
Acquisition of investment securities	(6,061,621)	(2,718,068)
Proceeds from sale of investment securities	4,574,856	1,145,472
Purchase of property, plant and equipment and intangible assets	(84,333)	(43,214)
Proceeds from sale of property, plant and equipment	3,097	100
Cash flow from investing activities	**(1,568,501)**	**(1,615,710)**
Net increase/(decrease) in cash and cash equivalents	34,582	(6,556,921)
Cash and cash equivalents at 1 January	**385,877**	**6,942,798**
Net cash flows from operating activities	1,603,083	(4,941,211)
Net cash flow from investing activities	(1,568,501)	(1,615,710)
Cash and cash equivalents at 31 December (see Note 38 (f))	**420,459**	**385,877**

Consolidated Statement of Changes in Equity

In thousands of CZK	Issued capital	Share Premium	Statutory Reserve Fund	Reserves from revaluation of available-for-sale securities	Earnings Retained	Total Equity
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**
Balance at 1 January 2010	**769,004**	**411,545**	**141,124**	**1,329**	**2,190,504**	**3,513,506**
Total comprehensive income for the period						
Profit for 2010	–	–	–	–	662,537	662,537
Other comprehensive income						
Changes in fair value on available-for-sale financial assets, net of tax	–	–	–	(1,381)	–	(1,381)
Transfers	–	–	12,677	–	(14,675)	(1,998)
Total comprehensive income for the period	**769,004**	**411,545**	**153,801**	**(52)**	**2,838,366**	**4,172,664**
Transactions with owners, contribution and distribution to owners						
Dividends paid	–	–	–	–	–	–
Balance at 31 December 2010	**769,004**	**411,545**	**153,801**	**(52)**	**2,838,366**	**4,172,664**

Notes to the Consolidated Financial Statements

1. Introduction

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

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

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

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

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

The registered office of the Bank:

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

2. Statement of Compliance

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

3. Significant Accounting Policies

(a) Basis of preparation

The financial statements are presented in Czech Crowns, which is the functional currency, rounded to the nearest thousand. The financial statements are prepared on the historical cost basis except for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and available-for-sale assets.

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

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

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

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

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.

(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.

The revision of IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011) exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010) The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a "debt for equity swap" are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013, earlier application is permitted) replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

– financial assets measured at amortized cost; or

– financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

Additions to IFRS 9 Financial Instruments (issued in 2010) (effective for annual periods beginning on or after 1 January 2013, early application is permitted) replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities.

The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.

The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

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;

– a breach of contract, such as default in the payment of interest or principal payments;

– the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

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

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

(ii) Estimated market value of credit default swap

The Bank 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.

(iii) Change in accounting policy

There were no changes in accounting policies during the year 2010.

(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.

In 2010 the Bank did not identify any changes of financial reporting standards that would affect the Bank's financial statements.

6. Net Interest Income

TCZK	2010	2009
Interest and similar income		
Interest and similar income arise from		
Cash and balances with the central bank	5,435	5,673
Loans and advances to banks	221,704	620,081
Loans and advances to customers	2,895,567	1,778,901
Debt securities	441,950	359,679
	3,564,656	**2,764,334**
Interest expense and similar charges		
Interest expense and similar charges arise from		
Deposits from banks	(39,240)	(22,162)
Deposits from customers	(377,751)	(431,267)
Debt securities issued and short sales	(198,600)	(228,638)
Change in deferred purchase price	(909,930)	(424,147)
	(1,525,521)	**(1,106,214)**
Net interest income	**2,039,135**	**1,658,120**

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.). It is paid to Home Credit a.s., originator and servicer of the acquired retail receivables portfolio.

The Bank dispensed no interest on late payment during years 2010 and 2009.

7. Dividend Income

In 2010 the Bank received dividend payments amounting to TCZK 96 (2009: TCZK 408), all from ownership of trading securities.

8. Net Fee and Commission Income

TCZK	2010	2009
Fee and commission income		
Transaction fee with banks	22	31
Transaction fee with clients	525,769	260,517
Fees from guarantees provided	19,655	21,867
Other	89,802	14,540
	635,248	**296,955**
Fee and commission expenses		
Transaction fee with banks	(15,888)	(12,813)
Transaction fee with clients	(38,660)	(126,412)
	(54,548)	**(139,225)**
Net fee and commission income	**580,700**	**157,730**

9. Net Trading Income

TCZK	2010	2009
Net profit/(loss) from FX transactions	(625)	(133)
Net profit/(loss) from securities/FX trading	117,669	121,005
Net profit/(loss) from derivatives	23,972	410,470
	141,016	**531,342**

10. Net Income from other Instruments Carried at Fair Value

The Bank did not gained any net income from other instruments carried at fair value for the years 2010 and 2009.

11. Other Operating Income

TCZK	2010	2009
Reimbursement of expenses	2	–
Proceeds from ceded receivables	–	3,880
Reinvoicing and other similar income	9,529	4,967
Advisory services	11,400	37,600
Proceeds from sales of fixed assets	3,097	100
Other	–	46
	24,028	**46,593**

12. General Administrative Expenses

TCZK	2010	2009
Personal expenses		
Wages and salaries	(103,197)	(79,501)
Social expenses	(37,802)	(23,277)
Remuneration paid to		
Board of Directors	(17,857)	(8,827)
Supervisory Board	(4,025)	(4,270)
Executives	(27,330)	(30,543)
	(190,211)	(146,418)
Other general operating expenses	(472,053)	(385,493)
	(662,264)	**(531,911)**

The average number of employees, members of the Board of Directors, Supervisory Board and executives of the Bank in the years 2010 and 2009 was as follows:

	2010	2009
Board of Directors	3	3
Supervisory Board	6	6
Executives	6	6
Employees	140	99

13. Other Operating Expenses

TCZK	2010	2009
Depreciation of fixed assets	(29,763)	(27,012)
Payment to Deposit Insurance Fund	(21,741)	(15,379)
Payment to Guarantee Fund	(1,805)	(1,968)
Other	(5,799)	(12,923)
	(59,108)	**(57,282)**

14. Cash and Balances with the Central Bank

TCZK	2010	2009
Cash on hand	35,300	12,381
Balances with the central bank	523,327	614,065
Nostro accounts with the central bank	4	2,826
	558,631	**629,272**

At 31 December 2010 cash and balances with the central bank included balances with the central bank amounting to TCZK 523,327 (2009: TCZK 614,065) 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	2010	2009
Bonds and notes issued by		
Government	2,995,349	2,218,028
Other issuers	1,951,797	1,245,495
Shares and other equity instruments issued by		
Other issuers	568,671	540,930
Positive fair value of derivatives		
Other counterparties	1,021,297	1,361,498
Of which		
Listed instruments	4,982,219	4,043,202
Unlisted instruments	1,554,895	1,322,749
	6,537,114	**5,365,951**

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

Shares and other equity instruments issued by Other issuers are traded on the stock exchange in Great Britain (2010: TCZK 16,576; 2009: TCZK 11,630), Slovakia (2010: TCZK 501,200; 2009: TCZK 529,300) and the Czech Republic (2010: TCZK 50,895; 2009: TCZK 0).

16. Financial Assets Available for Sale

TCZK	2010	2009
Bonds and notes issued by		
Government	3,114,322	2,312,351
Other issuers	801,258	172,458
Shares and other equity instruments issued by		
Other issuers	187,661	178,024
Of which		
Listed instruments	2,718,436	1,515,531
Unlisted instruments	1,384,815	1,147,302
	4,103,251	**2,662,833**

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	2010	2009
Loans to central bank under reverse repo transaction	7,701,486	7,501,002
Loans to banks	4,655,451	4,071,950
Money market transactions	9,600,414	8,911,327
Other (nostro / current account balances)	385,155	370,670
Total loans and advances to banks	22,342,506	20,854,949
Impairment loss on loans and advances to banks	–	–
Net loans and advances to banks	**22,342,506**	**20,854,949**

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

TCZK	2010	2009
As at 1 January	–	72,547
Impairment of loans to banks	–	–
Reversal of impairment of loans to banks		(64,806)
Use of impairment on loans and receivables to banks	–	–
Exchange difference		(7,741)
	–	–
As at 31 December	–	–

18. Loans and Advances to Customers

TCZK	2010	2009
Corporate customers		
Financial institutions	557,171	378,453
Non-financial institutions	2,648,839	2,303,530
Non-profit organisations	9,700	–
Self-employed	–	9
Public sector	92,990	26,567
Resident individuals	12,057,555	10,793,268
Non-residents	6,397,680	2,540,218
Total loans and advances to customers	21,763,935	16,042,045
Impairment loss on loans and advances to customers	(1,588,657)	(1,048,117)
Net loans and advances to customers	**20,175,278**	**14,993,928**

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

TCZK	2010	2009
As at 1 January	266,646	139,698
Impairment losses recognised in the statement of comprehensive income	124,085	334,232
Reversal of impairment of loans to customers	(130,657)	(59,106)
Use of impairment on loans and receivables	–	(148,178)
Exchange difference	(890)	–
	(7,462)	126,948
As at 31 December	**259,184**	**266,646**

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

TCZK	2010	2009
As at 1 January	781,471	–
Balance of the purchase of subsidiaries	–	223,003
Impairment losses recognised in the statement of comprehensive income	1,263,629	558,468
Amount related to loans written off	(715,627)	–
	548,002	781,471
As at 31 December	**1,329,473**	**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 501 (2009: TCZK 241) and TCZK 1,772 (2009: TCZK 959) respectively is included in the calculation of consolidated profit.

20. Property, Plant and Equipment

TCZK	Low value fixed asset	Building	Cars	Furniture and Fittings	Equipment	Works of art	Fixed assets not yet in use	Total
Cost								
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**
At 1 January 2010	1,952	6,267	–	13,096	92,109	4	19,928	133,356
Additions	302	5,380	–	3,852	12,092		634	22,260
Transfers	14	–	–	–	19,914	–	(19,928)	–
Disposals	(283)	–	–	(699)	(4,508)	–	–	(5,490)
At 31 December 2010	**1,985**	**11,647**	**–**	**16,249**	**119,607**	**4**	**634**	**150,126**
Depreciation								
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**
At 1 January 2010	1,952	38	–	11,565	84,396	–	–	97,951
Additions	316	158	–	1,142	11,500	–	–	13,116
Disposals	(283)	–	–	(699)	(3,819)	–	–	(4,801)
At 31 December 2010	**1,985**	**196**	**–**	**12,008**	**92,077**	**–**	**–**	**106,266**
Net book value								
At 31 December 2009	–	6,229	–	1,531	7,713	4	19,928	35,405
At 31 December 2010	–	11,451	–	4,241	27,530	4	634	43,860

21. Intangible Assets

TCZK	Software	Total
Cost		
At 1 January 2009	164,301	164,301
Additions	11,273	11,273
At 31 December 2009	**175,574**	**175,574**
At 1 January 2010	175,574	175,574
Additions	62,073	62,073
Disposals	(31,753)	(31,753)
At 31 December 2010	**205,894**	**205,894**
Depreciation		
At 1 January 2009	115,329	115,329
Additions	15,572	15,572
Disposals	–	–
At 31 December 2009	**130,901**	**130,901**
At 1 January 2010	130,901	130,901
Additions	16,647	16,647
Disposals	–	–
At 31 December 2010	**147,548**	**147,548**
Net book value		
At 31 December 2009	44,673	44,673
At 31 December 2010	58,346	58,346

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 (2010 the tax rate was 19%, 2009: 20%).

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

TCZK	2010	2009
Deferred tax assets		
Deferred tax asset from financial assets available for sale	–	–
Deferred tax asset from unpaid social and health insurance	–	220
Deferred tax assets	**–**	**220**
Deferred tax liabilities		
Deferred tax liability from financial assets available for sale	–	(312)
Deferred tax liability from penalty interest not yet collected	(10,119)	(296)
Deferred tax liabilities	**(10,119)**	**(608)**
Total deferred tax assets (liabilities)	**(10,119)**	**(388)**

The amount of deferred tax relating to changes in the tax rate applicable for the deferred tax calculation is TCZK 0 (2009: TCZK 20). There was no unrecognized item related to deferred tax.

In 2010 there was no deferred tax asset. The deferred tax liability from financial assets available for sale in amount TCZK 0 (2009: deferred tax liability TCZK 312) was recognised against the revaluation fund in the statement of changes in equity.

At 31 December 2010 the Bank recorded receivables from customers of penalty interest not yet collected of TCZK 53,260, where the relevant income is not tax deductible. Therefore, the bank created a deferred tax liability of TCZK 10,119, all of which was recognised.

Income tax reconciliation:

TCZK	2010 Tax basis	2010 Tax	2009 Tax basis	2009 Tax
Tax rate		**19.0%**		**20.0%**
Profit from operations (before taxation)	806,546		1,036,327	
Computed taxation using applicable tax rate		153,244		207,265
Tax non-deductible expenses	114,738	21,800	205,314	41,063
Non-taxable income	(174,589)	(33,172)	(64,806)	(12,961)
Other items	11,247	2,137	(52,105)	(10,421)
Total income tax (expense)/income		**(144,009)**		**(224,946)**

23. Operating Leasing

Non-cancellable operating lease rentals are payable as follows:

TCZK	2010	2009
Less than one year	23,274	27,167
Between one and five years	10,584	25,962
More than five years	2,595	3,447
Total	**36,453**	**56,576**

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 28,364 in 2010 (2009: TCZK 27,264).

24. Other Assets

TCZK	2010	2009
Clearing with securities market	20,727	22,119
Prepayments and deferred expenses	18,351	18,059
Cash collateral to payment cards	69,736	68,311
Receivable related to accrued excess spread	199,716	96,144
Other	38,376	18,207
Impairment loss on Other assets	–	–
	346,906	**222,840**

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	2010	2009
As at 1 January	1,048,117	212,360
Impairment losses related to portfolio acquisition	–	223,003
Impairment of loans to banks	–	–
Impairment of loans to customers	1,387,714	892,700
Impairment of other assets	–	–
Reversal of impairment of loans to banks	–	(64,806)
FX difference	(890)	(7,741)
Reversal of impairment of loans to customers	(846,284)	(59,106)
Reversal of impairment of other assets	–	(115)
Use of impairment on loans and receivables	–	(148,178)
	510,540	835,757
As at 31 December	**1,558,657**	**1,048,117**

26. Deposits from Banks

TCZK	2010	2009
Other deposits from banks	1,886,043	57,779
Other (loro account balances)	12,214	9,556
	1,898,257	**67,335**

27. Deposits from Customers

TCZK	2010	2009
Payable on demand		
Corporate customers		
Financial services	87,807	218,541
Non-financial institutions	1,686,704	1,513,158
Insurance institutions	126,241	58,324
Non-profit organisations	86,038	64,841
Self-employed	142,593	32,616
Public sector	5,200,187	7,055,273
Resident individuals	183,227	169,106
Non-residents	1,900,846	1,460,612
Total payable on demand	9,413,643	10,572,471
Term deposits		
Corporate customers		
Financial services	9,268,693	1,571,508
Non-financial institutions	2,646,626	1,257,172
Insurance institutions	4,557,215	8,475,288
Non-profit organisations	153,674	45,812
Self-employed	239,700	595,495
Public sector	1,906,990	2,981,489
Resident individuals	58,220	35,808
Non-residents	7,753,202	3,808,710
Total term deposits	26,584,321	18,771,282
	35,997,964	**29,343,753**

Interest is recognised in interest expense and similar charges.

28. Debt Securities Issued

TCZK	2010	2009
Non-financial institutions	1,001,183	1,001,482
Public sector	2,173,703	3,257,236
Resident individuals	28,664	–
	3,203,552	**4,258,718**

29. Trading Liabilities

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

TCZK	2010	2009
Negative fair value of derivatives		
Interest rate contracts	199,383	561,625
Currency contracts	698,436	628,757
Other contracts	115	224
Liabilities from short sales of securities	3,072,846	3,189,738
	3,970,780	**4,380,344**

30. Income Tax Asset and Provision

As of 31 December 2010 a tax provision of TCZK 132,140 (2009: TCZK 223,753) is offset against income tax advances totalling TCZK 106,382 (2009: TCZK 84,484).

31. Other Liabilities

TCZK	2010	2009
Payables to suppliers	40,431	58,239
Accrued expenses and deferred income	373,502	353,229
Cash deposited as pledge	2,515,364	1,141,458
Social and health insurance	4,340	3,192
Other liabilities to employees	27,401	15,242
Liabilities from securities transactions	37,912	61,199
Deposits insurance fund	6,207	15,379
Payable related to acquired receivables portfolios	675,725	300,082
Deferred part of purchase price of receivables	554,986	441,929
Subordinated debt	561,159	683,122
Other liabilities	89,771	33,467
	4,886,798	**3,106,538**

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 2010		
to banks	10,965,069	10,799,368
to clients	2,810,911	3,987,856
Loans and advances at 31 December 2009		
to banks	10,000,933	9,846,727
to clients	1,238,551	1,568,680

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 2010		
from banks	1,544,589	1,538,272
from clients	7,026,322	6,931,283
Loans and advances at 31 December 2009		
from banks	–	–
from clients	4,230,462	4,214,349

33. Issued Capital

	Number of shares	Nominal value CZK	Registered capital TCZK
At 31 December 2010			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**
At 31 December 2009			
	192,131	2,602.5	500,021
	384,262	700.0	268,983
	576,393		**769,004**

The shareholder structure as at 31 December 2010 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 2010 or as at 31 December 2009.

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 (2009: 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.

The Bank completed the statutory reserve fund from distribution of profit for 2009 and therefore no additional contributions from 2010 profit are required.

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 2010	662,537
Proposed allocation of profit for 2010	
Transfer to reserve funds	–
Transfer to social funds	(2,000)
Transfer to retained earnings	(660,537)
	–

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	2010	2009
Guarantees issued	1,104,712	3,344,882
Undrawn credit commitments	4,554,583	2,675,472
Letters of credit	469,516	–
	6,128,811	**6,020,354**

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 2010	Notional value 2009	Fair value 2010	Fair value 2009
Derivatives held for trading				
Interest Rate Swaps	52,059,778	55,246,939	(12,947)	(43,169)
Interest Forwards		–	–	–
Purchase		–		–
Sale		–		–
Foreign Exchange derivatives			70,357	175,535
Purchase	66,273,911	42,938,308		
Sale	66,203,553	42,762,772		
Equity derivatives			–	–
Purchase	–	–		
Sale	–	–		
Options	–	–	–	–
Other derivatives			65,953	38,525
Purchase	2,561,827	2,145,490		
Sale	2,559,007	2,141,440		
			123,363	**170,891**

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 2010						
Derivatives held for trading						
Interest Rate Swaps	23,439	123,757	51,412,582	500,000	–	52,059,778
FX derivatives (purchase)	58,525,335	6,961,175	787,401	–	–	66,273,911
FX derivatives (sale)	58,450,622	6,970,976	781,955	–	–	66,203,553
Other derivatives (purchase)	911,116	1,565,074	85,637	–	–	2,561,827
Other derivatives (sale)	909,935	1,563,435	85,637	–	–	2,559,007
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

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	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Financial assets				
Cash and balances with the central bank	558,631	558,631	629,272	629,272
Loans and advances to banks	22,342,506	22,342,506	20,854,949	20,854,949
Loans and advances to customers	20,175,278	20,175,278	14,993,928	14,993,928
Financial liabilities				
Deposits from banks	1,898,257	1,898,257	67,335	67,335
Deposits from customers	35,997,964	35,997,964	29,343,753	29,343,753
Debt securities issued	3,203,552	3,203,552	4,258,718	4,258,718

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 were deemed to be equal to the carrying value.

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

Debt securities issued

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 2010				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	4,415,381	599,235	501,200	5,515,816
Derivatives held for trading	65,637	955,661	–	1,021,298
Available-for-sale securities	2,718,435	886,581	498,235	4,103,251
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	3,072,846	–	–	3,072,846
Derivatives held for trading	–	897,933	–	897,933

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 2010	**533,731**	**172,458**	**706,189**
Profit and loss from revaluation			
In profit or loss	(32,531)	–	(32,531)
In other comprehensive income	–	60	60
Purchases	–	498,175	498,175
Sales/ maturity	–	(172,458)	(172,458)
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	–	–
Balance as at 31 December 2010	**501,200**	**498,235**	**999,435**

Loss of TCZK 32,531 is included in Net trading income.

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:

(a) credit risk

(b) liquidity risk

(c) market risks

(d) operational risks.

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

Trading

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

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

(a) Credit risk

Management of credit risk

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

– Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

– Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers.

– Reviewing and assesing credit risk. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

– Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

– Developing and maintaining the Bank's gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grades are subject to regular reviews of the Bank's risk department.

– Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided on the credit quality of local portfolios and appropriate corrective action is taken.

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

The capital requirement for credit risk of investment portfolio amounted to TCZK 1,769,937 (2009: TCZK 1,447,247).

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

		2010		2009
TCZK	Gross	Net	Gross	Net
Not impaired				
Standard	22,342,506	22,342,506	20,854,949	20,854,949
Impaired				
Watched	–	–	–	–
Sub-standard	–	–	–	–
Doubtful	–	–	–	–
Loss loans	–	–	–	–
Total	**22,342,506**	**22,342,506**	**20,854,949**	**20,854,949**

There was no accrued interest to individually impaired loans and advances to banks as at 31 December 2010 and 2009.

Loans and advances to customers (individually impaired)

		2010		2009
TCZK	Gross	Net	Gross	Net
Not impaired				
Standard	8,709,106	8,709,106	3,826,441	3,826,441
Impaired				
Watched	453,498	426,872	531,417	503,430
Sub-standard	–	–	129,734	121,452
Doubtful	74,267	29,092	762,130	531,753
Loss loans	485,655	298,272	–	–
Total	**9,722,527**	**9,463,342**	**5,249,722**	**4,983,076**

The accrued interests to individually impaired loans and advances to customers represented as at 31 December 2010 TCZK 24,235 (2009: TCZK 19,407).

Loans and advances to customers (collectively impaired)

TCZK	2010	2009
Collectively impaired		
Gross amount	11,486,422	10,350,395
Due	8,849,264	8,375,497
Past due 1–90 days	1,445,310	1,366,680
Past due 91–360 days	1,181,849	608,218
Past due more than 360 days	–	–
Allowances for impairment	(1,329,472)	(781,471)
Net amount	10,156,949	9,568,924
Deferred purchase price of receivables	554,987	441,928
Carrying amount	10,711,936	10,010,852
Total	**10,711,936**	**10,010,852**

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

As at 31 December 2010 and 2009 the Bank did not report any loans and advances to customers as “Past due, but not impaired”.

As at 31 December 2010 and 2009 the Bank did not report any other assets as “Past due, but not impaired”.

Evaluation of collateral

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

– Cash

– Securities

– First-class receivables

– Bank guarantees

– Guarantees provided by a reputable third party

– Real estate

– Machinery and equipment.

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

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

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

TCZK	2010	2009
Bank guarantees	25,060	–
Property	7,159,649	3,720,913
Security held by the Bank	794	872
Unsecured	12,989,775	11,272,143
Total	**20,175,278**	**14,993,928**

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	2010	2009
Property	495,526	775,041
Unsecured	258,710	381,594
Total	**754,236**	**1,156,635**

The Bank did not record any collateral for loans and advances to customers as at 31 December 2010 and 2009 whereas any such loans were not reported by the entity.

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	2010	2009
Czech Republic	13,804,225	12,508,069
Slovak Republic	12,495	–
Russia	289,549	357,143
Cyprus	5,428,974	1,650,259
Vietnam	564,918	–
Netherlands	75,106	478,457
Other	11	–
Total	**20,175,278**	**14,993,928**

Loans and advances to banks

TCZK	2010	2009
Czech Republic	16,587,582	16,303,330
Slovak Republic	937,559	396,982
Russia	1,235,275	1,978,870
Ukraine	236	967
Austria	1,737,567	661,636
United Kingdom	592,472	925,057
Netherlands	219,669	177,453
Kazakhstan	321,376	330,159
Belarus	576,376	43,462
United States of America	65,827	9,290
Hungary	43,346	12,860
Germany	17,181	12,209
Poland	6,825	252
Other	1,215	2,422
Total	**22,342,506**	**20,854,949**

Debt securities

TCZK	2010	2009
Czech Republic	7,207,151	5,230,302
Russia	1,109,234	435,760
Luxembourg	277,631	239,079
Ukraine	–	4,431
Kazakhstan	20,511	19,403
Ireland	248,210	19,357
Total	**8,862,737**	**5,948,332**

(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 2010						
Cash and balances with the central bank	35,304	–	–	–	523,327	558,631
Trading assets	772,590	470,034	2,376,198	2,349,621	568,671	6,537,114
Financial assets available for sale	1,002,786	863,919	2,048,886	–	187,660	4,103,251
Loans and advances to banks	21,578,620	763,886	–	–	–	22,342,506
Loans and advances to customers	10,208,777	1,546,859	5,855,117	2,564,525	–	20,175,278
Property, plant and equipment	–	–	–	–	43,860	43,860
Intangible assets	–	–	–	–	58,346	58,346
Other assets	235,443	–	–	–	111,463	346,906
Total	**33,833,520**	**3,644,698**	**10,280,201**	**4,914,146**	**1,493,327**	**54,165,892**
Deposits from banks	1,698,246	200,011	–	–	–	1,898,257
Deposits from customers	30,829,379	5,164,616	3,969	–	–	35,997,964
Debt securities issued	1,859,209	1,344,343	–	–	–	3,203,552
Trading liabilities	3,677,743	94,078	178,999	19,960	–	3,970,780
Tax and other liabilities	2,383,184	2,071,782	196,434	112,108	159,167	4,922,675
Shareholders' equity	–	–	–	–	4,172,664	4,172,664
Total	**40,447,761**	**8,874,830**	**379,402**	**132,068**	**4,331,831**	**54,165,892**
Gap	**(6,614,241)**	**(5,230,132)**	**9,900,799**	**4,782,078**	**(2,838,504)**	**–**
Cumulative gap	**(6,614,241)**	**(11,844,373)**	**(1,943,574)**	**2,838,504**	**–**	**–**
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	26,875,834	1,122,079	1,345,840	–	–	29,343,753
Debt securities issued	2,192,866	2,065,852	–	–	–	4,258,718
Trading liabilities	3,573,374	193,292	562,135	51,543	–	4,380,344
Tax and other liabilities	1,844,216	684,050	415,154	156,848	145,927	3,246,195
Shareholders' equity	–	–	–	–	3,513,506	3,513,506
Total	**34,553,625**	**4,065,273**	**2,323,129**	**208,391**	**3,659,433**	**44,809,851**
Gap	**(9,898,138)**	**1,661,327**	**7,271,961**	**3,106,609**	**(2,141,759)**	**–**
Cumulative gap	**(9,898,138)**	**(8,236,811)**	**(964,850)**	**2,141,759**	**–**	**–**

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 2010	Average for 2010	31 December 2009	Average for 2009
VaR of interest instruments	7,977	7,278	9,500	10,484
VaR of currency instruments	354	477	114	840
VaR of equity instruments	4,504	4,859	1,350	11,642

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 2010						
Cash and balances with the central bank	558,631	–	–	–	–	558,631
Trading assets	1,036,210	415,428	2,167,184	2,349,621	568,671	6,537,114
Financial assets available for sale	1,301,157	1,330,872	1,283,561	–	187,661	4,103,251
Loans and advances to banks	21,766,362	576,144	–	–	–	22,342,506
Loans and advances to customers	14,407,044	1,006,730	4,094,347	667,157	–	20,175,278
Property, plant and equipment	–	–	–	–	43,860	43,860
Intangible assets	–	–	–	–	58,346	58,346
Other assets	15,000	–	–	–	331,906	346,906
Total	**39,084,404**	**3,329,174**	**7,545,092**	**3,016,778**	**1,190,444**	**54,165,892**
Deposits from banks	1,698,246	200,011	–	–	–	1,898,257
Deposits from customers	30,829,379	5,164,616	3,969	–	–	35,997,964
Debt securities issued	1,859,209	1,344,343	–	–	–	3,203,552
Trading liabilities	3,863,233	107,107	440	–	–	3,970,780
Tax and other liabilities	1,280,059	1,873,576	–	–	1,769,040	4,922,675
Shareholders' equity	–	–	–	–	4,172,664	4,172,664
Total	**39,530,126**	**8,689,653**	**4,409**	**–**	**5,941,704**	**54,165,892**
Gap	**(445,722)**	**(5,360,479)**	**7,540,683**	**3,016,778**	**(4,751,260)**	**–**
Cumulative gap	**(445,722)**	**(5,806,201)**	**1,734,482**	**4,751,260**	**–**	**–**
At 31 December 2009						
Cash and balances with the central bank	629,272	–	–	–	–	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	**27,590,930**	**5,930,870**	**9,891,440**	**374,739**	**1,021,872**	**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	**(6,819,075)**	**1,814,981**	**8,354,153**	**374,739**	**(3,724,798)**	**–**
Cumulative gap	**(6,819,075)**	**(5,004,094)**	**3,350,059**	**3,724,798**	**–**	**–**

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 2010 and 2009 were as follows:

In %	2010	2009
Financial assets		
Cash and balances with the central bank	0.26	0.98
Trading assests	5.35*	4.48*
Financial assets available for sale	2.66*	3.01*
Loans and advances to banks	0.98	1.52
Loans and advances to customers	15.49	12.50
Financial liabilities		
Deposits from banks	0.85	3.76
Deposits from customers	0.74	0.72
Debt securities issued	1.07	2.36
Trading liabilities	1.93	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 monetary positions of the Bank will gain or loose for a 100 basis point (bp) movement in the yield curve in terms of fair value changes. Therefore, it quantifies the Bank's interest rate risk for small changes in interest rates.

As at 31 December 2010 BPVs for individual currencies were as follows:

TCZK Currency	BPV	Banking Book Limit	BPV	Trading book Limit
CZK	(44,531)	–	2,340	45,000
EUR	(8,289)	10,000	(18,373)	30,000
USD	(12,483)	10,000	16,109	45,000
RUB	(5,929)	10,000	(1,553)	30,000
SKK	–	10,000	–	10,000
KZT	(87)	10,000	–	10,000
UAH	–	10,000	–	10,000
GBP	–	10,000	–	30,000
VND	(127)	10,000	–	10,000
Total BPV (absolute)	71,448	–	38,375	80,000

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

Stress testing

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

		2010		2009
TCZK	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
At 31 December	71,448	71,448	69,410	69,410
Average for the period	30,043	30,043	26,125	26,125
Maximum for the period	71,448	71,448	69,410	69,410
Minimum for the period	1,026	1,026	6,141	6,141

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 179 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 were as follows:

TCZK	2010	2009
Tier 1 capital	**3,442,653**	**2,636,082**
Issued capital	769,004	769,004
Share premium	411,545	411,545
Statutory reserve fund	153,801	141,124
Retained earnings	2,175,827	1,377,897
Negative change in fair value of financial assets available for sale	(9,178)	(18,815)
Less intangible assets	(58,346)	(44,673)
Tier 2 capital		
Qualifying subordinated liabilities	–	–
Total regulatory capital	**3,442,653**	**2,636,082**
Risk weigted assets	22,677,646	21,534,979
Capital requirements		
Capital requirement for credit risk of investment portfolio	1,769,937	1,447,247
Capital requirement for credit risk of trading portfolio	216, 834	212,780
– for specific interest rate risk	149,812	104,396
– for specific equity risk	22,747	21,637
– for derivatives	44,275	86,747
Capital requirements for market risks	219,493	214,386
– for general interest rate risks of trading portfolio	171,885	167,984
– for general equity risks of trading portfolio	45,494	43,274
– for foreign exchange risks	2,136	3,128
Capital requirements for settlement risks	–	463
Capital requirements for operational risks	179,199	129,504
Total capital requirements	**2,385,485**	**2,004,380**
Capital adequacy ratio	**11.55%**	**10.52%**

Capital adequacy ratio

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	2010	2009
Cash on hand	35,300	12,381
Balances with the central bank	4	2,826
Nostro account balances	385,155	370,670
Total	**420,459**	**385,877**

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

Parent company and its subsidiaries and associates

			2010		2009
TCZK	Note	Assets	Liabilities	Assets	Liabilities
Anthiarose Ltd.	2	352	416	–	973
Bonacova Ltd.	2	–	–	–	26
Brusson a.s.	2	–	31,632	–	–
Crestfallen Ltd	2	–	224	–	225
Czech Construction N. V.	2	–	327	–	–
Domus Eventis Project One s.r.o.	2	–	92	–	–
Domus Eventis Project Two s.r.o.	2	–	6	–	–
Facipero Investments Ltd.	2	–	1,056	–	1,034
Garco Group B.V.	2	–	5,004	–	5,622
Garnet Holding B. V.	2	–	1,039	–	–
Glancus Investments Inc.	2	5	754	–	501
HC Asia N.V.	2	–	4,751	–	744,346
HC Fin1 B.V.	2	–	1,235	–	1,288
HC Fin2 B.V.	2	–	–	–	18,192
Home Credit a.s.	2	200,949	1,639,489	1,577	1,124,787
Home Credit and Finance Bank o.o.o.	2	654,130	165,303	60,249	92,057
Home Credit B.V.	2	80,717	427,320	110,151	532,182
CJSC Home Credit Bank (Agrobank)	2	–	–	–	5,168
OAO Home Credit Bank (Lorobank)	2	388,634	2,385	43,462	2,653
Home Credit International a.s.	2	–	110,596		193,783
Home Credit Bank Kazakhstan	2	321,282	–	243,481	–
Home Credit Slovakia, a.s.	2	13,060	40,238	828	41,607
Kotyla Holding Ltd. (former CP Reinsurance Company)	2	–	1,947	–	4,023
Office Star One spol. s r.o.	2	1,980	–	1,892	
Office Star Six, spol. s r. o.	2	24	–	–	–
Pearlmoon Ltd.	2	–	4,243	–	209
PPF a.s.	2	3,599	76,677	–	218,930
PPF Co1 B.V.	2	–	4,689	–	6,986
PPF Co2 B.V.	2	–	778	–	845
PPF Co3 B.V.	2	–	91	–	76
PPF Group N.V.	1	203,120	2,907,258	–	4,213,810
PPF Healthcare a.s.	2	–	592	–	–

Parent company and its subsidiaries and associates (continued)

TCZK	Note	Assets 2010	Liabilities 2010	Assets 2009	Liabilities 2009
PPF Media a.s.	2	–	1,181	–	10,011
PPF Partners 1 GP Limited	2	–	12	–	1,607
PPF Partners Limited	2	–	47	–	48
PPF Real Estate Holding B.V.	2	–	1,072		
PPF Real Estate s.r.o.	2	1,318	27,705	–	28,254
PPF reality, a.s.	2	–	2,144	–	–
PPF Services Ltd.	2	–	21	–	–
PPF Vietnam Finance Company LLC	2	158,213	–	–	–
Redlione Ltd.	2	–	11,038	–	9,028
Russia Finance Corporation B.V.	2	–	147,862	–	49,467
Tenacity Ltd.	2	–	450	–	699
Timeworth Holdings Ltd.	2	122,310	315,073	191,558	419,798
Torpera Ltd.	2	–	559	–	5,543
Tromson Enterprises Ltd.	2	–	84	–	68
Vítězné náměstí a.s.	2	–	656	–	7

Note:

(1) Shareholder

(2) Other related party

The assets due from OAO Home Credit Bank (Lorobank), Home Credit Slovakia and Home Credit Bank Kazakhstan represents 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. consist of invoices for consultancy and payment cards.

The assets due from PPF Group N.V. and Timeworth Holdings Ltd. represents mainly positive market value of derivatives. The assets relating to PPF Vietnam Finance Company LLC consists of loan provided by PPF banka a.s.

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

The liabilities due to PPF Group N.V. relate mainly to term deposits.

The liabilities to Home Credit and Finance Bank o.o.o., Home Credit B.V. and Timeworth Holdings Ltd represent primarily security deposit account and current accounts balances.

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

Supervisory Boards members, Directors and Executives

TCZK	Receivables 2010	Payables 2010	Receivables 2009	Payables 2009
Board of Directors	–	19,824	–	–
Supervisory Board	–	621	–	470
Executives	80	2,386	–	19,192

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

The above receivables consist of positive value of derivatives.

(b) Expenses and income

Parent company and its subsidiaries and associates

			2010		2009
TCZK	Note	Expenses	Income	Expenses	Income
Anthiarose Ltd.	2	97	13,430	115	11
Bonacova Ltd.	2	505	1	–	–
Brusson a.s.	2	16	8,443	–	–
Crestfallen Ltd.	2	–	1	–	5
Czech Construction N. V.	2	1	2	–	–
Dunmow Invest Ltd.	2	2	1	–	–
Facipero Investments Ltd.	2	1	–	5	10
Garco Group B.V.	2	16	16	93	55
Garnet Holding B. V.	2	6	43	–	–
Glancus Investments Inc.	2	46	21	–	3
HC Asia N.V.	2	1,107	1,557	13,817	2,965
HC Fin1 B.V.	2	1	–	5	3
HC Fin2 B.V.	2	–	–	30	5
HC SE (former HCES N.V.)	2	–	–	2	8
Home Credit a.s.	2	1,325,699	6,933	613,315	118,612
Home Credit and Finance Bank o.o.o.	2	2,682	56,067	468,756	35,672
Home Credit B.V.	2	39,420	10,544	100,876	57,958
CJSC Home Credit Bank (former Agrobank Ukraine)	2	43	25	7,769	132,464
OAO Home Credit Bank (Lorobank)	2	22	5,559	19	19,809
Home Credit International a.s.	2	1,128	52	722	244
Home Credit Bank Kazakhstan	2	–	7,904	–	100,091
Home Credit Slovakia, a.s.	2	51	4,694	72	29,609
Kotyla Holding Ltd. (former CP Reinsurance Company Ltd.)	2	122	136	3,805	944
Office Star One spol. s r.o.	2	1,684	–	627	–
Office Star Six, spol. s r. o.	2	128	–	–	–
Pearlmoon Ltd.	2	3	20	2	13
PPF a.s.	2	73,868	114	69,836	250
PPF Co1 B.V.	2	33	11	38	97
PPF Co2 B.V.	2	1	–	1	1
PPF Co3 B.V.	2	–	2	–	–
PPF Gate a.s.	2	1,202	–	392	–
PPF Group N.V.	1	76,792	1,153,946	45,052	399,862
PPF Healthcare a.s.	2	40	3	–	–
PPF Media a.s.	2	67	23	15	7
PPF Partners 1 GP Limited	2	–	–	10	20
PPF Partners Limited	2	–	1	–	4
PPF Real Estate Holding B.V.	2	7	5	–	–
PPF Real Estate s.r.o.	2	4,028	12	421	22
PPF reality, a.s.	2	3	–	–	–
PPF Services Ltd.	2	–	1	–	–
PPF Vietnam Finance Company LLC	2	–	26,943	–	–
Redlione Ltd.	2	9	3	6	21
Russia Finance Corporation B.V.	2	12	7	51	34
Tenacity Ltd.	2	1	10	99	9
Timeworth Holdings Ltd.	2	2,282	1,362	191,907	83,852
Torpera Ltd.	2	1	–	14	14
Tromson Enterprises Ltd.	2	–	2	–	5
Vítězné náměstí a.s.	2	15	1	–	–

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 Group N.V. consist of interest from term deposits and current accounts. 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 bonds held in the Bank's portfolio. The income relating to Home Credit B.V. and Home Credit a.s. mainly represents remuneration for advisory services, administration of securities and payment fees. The income relating to OAO Home Credit Bank mainly comprises bank deposits interest. The income relating to Home Credit Bank Kazakhstan and PPF Vietnam Finance Company LLC mainly represents loan interests.

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

The income relating to Anthiarose Ltd. represents mainly securities fees.

Supervisory Boards members, Directors and Executives

The Bank did not report related expenses and income for its Supervisory Board members, Directors and Executives as at 31 December 2010 and 2009 whereas these balances are considered to be not material.

(c) Off balance sheet items

As a related party transaction, as at 31 December 2010 the Bank provided a credit commitment to Home Credit Slovakia of TEUR 202 and Home Credit a.s. of TCZK 20,000. The Bank accepted the collateral from Home Credit Bank Kazakhstan of TKZT 1,300,000.

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.

Prague, 15 April 2011

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

Josef Zeman
Vice Chairman of the Board of Directors of
PPF banka a.s.

Individual responsible for financial statements:

František Vencl
Chief Financial Officer

Individual responsible for accounting:

Růžena Šuserová
Chief Accountant

Notes

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