2009

annual report

ČESKOMORAVSKÁ
ZÁRUČNÍ A ROZVOJOVÁ
BANKA, a.s.

092009200920

In the Czech Republic, we represent a promotional bank aimed at contributing to the efficient development of national infrastructure and economic sectors that have been approved for public support according to the economic policies of the Czech Republic government and its regions.

Contents

2009

Presentation part

Financial part

Chairman's introduction

Dear clients, business partners and shareholders,

The past year embodied a period of decline after several years of economic growth. This was not, however, simply a normal cyclical fluctuation. The degree and scope of decline were extraordinary, and even now we cannot say that either the Czech or global economy has recovered. More than 10 years after the events that had undermined the domestic banking market at the end of the 1990s, for CMZRB the last year represented a very strong impetus to expand its activities aimed at reducing the impacts upon small and medium-sized enterprises due to diminished access to loans.

One part of the National Anti-Crisis Plan approved by the Czech Government was to increase funding for guarantees provided for bank loans, and especially those designated for financing working capital . These types of supports were directed primarily towards entrepreneurs in manufacturing and construction. On this relatively limited market, representing approximately half the usual clientele of banks and of CMZRB, the importance of guarantees was confirmed for overcoming barriers hampering access to loans in a period of increased credit risk. Guarantees for working capital loans increased several-fold, and particularly due to guarantees provided through a simplified procedure. Growth also was recorded in guarantees for investment loans. The total amount of newly provided guarantees for small and medium-sized enterprises exceeded the 2008 level by 80%. The extension of guarantees for working capital financing towards additional type of businesses realised in the end of 2009, was positive news for entrepreneurs.

The programme to support the repair of apartment houses, which is funded by the State Housing Development Fund, underwent rather significant yet gradual changes in 2009. Operationally, expansion of the programme for repairs to non-panel-block apartment houses, changes in the rates of support, and transfer of the programme to a new environment in which it will operate together with the Green Savings programme providing support for insulating apartment houses were successfully achieved.

Furthermore, the Bank successfully continued in its activities on the lending market for municipalities and in the second half of 2009 announced two new loan programmes for financing municipalities' technical infrastructure. The advantageous interest rates of these loans were enabled due to the co operation with the Council of Europe Development Bank and Municipální finanční společnost, a.s.

Even under conditions of heightened credit risk, the Bank managed to generate a profit at the planned level and to create the necessary reserves and provisions. This was mainly due to exceptionally good results in trading on the financial market and the savings in operating costs. I regard it as particularly important to acknowledge the efforts of all the Bank's employees in performing the extremely demanding work tasks that were undertaken during gradual implementation of the main part of changes in the loan and guarantee administration processes. These involved learning new and more sophisticated software and adapting to the new organisational structure.

General expectations concerning development of the global, European, and national economies are not unequivocally optimistic for 2010. CMZRB, however, entered this year with a much more solid foundation than in the previous year. This applies both to funding sources for the Bank's business activities and to products. Therefore, I expect that the Bank will again in 2010 successfully pursue its mission within the Czech economy for the benefit of its clients and in accordance with the interests of its shareholders.

Ing. Ladislav Macka
Chairman of the Board of Directors and Chief Executive Officer

Company profile

The Government of the Czech Republic adopted a resolution on 23 October 1991 for the founding of a specialised banking institution to support small and medium-sized enterprises. This institution was entered into the Commercial Register in January 1992 under the name Českomoravská záruční a rozvojová banka, a.s. (hereinafter referred to as "CMZRB" or the "Bank").

The Bank's initial scope of business was directed only to implementing government programmes for the support of small and medium-sized enterprises. In subsequent years, the Bank's activity was extended to providing support in the housing area and to financing infrastructure development projects. CMZRB has a full banking licence, a foreign exchange licence and a securities broker's licence issued under the relevant laws.

At present, CMZRB's main mission is to facilitate primarily small and medium-sized enterprises' access to financing through specialised banking products and, in accordance with the economic policy aims of the Government and the regions of the Czech Republic, to assist in developing other selected areas of the economy that require public support.

Throughout its entire time in operation, the Bank has co-operated closely with ministries, state funds, regions, banks, economic chambers and other representatives of the business community. The specific character of CMZRB's activities, the development of modern banking and communication technologies, and traditionally good co-operation with its partners allow the Bank to provide its clients with high quality banking services across the entire Czech Republic that positively impact those clients' development. Clients may use the services of the Bank's branches in Prague and in the regional centres of Brno, Hradec Králové, Ostrava and Pilsen. The Bank operates a regional office in České Budějovice for even better contact with its clients.

Shareholders of the Bank

Czech Republic (72,33%)

- Ministry of Industry and Trade (24,25%)
- Ministry for Regional Development (24,25%)
- Ministry of Finance (23,83%)

Česká spořitelna, a. s. (13%)
Komerční banka, a. s. (13%)
Československá obchodní banka, a. s. (1,67%)

BANK'S OFFICES

Branch
Regional office

The Bank provides its clients with bank guarantees, preferential loans, and investment and financial services. Together with the State Housing Development Fund, the Bank actively participates in financially facilitating the repair and modernisation of apartment houses. Financing projects to improve cities' and municipalities' technical infrastructure also constitutes an important part of the Bank's activities. With respect to the financial market, the Bank offers its clients a wide range of services and products, including special operations in securities investment.

Small and medium-sized enterprises make up a very important part of the Bank's clientele. The Bank provides a growing range of services to housing co-operatives and apartment owners associations. Other users of the Bank's services include municipalities, regional governments, ministries and state funds.

Selected economic indicators

	Unit	2005	2006	2007	2008	2009
Total assets	CZK mil.	47,835	51,707	57,055	75,431	62,135
Liabilities	CZK mil.	43,028	46,890	52,185	70,309	56,686
Shareholders' equity	CZK mil.	4,807	4,817	4,870	5,122	5,449
Share capital	CZK mil.	2,132	2,132	2,132	2,132	2,132
Profit after tax	CZK mil.	1,176	738	795	802	815
Guarantee portfolio	CZK mil.	10,810	11,627	11,996	13,952	18,565
Capital adequacy	%	21.3	22.7	20.2	15.8	15.2
Average number of employees		259	250	239	230	220
Number of branches		5	5	5	5	5

Bank's activities in 2009

January

- Conclusion of the amended agreement on the guarantee fund in the Operational Programme Enterprise and Innovations.
- Approval of the National Anti-Crisis Plan, a part of which was also an increase in funds for guarantees for small and medium-sized enterprises.

February

- Commencement of accepting applications for regional loans in the South Bohemia Region.
- Commencement of accepting applications for guarantees for investment loans and for S-guarantees for working capital loans.

March

- Commencement of accepting applications for subordinated loans under the PROGRESS programme.

April

- General Meeting of CMZRB.
- Commencement of accepting applications for M-guarantees for working capital loans.

May

- Expansion of the programme for apartment house repairs to non-panel-block houses and change in the programme's name to NEW PANEL.

July

- Commencement of accepting loan applications for financing municipalities' infrastructure under the MUNICIPALITY 2 programme.

August

- Conclusion of a framework loan agreement with the Council of Europe Development Bank for refinancing loans with the purpose of developing municipalities' infrastructure.

September

- Adjustment of the principles for providing support under the NEW PANEL programme in connection with expansion of the Green Savings programme for insulating apartment houses.

October

- Commencement of accepting applications under the MUFIS 2 loan programme for financing municipalities' technical infrastructure.

November

- Expansion of guarantees for working capital loans for projects involving trade, accommodation and food service, and other services.

Governing bodies

Board of Directors

Chairman	Ladislav Macka
Vice-Chairman	Pavel Weiss
Members	Jiří Jirásek
	Lubomír Rajdl
	Jan Ulip

Supervisory Board

Chairman	Robert Szurman
Members	Josef Doruška, since 29 September 2009
	Růžena Kabilková, since 8 December 2009
	Ladislav Koděra
	Zdeněk Mareš
	Milan Novák
	Martin Plachý, since 9 June 2009
	Jana Šindelářová

During 2009, the following members ended their activities on the Supervisory Board:

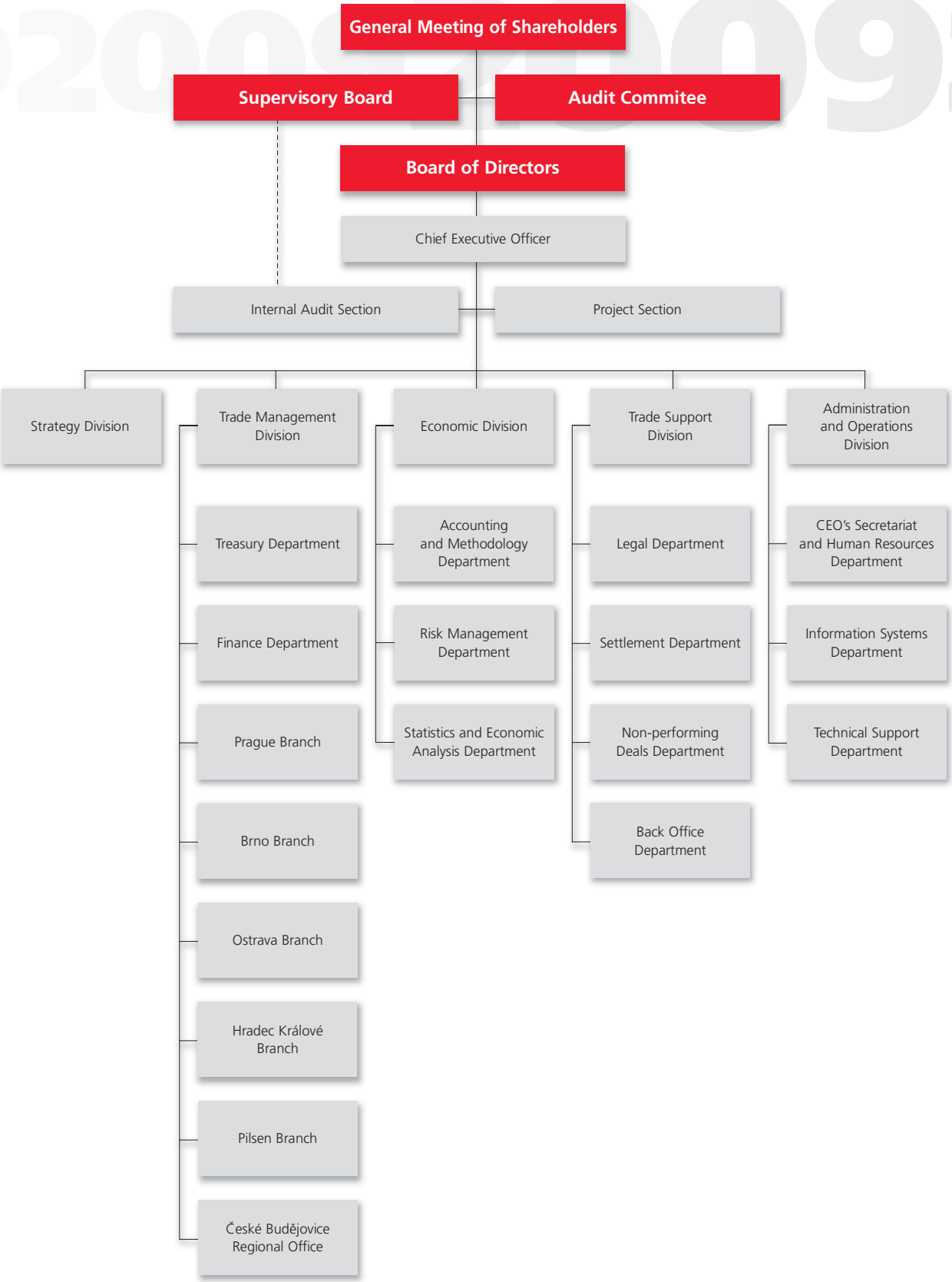
Daniel Toušek, on 21 April 2009;

Eduard Janota, on 29 September 2009;

Ladislav Dvořák, on 8 December 2009; and

Vlastimil Czabe, on 8 December 2009.

Bank's organisation chart



0920092009200920

2009

Report of the Board of Directors on the Bank's business activities and financial situation for 2009

0920092009200

Economic environment and its impact on the Bank's performance

The global economic crisis has brought with it declining GDP, instability and mistrust on the financial market, massive financial injections by governments to rescue the banking and insurance systems and the automotive industry, a significant increase in the number of businesses in bankruptcy, rising unemployment, declining private-sector consumption, and deflationary tendencies. These and a number of other characteristics, mostly with depressive effects, portray the course of the global economy's development. Due especially to its openness, the Czech economy could not escape the consequences of these phenomena, although in some ways their impacts were less devastating here. A large increase in state indebtedness also could not be avoided. This further postponed the possibility of adopting the euro and will significantly affect the structure of government outlays in coming years, as well as possibilities and conditions for financing the state debt.

The banking sector in particular coped with the turmoil on financial markets very well, and there was no need to use public funds for its stabilisation. A high proportion of deposits in the national currency serving as a source for lending, limited indebtedness of businesses and the general population in foreign currencies, the strengthening Czech crown, and the overall healthy structure of their balance sheets enabled banks to cope with the shocks in the economy and on financial markets. Despite this generally positive assessment, the domestic banking sector was still hit by the crisis.

By virtue of a decline in confidence, trading on the interbank market was significantly limited and banks preferred to minimise credit risk over earning revenues. The Czech National Bank responded to the situation by reducing its basic two-week repo rate from 2.25% p.a. at the beginning of 2009 to 1% p.a. by year's end. Over the course of the year, banks also were able to use special delivery repo operations in order to maintain sufficient liquidity. The increased level of uncertainty and risk was reflected in the rise of risk premiums, which significantly affected the profitability of trading on financial markets and positively influenced CMZRB's financial performance.

The government responded to the gradually deepening economic downturn by adopting the National Anti-Crisis Plan in January 2009. It included measures aimed at maintaining small and medium-sized enterprises' access to bank loans, and particularly working capital loans. Both resources from structural funds as well as additionally allocated funds from the state budget and other sources were designated for their financing. The increased volume of provided guarantees facilitated obtaining loans in manufacturing and construction. However, approximately one half of businesses, including all start-up businesses, were restricted from access to guarantees due to an unfavourable adjustment of guarantee conditions, which situation was not rectified until the end of 2009. Overall, the issue of new loans for businesses slowed and even their structure changed as the share of loans increased for financing certain types of projects for electricity production from renewable sources.

The National Anti-Crisis Plan's measures for maintaining the availability of loans were implemented through new calls to submit applications for guarantees and subordinated loans for investment-oriented projects under the Operational Programme Enterprise and Innovations and through the announcement of working capital loan guarantee programme that primarily supported purchase of materials, products and goods. Reallocation of funds from the Operational Programme Enterprise and Innovations also were proposed at the end of 2009. As a result of these changes, the funds for guarantees and loans should return to the level originally envisaged in this operational programme. Considering the demand from businesses, however, the volume of funds is still insufficient and will adversely affect the availability of loans for small and medium-sized enterprises beyond 2010. The diminished availability of loans also affected lending to municipalities, thus creating space for CMZRB's new activities on this market.

Investments in apartment housing repairs have had a positive affect on economic development as well as on the environment and the quality of satisfying the population's basic needs. In the past year, there were sufficient funds to support these investments. Their use was partly slowed by uncertainty and speculations as to the form of amendments to the support rules and the method of using available funds for insulating panel-block apartment houses. In the second half of the year, the principles for joint application of the NEW PANEL and Green Savings programmes were adopted. The market reaction to this change will not be examined until 2010, which is true also as to expansion of the NEW PANEL programme to all types of apartment houses.

In 2009, several amendments to such laws as the Insolvency Act, Payment System Act, anti-money laundering legislation, implementation of data boxes and the register of de minimis aid were adopted and affected the Bank's activities. Unfortunately, most of these were reflected in an increased complexity of processes, requirements for introducing new software, and increasing costs.

Bank's economic results

1) Unconsolidated data

The data are provided in accordance with Czech accounting standards.

Basic economic characteristics of the Bank, 2005–2009 — Table 1

		Unit	2005	2006	2007	2008	2009
Total balance sheet		CZK mil.	47,835	51,707	57,055	75,431	62,135
Assets:	Deposits and loans in banks	CZK mil.	5,642	6,264	11,898	32,649	17,531
	Securities accepted by the Czech National Bank for refinancing	CZK mil.	4,855	7,057	8,511	10,166	14,178
	Debt securities	CZK mil.	6,722	5,411	7,101	6,281	6,275
	Classified receivables	CZK mil.	2,758	3,345	3,002	2,826	2,849
Liabilities and equity:							
	Shareholders' equity	CZK mil.	4,807	4,817	4,870	5,122	5,449
	Liabilities	CZK mil.	43,028	46,890	52,185	70,309	56,686
	of which: reserves	CZK mil.	2,196	2,272	2,199	1,991	2,033
	funds to cover credit risks	CZK mil.	1,077	1,299	1,212	1,547	2,437
Off-balance sheet:							
	Guarantees granted	CZK mil.	10,810	11,627	11,996	13,952	18,565
Total revenues		CZK mil.	6,597	5,892	5,501	5,826	5,099
	of which: from securities and interbank operations	CZK mil.	645	780	858	1,394	1,012
	from operations with clients	CZK mil.	1,545	1,586	1,631	1,691	1,431
Total expenses		CZK mil.	5,421	5,154	4,706	5,024	4,284
	of which: net reserves and provisions	CZK mil.	-180	287	142	-150	305
Profit after tax		CZK mil.	1,176	738	795	802	815
Capital adequacy		%	21.3	22.7	20.2	15.8	15.2

The extent of the Bank's business activities was favourably impacted in 2009 by implementing guarantees for working capital loans under the government's anti-crisis measures, which was in addition to transactions executed with financial assistance from EU structural funds. The total value of guarantee and loan portfolios increased by 20.8% to CZK 24.9 billion.

Results in the financial area also can be regarded as positive. The profit after tax in the amount of CZK 815 million represents an increase of CZK 13 million as compared to 2008. Profit per employee rose by 4.6% to CZK 3.7 million due to the increase in profit and drop in the average number of employees. The return on average annual shareholders' equity reached 18.2% and return on average annual assets[1] was 1.2%. Shareholders' equity as of 31 December 2009 grew by 6.4% to a total CZK 5.4 billion. In 2009, 80% of the 2008 after-tax profit (or CZK 642 million) was paid out to shareholders in dividends. These represented a 30.1% return on the nominal value of a share.

As of the end of 2009, all known losses were fully covered by reserves and provisions in amounts corresponding to Czech and international standards, and the total balance of reserves and provisions on credit risks was CZK 3.5 billion. Credit risks for certain types of guarantee products were covered by funds for credit risks provided by the programme originators. These funds grew during the year by CZK 890 million to a total CZK 2.4 billion. As of the end of the year, moreover, the Bank had at its disposal reserve funds in shareholders' equity of CZK 1.15 billion.

The overall balance sheet at the end of 2009 was 18% smaller than in the previous year and netted to CZK 62 billion. This diminution was caused especially by a decrease in the amounts due to clients (–CZK 14.5 billion). On the assets side, and corresponding to the change in liabilities, there was in particular a decrease in amounts due from banks (–CZK 15.1 billion) and a reduction in loans to state institutions (–CZK 2.6 billion) along with an increase in the volume of securities (+CZK 4 billion). The balance sheet does not include bank guarantees issued primarily for long-term investment loans and which comprise a significant part of the Bank's business activities and credit exposure. Their value had risen by 33% to CZK 18.6 billion as of the end of 2009.

[1] Calculations are made in accordance with the methodology established in the Czech National Bank's Official Information dated 26 October 2007 to Decree 123/2007 Coll., as amended, stipulating the prudential rules for banks, credit unions and securities dealers.

On the assets side, the Bank had at its disposal a portfolio of financial investments amounting to CZK 38 billion (61% of net assets) and placed especially into bank deposits (28.2% of net assets), government bonds, bonds of selected banks and companies, as well as zero-coupon government bonds (32.9% of net assets). Loans provided to state institutions constituted an important net assets item (26.5% of net assets), as did loans to other clients (10.2% of net assets) reported in the item amounts due from customers. Non-earning assets comprised 0.8% of the total balance sheet.

The funding sources on the liabilities and equities side were provided primarily by amounts due to banks (34% of liabilities and equity) and amounts due to clients (48% of liabilities and equity), shareholders' equity (9% of liabilities and equity), reserves (3% of liabilities and equity), and temporary and other liabilities. Capital adequacy in relation to the risk-weighted assets in accordance with the Czech National Bank methodology was 15.2% as of 31 December 2009.

Additional indicators of the Bank's financial performance, 2005–2009 — Table 2

Indicator	Unit	2005	2006	2007	2008	2009
Total capital (Tier 1)	CZK '000	3,596,045	4,062,106	4,203,389	4,355,718	4,511,388
of which:						
- share capital	CZK '000	2,131,550	2,131,550	2,131,550	2,131,550	2,131,550
- compulsory reserve fund	CZK '000	800 000	800 000	800 000	800 000	800 000
- other profit allocations	CZK '000	0	350 000	350 000	350 000	350 000
- retained profit from previous years	CZK '000	688 595	802 450	943 652	1 095 241	1 249 745
- deductible items	CZK '000	-24 101	-21 893	-21 814	-21 073	-19 907
- of which: intangible fixed assets	CZK '000	-24 101	-21 893	-21 814	-21 073	-19 907
Additional capital (Tier 2)	CZK '000	0	0	0	0	0
Total capital to cover market risks (Tier 3)	CZK '000	0	0	0	0	0
Total capital	CZK '000	3 596 045	4 062 106	4 203 389	4 355 718	4 511 388
Capital requirements	CZK '000	1 350 886	1 429 718	1 666 670	2 211 711	2 376 281
of which:						
- specific interest rate risk	CZK '000	0	0	0	986	56 951
- specific equity risk	CZK '000	0	0	0	0	0
- settlement risk	CZK '000	0	0	0	0	0
- reverse repos and repos, securities borrowing and lending	CZK '000	56	0	110	304	3
- derivatives	CZK '000	3 415	5 706	5 765	10 368	8 236
- other trading portfolio instruments	CZK '000	0	0	0	0	21 844
- banking portfolio	CZK '000	1 317 928	1 405 658	1 625 456	1 880 443	1 970 495
- general interest rate risk	CZK '000	24 072	17 009	33 698	76 248	76 518
- trading portfolio exposure	CZK '000	0	0	0	9 959	0
- equity risk	CZK '000	0	0	0	0	0
- general equity risk	CZK '000	0	0	0	0	0
- foreign exchange risk	CZK '000	5 415	1 345	1 641	2 622	6 887
- commodity risk	CZK '000	0	0	0	0	0
- options	CZK '000	0	0	0	0	0
- operational risk	CZK '000	0	0	0	230 781	235 347
Return on average assets (ROAA)	%	2,17	1,31	1,63	1,20	1,24
Return on average equity (ROAE)	%	33,30	18,49	19,01	18,51	18,15
Assets per employee[2]	CZK '000	181 883	209 341	239 727	332 296	279 887
Administrative costs per employee[2]	CZK '000	1 174	1 256	1 306	1 369	1 364
Net profit per employee[2]	CZK '000	4 471	2 988	3 341	3 533	3 670

[2] Calculations are made in accordance with the methodology established in the Czech National Bank's Official Information dated 26 October 2007 to Decree 123/2007 Coll., as amended, stipulating the prudential rules for banks, credit unions and securities dealers and are based on the actual number of employees as of the end of the year.

Regarding the Bank's financial development, the year 2009 was marked by modest profit growth, despite the extraordinarily high growth in the portfolio of guarantee and loan transactions (by 20.8%) and positive development in terms of internal operations. The reason for this development is in particular a decrease in the profitability of newly concluded transactions and higher net creation of reserves for credit risks. Despite the dynamic growth in business activity and 1% inflation rate, operating costs were reduced by 1.4% and the number of employees by 4.6%.

2) Consolidated data

The Bank's consolidated profit after tax(i.e. including the 49% share in the single associated company MUFIS, a.s.) is CZK 9 million higher, amounting to CZK 824 million. Upon including the holding's share in the associated company's shareholders' equity, the Bank's equity rises by CZK 83 million to CZK 5,531 million. The total assets increase by the same CZK 83 million to CZK 62,218 million.

Business activities

1/ Products

In 2009, the Bank provided the following products:

a) Guarantees

- Guarantees for bank loans up to 80% of the loan principal with an increasing level of liability that depends on the time when the call for exercising the guarantee is submitted (hereinafter just "gradual guarantees") provided under the GUARANTEE (guarantees for investment loans) and GUARANTEE (guarantees for working capital loans) programmes for small and medium-sized enterprises;
- guarantees for bank loans provided in a simplified procedure and with a limited guaranteed amount for a portfolio of guaranteed loans (hereinafter just "portfolio guarantees") provided under the GUARANTEE (guarantees for investment loans) programme for small and medium-sized enterprises for loans up to CZK 5 million and up to 70% of the loan principal;
- portfolio guarantees for bank loans provided under the GUARANTEE (guarantees for working capital loans) programme for small and medium-sized enterprises for loans up to CZK 20 million and up to 70% of the loan principal;
- guarantees for bank loans to owners or co-owners of apartment houses up to 80% of the loan principal provided under the PANEL and NEW PANEL programmes to support the repair and modernisation of apartment houses;
- portfolio guarantees for bank loans to owners or co-owners of apartment houses up to 80% of the loan principal provided under the PANEL and NEW PANEL programmes to support the repair and modernisation of apartment houses; and
- guarantees for tender bids for small and medium-sized enterprises in amounts of CZK 100,000 to CZK 5 million.

b) Loans

- Subordinated capital-project loans under the PROGRESS programme for small and medium-sized enterprises in amounts up to CZK 20 million, with a fixed interest rate of 3% p.a., with maturity up to 7 years and grace period up to 3 years;
- regional loans for small and micro-enterprises in the South Bohemia Region in amounts up to CZK 1 million, with a fixed interest rate of 5% p.a. and maturity up to 5 years under the Programme of Preferential Regional Loans for Micro- and Small Enterprises in the South Bohemia Region;
- long-term loans under the MUNICIPALITY and MUNICIPALITY 2 programmes to maintain and develop infrastructure owned by a municipality, association of municipalities or water management enterprise and thereby to improve inhabitants' quality of life, in amounts from CZK 8 million to CZK 250 million, with maturity up to 15 years and grace period up to 3 years;
- long-term loans under the MUFIS 2 programme to finance investments in infrastructure owned by cities and municipalities in amounts up to CZK 30 million, with maturity up to 10 years and grace period up to 2 years; and
- long-term loans funded by the Regional Development Fund to co-finance projects for improving local industrial infrastructure for business and non-business purposes in amounts up to CZK 30 million, with a preferential fixed interest rate and maturity up to 10 years.

c) Grants to cover interest costs

Grants to cover interest costs of loans to owners or co-owners of apartment houses under the PANEL programme to support the repair of panel-block apartment houses and the NEW PANEL programme to support the repair of apartment houses, the intensity of a grant fluctuated from 2% to 4% p.a. of the assisted part of the loan.

2/ Support to small and medium-sized enterprises

a) Overall results

The Bank provided support to small and medium-sized enterprises ("SMEs") as agreed with the Ministry of Industry and Trade. By means of the PROGRESS and GUARANTEE (guarantees for investment loans) programmes that were part of the Operational Programme Enterprise and Innovations, mainly investment-oriented projects in manufacturing and construction as well as certain other sectors were supported. As part of the National Anti-Crisis Plan, the GUARANTEE (guarantees for working capital loans) programme facilitating easier acquisition of bank loans and financed entirely from state budget funds was announced. This programme, too, was designed to be used most of the year especially by enterprises in industry and construction. In November 2009, it was expanded and became available to most small and medium-sized enterprises.

Based on an agreement with South Bohemia Region, support was provided to small enterprises under the Programme of Preferential Loans for Micro- and Small Enterprises in South Bohemia Region.

In 2009, small and medium-sized enterprises submitted a total of 1,288 applications for support in the form of guarantees for loans or subordinated loans (see Table 3). Of that number, 922 applications were approved and 36 applications were rejected because they either did not meet programme criteria or represented risks too high for the projects to receive financing. A total of 148 applicants withdrew their applications during processing. The remaining 182 applications that were not resolved in 2009 were mainly applications in the GUARANTEE programmes that were carried into 2010 for further processing.

Applications for support and their settlement — Table 3

Indicator		**2005**	**2006**	**2007**	**2008**	**2009**
Total applications submitted	number	4,174	2,532	3,164	2,531	1,288
Approved	number	3,312	2,075	1,745	1,900	922
Rejected or withdrawn	number	497	198	265	586	184
Carried into following year	number	365	259	1,154	45	182

The major part of loans and guarantees provided was directed to small enterprises with up to 49 employees (see Table 4).

Supported projects divided according to sizes of enterprises — Table 4

	Guarantees (excluding bids to public tenders)				Loans			
	number		amount		number		amount	
Number of employees		%	**CZK mil.**	%		%	**CZK mil.**	%
0 to 9	363	41,3	3 307,7	51,9	24	54,5	97,6	46,7
10 to 49	304	34,6	1 262,0	19,8	14	31,8	61,7	29,5
50 to 249	211	24,0	1 799,0	28,2	6	13,6	49,6	23,7
Total	**878**	**100,0**	**6 368,7**	**100,0**	**44**	**100,0**	**208,9**	**100,0**

b) Guarantees

During 2009, the Bank issued under the GUARANTEE (guarantees for investment loans) and GUARANTEE (guarantees for working capital loans) programmes 878 subsidised guarantees for bank loans totalling CZK 6,369 million. Considering these programmes' gradual start-up, the number and amount of guarantees provided testify to the increasing interest in this product. The guarantees were provided on loans of CZK 9,550 million (see Table 5).

Based on a commitment to extend the liability period, the Bank extended this period through appendixes to guarantee agreements for 87 guarantees amounting to CZK 531 million.

In addition to guarantees for bank loans, 211 guarantees for bids to public tenders totalling CZK 138 million also were provided.

Guarantees issued (excluding bids to public tenders) and loans guaranteed — Table 5

Indicator		2005	2006	2007	2008	2009
Guarantees issued	number	572	459	482	1 043	878
Amount of guarantees issued	CZK mil.	3 405	2 951	1 925	3 529	6 369
Amount of loans guaranteed	CZK mil.	5 858	5 145	2 959	5 094	9 550
Average guarantee rate	%	58	57	65	69	67

Guarantees for investment loans were granted in a total amount of CZK 3,436 million to 274 businesses. Of this amount, 159 guarantees totalling CZK 289 million were provided through a simplified procedure.

Guarantees for working capital loans amounted to CZK 2,933 million, representing 46% of the total amount of guarantees provided. These guarantees were used as collateral for 604 loans totalling CZK 4,119 million. The simplified guarantee application procedure was used by 523 applicants.

The largest portion of guarantees was used to support projects located in the South Moravia Region (see Table 6).

Regional structure of the volume of guarantees (in % of contracted value of newly issued guarantees) — Table 6

Region		2005	2006	2007	2008	2009
Praha (Capital City of Prague)	%	7,8	5,1	8,5	0,4	1,7
Středočeský (Central Bohemia)	%	8,7	8,6	4,6	5,3	8,5
Jihočeský (South Bohemia)	%	3,7	1,8	4,9	4,1	3,5
Plzeňský (Pilsen)	%	13,3	10,2	7,2	6,5	8,4
Karlovarský (Karlovy Vary)	%	1,3	1,6	0,6	0,7	0,9
Ústecký (Ústí nad Labem)	%	4	2,8	5,9	7,2	3,1
Liberecký (Liberec)	%	5,2	10,5	1,4	6,0	6,1
Královéhradecký (Hradec Králové)	%	5,1	6,8	1,5	3,1	8,7
Pardubický (Pardubice)	%	6,7	4,5	10,5	8,9	9,0
Vysočina (Bohemian-Moravian Highlands)	%	5,3	6,5	4,4	5,2	7,0
Jihomoravský (South Moravia)	%	9,7	10,7	9,5	9,0	15,8
Olomoucký (Olomouc)	%	5,9	8,1	8,0	12,5	12,9
Zlínský (Zlín)	%	9,2	10,3	6,6	6,8	5,3
Moravskoslezský (Moravia-Silesia)	%	14,2	12,5	26,4	24,4	9,1
Total	**%**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

The breakdown of guarantees according to the main groups of economic activities upon which the supported projects were focused was significantly influenced in 2009 by the setting of support programmes' conditions and limited investment activities in most sectors. The largest number of guarantees was provided to projects in manufacturing industry, while guarantees for loans for electricity production and distribution, especially from renewable energy sources, represented the largest volume of guarantees (see Table 7).

Sectoral structure of guarantees provided
(in % of contracted value of newly issued loans)

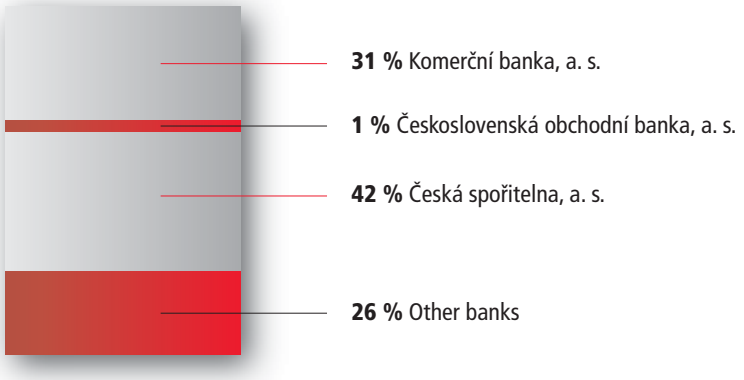
Table 7

Sector		
Manufacturing (CZ NACE 10-33)	%	40,7
Electricity, gas, steam and air conditioning supply (CZ NACE 35)	%	43,4
Construction (CZ NACE 41-43)	%	9,3
Wholesale and retail trade; repair of motor vehicles and motorcycles (CZ NACE 45-47)	%	4,4
Accommodation and food service activities (CZ NACE 55-56)	%	0,0
Other services activities (CZ NACE 05-09, 36-39, 49-53, 58-75, 77-82, 84-88, 90-99)	%	2,2
Total	**%**	**100,0**

During 2009, the majority of guarantee transactions was made with CMZRB's shareholding banks (approximately 74% of the total amount of the guarantees issued). As in previous years, Česká spořitelna, a.s. , and Komerční banka, a.s., were the most substantial partners in this area. Among the other banks, Raiffeisenbank, a.s. , (11.0 %) and GE Money Bank, a.s., (4.8 %) had the greatest shares in guarantee transactions (see Graph 1).

Graph 1

Percentage breakdown of guarantee transactions by lending banks (2009)



c) Loans

The Bank provided a total of 44 loans during 2009 in an overall amount of CZK 209 million (see Table 8). The number, amount and structure of the provided loans were influenced by the fact that subordinated loans under the PROGRESS programme played a decisive role. The conditions of the announced call for submitting applications were established in this programme for 2009 such that support was directed to investment projects in imanufacturing and construction with a quick return.

Preferential loans provided

Table 8

Indicator		2005	2006	2007	2008	2009
Loans provided	number	969	745	182	105	44
Amount of loans provided	CZK mil.	2 096,4	1 502,4	931,3	286,1	208,9
Average loan amount	CZK mil.	2,2	2,0	5,1	2,7	4,7

Preferential loans were provided as:

- Subordinated loans under the PROGRESS programme. The number of loans provided was 34 and these totalled CZK 201 million.
- Reduced-interest loans under the South Bohemia Regional Programme. The number of loans provided was 10 and these totalled CZK 8 million.

The largest proportion of loans was used by entrepreneurs in the Pilsen Region (see Table 9).

Regional structure of the volume of loans provided
(in % of contracted value of newly issued loans)

Table 9

Region		2005	2006	2007	2008	2009
Praha (Capital City of Prague)	%	3,3	4,7	1,8	1,3	0,0
Středočeský (Central Bohemia)	%	9,3	5,7	7,2	16,4	9,3
Jihočeský (South Bohemia)	%	5,9	6,1	7,9	7,7	13,6
Plzeňský (Pilsen)	%	8,7	13,5	18,5	19,4	33,4
Karlovarský (Karlovy Vary)	%	2,5	3,5	3,8	2,4	9,6
Ústecký (Ústí nad Labem)	%	5,6	5,7	0,5	3,4	1,7
Liberecký (Liberec)	%	1,8	0,9	3,9	2,3	2,9
Královéhradecký (Hradec Králové)	%	9,9	5,6	15,9	6,2	3,2
Pardubický (Pardubice)	%	8,3	8,6	6,0	10,2	4,5
Vysočina (Bohemian-Moravian Highlands)	%	3,7	5,1	4,4	6,1	2,4
Jihomoravský (South Moravia)	%	9,3	14,6	14,0	1,3	12,6
Olomoucký (Olomouc)	%	6,9	6,5	5,9	3,7	1,2
Zlínský (Zlín)	%	13,2	8,2	4,5	10,4	4,7
Moravskoslezský (Moravia-Silesia)	%	11,7	11,5	5,8	9,3	1,0
Total	**%**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

The setting of conditions for the PROGRES programme for 2009 was a major factor in increasing the proportion of projects supported in the manufacturing industry (see Table 10).

Sectoral structure of the volume of loans provided
(in % of contracted value of newly issued loans))

Table 10

Sector		
Manufacturing (CZ NACE 10-33)	%	47,3
Electricity, gas, steam and air conditioning supply (CZ NACE 35)	%	30,9
Construction (CZ NACE 41-43)	%	7,6
Wholesale and retail trade; repair of motor vehicles and motorcycles (CZ NACE 45-47)	%	0,4
Accommodation and food service activities (CZ NACE 55-56)	%	0,5
Other services activities (CZ NACE 05-09, 36-39, 49-53, 58-75, 77-82, 84-88, 90-99)	%	13,4
Total	**%**	**100,0**

3/ Assistance for repairing apartment houses

Using funds provided by the State Housing Development Fund, CZK 2,476 million was provided on the basis of contracts concluded with recipients in the forms of grants and guarantees in 2009 to assist in repairing apartment houses, especially panel-block apartment houses. For the period since 2001, that sum aggregates to CZK 11,750 million.

Owners and co-owners of apartment houses were provided with support in the forms of:
- guarantees for bank loans, and
- grants to cover interest costs of bank loans.

The assistance was directed to loans to be used by housing co-operatives, apartment owners associations and other individuals (see Table 11) to finance repairs of apartment houses.

Projects supported by guarantees or interest grants, by recipients — Table 11

Indicator			2005	2006	2007	2008	2009
Projects supported		Number	454	1,338	2,345	2,301	2,346
Recipients:	housing co-operatives	%	49.6	57.0	43.9	42.2	42.6
	municipalities	%	1.3	0.6	0.7	0.2	0.3
	owners associations	%	44.3	42.3	55.0	56.5	57.0
	individuals	%	4.8	0.1	0.0	1.1	0.0
	legal entities	%	0.0	0.1	0.2	0.0	0.1

a) Guarantees

In 2009, the Bank issued 188 guarantees totalling CZK 952 million (of which 10 were portfolio guarantees amounting to CZK 41 million) to help applicants obtain loans for financing repairs to apartment houses. The assisted loans totalled CZK 1,352 million (see Table 12). The number of guarantees provided to apartment owners associations slightly exceeded the number of guarantees provided to housing co-operatives during 2009.

Guarantees issued and loans guaranteed — Table 12

Indicator		2005	2006	2007	2008	2009
Guarantees issued	Number	257	302	328	200	188
Amount of guarantees issued	CZK mil.	893	1,255	1,281	985	952
Amount of loans guaranteed	CZK mil.	1,389	1,941	2,158	1,532	1,352
Average guarantee rate	%	64	65	59	64	70

b) Grants covering interest costs

In 2009, the State Housing Development Fund decided to provide 2,203 grants totalling CZK 2.65 billion. Together with grant applications the approval of which had already been decided at the end of 2008, this allowed to conclude more than 2,000 contracts to provide grants covering interest costs totalling CZK 2.36 billion in 2009. The decrease in the total amount of grants issued was influenced by the reduction in 2008 of the grant rate from 4% p.a. to 2% p.a.

Grants covering interest costs — Table 13

Indicator		2005	2006	2007	2008	2009
Grants provided	Number	197	1,036	2,017	2,101	2,158
Amount of grants	CZK mil.	222	1,587	3,271	2,484	2,364

4/ Infrastructure projects finance

Acting as a financial manager for infrastructure programmes, CMZRB in 2009 arranged their financing in a total extent of CZK 10.7 billion. This amount included resources obtained from the European Investment Bank and the Council of Europe Development Bank, state budget funds, and financing from the State Fund of Transport Infrastructure as well as investors' own funds.

The Bank used the aforementioned funds to finance a total of 8 programmes and projects directed primarily to transport and water sector infrastructure. The predominant part of that financing was again in 2009 for transport infrastructure, specifically highway structures, into which CZK 9.3 billion was invested. More than two thirds of these funds (CZK 6.8 billion) went to operations included in the Project for construction of the south-western section of a beltway around Prague.

Financing continued in 2009 for the project to construct a campus for Masaryk University in Brno-Bohunice. The project financing in the amount of nearly CZK 1,207 million was from a loan taken by the Czech Republic from the European Investment Bank, funds from the state budget (the chapter of the Ministry of Education, Youth and Sports), as well as funds provided by Masaryk University itself.

5/ Municipal projects finance

a) Loans under the MUNICIPALITY and MUNICIPALITY 2 programmes

The MUNICIPALITY programme, launched by CMZRB in 2006, uses European Union funds designated to support towns and municipalities. It is implemented in co-operation with the German development bank Kreditanstalt für Wiederaufbau and the Council of Europe Development Bank. Loans provided by the Bank were designated for the purchase or reconstruction of property owned by towns and municipalities. This mainly concerned municipalities' technical infrastructure, school and pre-school facilities, cultural and sport facilities, and local streets and their lighting.

In 2009, the Bank provided 6 such loans totalling CZK 118 million. Since the launch of the programme in 2006, 21 loans have been provided amounting to CZK 397 million. Inasmuch as the capacity of the MUNICIPALITY programme was exhausted, the new programme MUNICIPALITY 2 was launched in August 2009 using resources obtained from the Council of Europe Development Bank. Under the new MUNICIPALITY 2 programme, 10 tender bids totalling CZK 65 million were processed in the second half of 2009, of which 4 were successful.

b) Loans from the Regional Development Fund

In 2009, CMZRB provided 8 loans in the total amount of CZK 118 million. Since renewing acceptance of applications in 2008, a total of 15 loans amounting to CZK 190 million have been provided. During a period of reduced availability of loans, the Bank worked in co-operation with the Ministry for Regional Development to offer municipalities financing for projects directed at developing and improving local roads and water sector projects under very favourable conditions. In the second half of 2009, it was necessary to suspend further lending as the available resources had been exhausted.

6/ Trading on financial markets

During 2009, the Bank concluded transactions on the money and capital markets in order to manage its liquidity, manage the money and capital market instruments portfolio, and refinance the loan programmes for supporting small and medium-sized enterprises.

As part of its managing the money and capital market instruments portfolio, the Bank focused exclusively on the purchase of government bonds, treasury bills and bonds of select issuers with the highest credit ratings.

External communications

In early 2009, the contractual documentation relating to the management of the guarantee and loan funds created with the participation of structural fund resources was updated on the basis of prior long and exacting negotiations between the Ministry of Industry and Trade, which is the Managing Authority of the Operational Programme Enterprise and Innovations (hereinafter just "OPEI"), and the Bank. The adjustments made were directed particularly to increasing the transparency of concluded agreements with respect to the Managing Authority and to considerably expanding the extent of data on the use of resources invested into these funds by the Managing Authority.

The experiences from preparing the updated versions of agreements for OPEI were then used in expanding the operation of an already created guarantee fund, into which CZK 1.1 billion was invested during 2009 from the state budget and which will be gradually supplemented from other sources (loan repayments from the Operational Programme Industry and Enterprise and the Phare Revolving Fund). These resources allowed for a significant increase in the scope of guarantees for working capital loans and ensured their smooth provision to meet entrepreneurs' needs.

The Bank's proposals also address the preparation of new calls for submitting applications in loan and guarantee programmes within OPEI for 2010. These constituted a third call for submitting applications under the PROGRESS and GUARANTEE (guarantees for investment loans) programmes and a second call for submitting applications under the START programme.

The preparation of documents for the winding-up of the Operational Programme Industry and Enterprise in its section concerning the START and CREDIT loan programmes, which were in progress from 2004 to 2006, represented a very challenging task in the second half of 2009. The main reason was the fact that it was not possible to draw upon any domestic or international experience for this stage of the operational programme. For that reason, the Bank's co-operation with the Ministry of Industry and Trade and the Ministry of Finance was extraordinarily intensive.

The Bank continued its communication with other national and regional authorities. Its aim was to continue to examine more closely the opportunities for broader application of loans and guarantees under other operational programmes. The development in this area was relatively slow, however, and certain basic conditions for applying these instruments still have not yet been created.

Gradual changes in the conditions for providing supports for repairing apartment houses and following adjustments in the processes of co-operation with the State Housing Development Fund were the key issues in co-operating with this important partner of the Bank. The Bank also participated in implementing the conclusions of agreements between relevant national authorities and state funds aimed at providing co-ordinated functioning of grants for repairing apartment houses under the NEW PANEL and Green Savings programmes that is optimal for the recipients. The Bank co-operated intensively with the State Environmental Fund in co-ordinating methodological principles in assessing the acceptable intensity of the state aid provided.

To create conditions for continuing and expanding the Bank's activities in lending to municipalities, it was necessary to ensure good co-operation with key partners of two new programmes for this target client group. A loan of EUR 50 million obtained from the Council of Europe Development Bank enabled the Bank to announce the MUNICIPALITY 2 programme. Due to good long-term co-operation with Municipální finanční společnost, a.s., the Bank was able to complete the offer of preferential loans for municipalities using this specific resource. The Bank's partnership with the Ministry for Regional Development within the Regional Development Fund meant that in 2009 municipalities were able to obtain preferential loans from this source as well.

As a member of the European Mutual Guarantee Association, the Bank was involved in preparing opinions and topics for the European Commission aimed at broader use of guarantees and clarifying the rules for assessing public support provided in this form.

In early 2009, technical and organisational changes were directed to increasing efficiency in providing qualified information service when handling telephone and email enquiries from applicants and other entities as to various forms of support.

Goals for further development

All the Bank's development plans for 2010 are based on its unwavering long-term strategic goal of discharging to the fullest extent its mission as the Czech Republic's development bank.

It can be assumed that the tightened conditions for granting loans to small and medium-sized enterprises will remain in 2010, for both working capital and investment loans. For that reason, the effective use of funds for the main guarantee programmes represents the Bank's number one priority. Renewal of the START programme for start-up enterprises offers an opportunity to test the utility of guarantees with financial subsidy to the guaranteed loan as an instrument for supporting enterprises with very short histories and thereby to take advantage of the relatively sizeable funds available in this programme for 2010 and beyond.

Although it was decided during 2009 to increase funds for investment loan guarantees, high demand for guarantees during the year created more difficult conditions for ensuring the continuity of this programme until the end of the programme period, i.e. until 2013. Ensuring smooth progress of providing investment loan guarantees for the entire programme period is another objective, and the Bank will use every possibility allowed by the programme management rules to do so.

Provision of working capital loan guarantees should again in 2010 comprise a very important part of the Bank's business activities. Considering that access to working capital loans is an ever important factor for maintaining small and medium-sized enterprises' competitiveness, the Bank will focus on exploring possibilities to use for this purpose in future years the Bank's shareholders' dividends for the government as important components of the funding sources for these guarantees.

A change in the conditions for providing subordinated loans under the PROGRES programme provides the Bank an opportunity in 2010 to offer entrepreneurs greater variability in the method of financing investment-oriented projects in manufacturing and construction and to increase the extent to which these loans are provided in comparison with the previous year.

The impact of the new conditions under which the NEW PANEL programme to support repairs of apartment houses has been implemented since the second half of 2009 will be fully reflected in the scope and structure of grants and guarantees for this market segment in 2010. The Bank will continuously evaluate this development and co-operate with the State Housing Development Fund in applying such procedures that will ensure an increase in the quality of both the supported projects and the outcomes of their implementation. It will also be necessary to resolve the future financing of the programme after 2010. That is a continuous problem for this programme, the solution of which is beyond the Bank's competence. For a substantial proportion of apartment houses, repairs and modernisation to extend their service lives and improve housing quality have not yet been carried out. The Bank therefore expects that the programme and the Bank's participation in it will continue even in future years.

Given the extent of funds available, the Bank will be able in 2010 to increase the offer of long-term loans for financing investments contributing to the preservation and development of municipal infrastructure and enhancing inhabitants' quality of life. In other business activities, the Bank will continue its endeavour to take advantage of opportunities to act as a financial manager of public funds, and it will continue to explore opportunities for broader use of loans and guarantees in drawing resources from structural funds and other sources.

In order to achieve its objectives in the areas of its business activities and financial performance, the Bank will need to continue in using the potential offered by the information technologies at its disposal in the best way possible. At the same time, however, it will be essential to ensure a high level of reliability of these technologies' operation and to draw upon experience acquired during their application to enhance the efficiency of individual processes and utilise the capacity of the Bank's employees.

Report of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.

During 2009, the Supervisory Board regularly carried out its duties as defined by law and the Articles of Association of Českomoravská záruční a rozvojová banka, a. s. In its capacity as the Bank's oversight body, the Supervisory Board monitored the work of the Board of Directors in discharging its duties and carrying out the Bank's business activities, financial management and strategic concept realisation. The Supervisory Board was regularly informed about the Bank's activities, its financial situation and other essential matters.

Having examined the unconsolidated and consolidated financial statements for the year ended 31 December 2009, and on the basis of the external auditor's report, the Supervisory Board states that the accounting records and books were kept in a transparent manner and in compliance with the generally binding accounting regulations for banks as well as with the Articles of Association of the Bank. The accounting records and books reflect the Bank's actual financial situation in all important respects.

PricewaterhouseCoopers Audit, s.r.o., performed an audit of the unconsolidated and consolidated financial statements and confirmed that the financial statements provided a true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a.s. as at 31 December 2009 and of its operations for the year 2009, in accordance with Czech accounting standards. The Supervisory Board acknowledged the Auditor's report by consent.

Based upon the facts stated above and pursuant to the Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the Supervisory Board recommends that the General Meeting approve the unconsolidated and consolidated financial statements of Českomoravská záruční a rozvojová banka, a.s., for the year ended 31 December 2009, as well as the proposed profit distribution for 2009, the Bank's long-term development strategy through 2013 and the proposed amendment to the Bank's Articles of Association as submitted by the Board of Directors.

The Supervisory Board further reviewed the Report of the Board of Directors on Relations between the Controlling and Controlled Entities in 2009 and remarks that it took note of that Report without comment.

Prague, 16 March 2010

On behalf of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.:

Robert Szurman
Supervisory Board Chairman

Statutory declaration

Českomoravská záruční a rozvojová banka, a.s., declares that all information and data presented in this annual report are true and complete. Moreover, the Bank confirms that this document contains all facts that may be of importance for investors' decisions.

Furthermore, Českomoravská záruční a rozvojová banka, a.s., declares that as of the date of processing the annual report no negative changes in the financial situation or any other changes had occurred that would influence the accurate and correct assessment as to the financial position of Českomoravská záruční a rozvojová banka, a.s.

Prague, 25 March 2010

Signed on behalf of the Board of Directors:

Ladislav Macka
Chairman of the Board of Directors
and Chief Executive Officer

Pavel Weiss
Vice-Chairman of the Board of Directors
and Deputy Chief Executive Officer

0920092009200920

2009

Independent auditor´s report to shareholders of Českomoravská záruční a rozvojová banka, a.s.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, A.S.

We have audited the accompanying financial statements of Českomoravská záruční a rozvojová banka, a.s., identification number 44848943, with registered office at Jeruzalémská 964/4, 110 00 Praha 1 ("the Bank"), which comprise the balance sheet as at 31 December 2009, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application 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 financial statements are free from material misstatement.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

PRICEWATERHOUSECOOPERS

Shareholders of Českomoravská záruční a rozvojová banka, a.s.
Independent auditor's report

Auditor's Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the 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 internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

26 March 2010

PricewaterhouseCoopers Audit s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by partner

Petr Kříž
Statutory Auditor, Licence No. 1140

0920092009200

2009

Financial statements
for the year ended 31 December 2009
prepared in accordance with IFRS as adopted by the EU

Income statement

	Note	Year ended 31 December 2009 CZKm	Year ended 31 December 2008 CZKm
Interest and similar income		2,443	3,085
Interest and similar expenses		(1,448)	(2,082)
Net interest income	3.1	**995**	**1,003**
Fee and commission income		689	700
Fee and commission expenses		(6)	(8)
Net fee and commission income	3.2	**683**	**692**
Income from financial operations	3.3	165	26
Expense on financial operations	3.3	(332)	(693)
Administrative expenses	3.4	(350)	(354)
Increase in loan impairment and write-offs	3.5	(263)	(58)
Decrease in provisions for guarantees and other provisions	3.6	45	304
Other income		-	2
Operating profit		**943**	**922**
Share of profit of associates accounted for using the equity method	3.15	9	20
Profit before income tax		**952**	**942**
Income tax expense	3.7	(135)	(126)
Profit for the year		**817**	**816**

Statement of comprehensive income

	Note	Year ended 31 December 2009 CZKm	Year ended 31 December 2008 CZKm
Profit for the year		**817**	**816**
Other comprehensive income			
Net gains on available-for-sale financial assets, net of tax		160	94
Total comprehensive income for the year, net of tax		**977**	**910**

Balance sheet

	Note	31 December 2009 CZKm	31 December 2008 CZKm
Assets			
Cash and balances with central banks	3.8	863	108
Loans and advances to banks	3.9	17,531	32,649
Financial assets held for trading			
- Debt securities	3.10	559	198
- Trading derivatives	4.2.2	104	112
Debt securities designated at fair value	3.10	558	-
Hedging derivatives	4.2.2	16	14
Loans and advances to customers	3.11	22,806	25,688
Investment securities available for sale	3.12	14,122	14,072
of which: assets pledged as collateral		739	98
Investment securities held to maturity	3.13	5,214	2,176
Current income tax assets	3.7	-	82
Deferred income tax assets	3.7	45	39
Investments in associates accounted for using the equity method	3.15	83	74
Intangible assets		20	21
Property and equipment	3.16	185	194
Other assets	3.14	112	78
Total assets		**62,218**	**75,505**
Liabilities			
Amounts due to banks	3.17	21,102	21,062
Amounts due to customers	3.18	29,594	44,101
Financial liabilities held for trading - derivatives	4.2.2	85	70
Hedging derivatives	4.2.2	1,095	1,442
Current income tax liabilities	3.7	41	-
Provisions	3.6	2,033	1,991
Other liabilities	3.19	2,743	1,649
Total liabilities		**56,693**	**70,315**
Shareholders' equity			
Share capital	3.20	2,132	2,132
Statutory and other reserves		1,150	1,150
Revaluation reserve		102	(57)
Retained earnings		2,141	1,965
Total shareholders' equity		**5,525**	**5,190**
Total liabilities and shareholders' equity		**62,218**	**75,505**

The accompanying notes are an integral part of these financial statements.

These financial statements were prepared by the Bank and approved by the Board of Directors of the Bank on 25 March 2010.

Statement of changes in equity

	Share capital CZKm	Statutory and other reserves CZKm	Revaluation reserve CZKm	Retained earnings CZKm	Total CZKm
Balance at 1 January 2008	**2,132**	**1,150**	**(151)**	**1,785**	**4,916**
Total comprehensive income	-	-	94	816	910
Dividends relating to 2007	-	-	-	(636)	(636)
Balance at 31 December 2008	**2,132**	**1,150**	**(57)**	**1,965**	**5,190**
Total comprehensive income	-	-	159	818	977
Dividends relating to 2008	-	-	-	(642)	(642)
Balance at 31 December 2009	**2,132**	**1,150**	**102**	**2,141**	**5,525**

Statement of cash flows

	Note	2009 CZKm	2008 CZKm
Profit before income tax		952	942
Adjustments for non-cash transactions			
Loans impairment and write-offs and provisions for guarantees		218	(146)
Depreciation and amortisation		41	38
Impairment of available-for-sale debt securities		16	349
Share of profit of associates		(9)	(20)
Change in fair values and foreign exchange differences		(335)	(279)
Other non-cash items		33	21
Net interest income		(995)	(1,003)
Fee and commission income		(689)	(700)
		(768)	(798)
(Increase)/decrease in operating assets			
Loans and advances to banks		15,035	(20,708)
Loans and advances to customers		2,344	1,482
Other assets		(900)	(48)
Increase/(decrease) in operating liabilities			
Amounts due to banks		402	(3,418)
Amounts due to customers		(14,498)	23,713
Other liabilities		191	190
Interest received		2,559	3,039
Interest paid		(1,420)	(2,054)
Fee and commission received		1,319	574
Net cash flow from operating activities before income tax and payments under guarantee calls		4,264	1,972
Payments made under guarantee calls		(99)	(104)
Income taxes paid		(138)	(195)
Net cash flow from operating activities		**4,027**	**1,673**
Cash flows from investing activities			
Purchases of securities		(13,639)	(8,595)
Sales of securities and proceeds from matured securities		8,992	8,989
Purchase of tangible and intangible assets		(64)	(48)
Proceeds from the sale of tangible assets		1	-
Net cash flow from investing activities		**(4,710)**	**346**
Cash flows from financing activities			
Dividends paid		(248)	(636)
Net cash flow from financing activities		**(248)**	**(636)**
Net increase/ (decrease) in cash and cash equivalents		**(931)**	**1,383**
Cash and cash equivalents at the beginning of the year	3.21	**2,597**	**1,214**
Cash and cash equivalents at the end of the year	3.21	**1,666**	**2,597**

0920092009200920

2009

Notes to the financial statements for the year ended 31 December 2009

Notes to the financial statements for the year ended 31 December 2009

1/ General information

Českomoravská záruční a rozvojová banka, akciová společnost (henceforth the "Bank" or "ČMZRB") was formed as a joint stock company pursuant to the Czech Commercial Code and was incorporated following its registration in the Commercial Register. The Bank's registered office is located at Jeruzalémská 964/4, Prague 1, Czech Republic. The Bank has five branches in the Czech Republic (in Brno, Hradec Králové, Ostrava, Pilsen and Prague) and one regional office in České Budějovice.

The Bank's activities are focused on supporting small and medium-sized businesses in the Czech Republic by providing preferential loans (Note 2 b), preferential guarantees (Note 2 j) and issuing infrastructure loans to Czech municipalities and their legal associations, as well as water sector entities with municipal capital share (Note 2 b). The Bank's loan portfolio includes also the loans to the Ministry of Finance provided in connection with infrastructure programmes (Note 3.11). The Bank also acts as an agent disbursing Czech government agency's funds as subsidy of interest costs to the block of flats' owners that meet specified criteria (Note 2 f). The purpose-bound funds are made available to Bank by the Czech state and international financial institutions. In some cases the Bank participates on programme funding.

These financial statements include the Bank and its associated undertaking Municipální finanční společnost a. s. (see note 3.15).

2/ Summary of significant accounting policies

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The financial statements comprise the income statement and statement of comprehensive income presented as two separate statements, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes.

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held at fair value through profit or loss and all derivative contracts that have been measured at fair value.

The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

The financial statements are presented in CZK, which is the Bank's functional and presentation currency. The figures shown in the financial statements are stated in CZK million.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 3.21 shows in which item of the balance sheet cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Profit before tax is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas

involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(p).

Standards, amendments and interpretation effective on or after 1 January 2009

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. IFRS 8 is not applicable for the Bank's financial statements as the Bank's debt or equity instruments are not traded in a public market or the Bank does not file, or is not in process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. This amendment was endorsed by the EU on 21 November 2007.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. This amendment does not to affect the financial statements. This amendment was endorsed by the EU on 21 January 2009.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The amendment to the standard does not to have an impact on the financial statements. This amendment was endorsed by the EU on 17 December 2008.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of other comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 has affected the presentation of the financial statements but has no impact on the recognition or measurement of specific transactions and balances. This amendment was endorsed by the EU on 17 December 2008.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 does not have any impact on these financial statements as the Bank does not have any exposures in foreign operations. This interpretation was endorsed by the EU on 4 June 2009 and with effect for the Bank from 1 January 2010.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments do not have any impact on the financial statements. This amendment was endorsed by the EU on 23 January 2009.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment

requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments measured at fair value using a three-level measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The impact of the amendments on the disclosures has been considered in these financial statements. This amendment was endorsed by the EU on 27 November 2009.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payments (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The Bank does not have any share-based payments and therefore IFRS 2 and its amendment are not applicable for the Bank. This amendment was endorsed by the EU on 17 December 2008.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not relevant to the Bank's operations because the Bank does not operate any loyalty programmes. This interpretation was endorsed by the EU on 16 December 2008.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 is not relevant to the Bank's operations because it does not have any agreements for the construction of real estate. This interpretation was endorsed by the EU on 22 July 2009 and with effect for the Bank from 1 January 2010.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009, endorsed by the EU for annual periods beginning on or after
1 January 2010, earlier application is permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Bank concluded that the revised standard does not have any effect on its financial statements. This amendment was endorsed by the EU on 27 November 2009.

Improvements to International Financial Reporting Standards (issued in May 2008). The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment of a defined benefit plan under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. The amendments have no material effect on the financial statements of the Bank. These amendments were endorsed by the EU on 23 January 2009.

Standards, amendments and interpretation effective on or after 1 January 2010 or later

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The amendment to standard will not have any impact on the Bank's financial statements as it does not have any investments in subsidiaries. This amendment was endorsed by the EU on 3 June 2009.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard is not expected to have any impact on the financial statements. This amendment was endorsed by the EU on 3 June 2009.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements. This amendment was endorsed by the EU on 27 November 2009.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, endorsed by the EU for annual periods beginning on or after 31 October 2009, earlier application is permitted). IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners. This interpretation was adopted by the EU on
26 November 2009.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, endorsed by the EU for annual periods beginning on or after 31 October 2009, earlier application is permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements. This interpretation was adopted by the EU on 27 November 2009.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after
1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2;
- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker;
- amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current;
- changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities;
- allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease;
- providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent;
- clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation;
- supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination;

- amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender;
- amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and
- removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

The Bank does not expect the amendments to have any material effect on its financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). The amendments will not have any impact to the financial statements as the Bank does not have any share-based payments.

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendments will not have any impact on the Bank's financial statements. This interpretation was endorsed by the EU on 23 December 2009.

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU). IAS 24 was revised in 2009 by:

(a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and

(b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss; and
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss when the asset is derecognised. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The interpretation will not have any impact on the Bank's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the financial statements, since the Bank does not operate any defined benefit pension plan.

(b) Treatment of associated undertakings

Investments in associated undertakings are accounted for using the equity method of accounting and are initially recognised at cost. These are undertakings in which the Bank has between 20 percent and 50 percent of the voting rights, and over which the Bank exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Equity accounting involves recognizing the Bank's share of the associate's profit or loss for the period in the profit or loss. The Bank's interest in the associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate.

For summarised financial information on the associate Municipální finanční společnost a.s. accounted for using the equity method, see note 3.15.

(c) Foreign Currencies

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (Czech National Bank official rate).

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within 'Income from financial operations' or 'Expense on financial operations'..

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

(d) Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned category.

Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Bank's financial assets held for trading consist of debt instruments. These financial assets are recognised in the balance sheet as 'Financial assets held for trading'.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Income from financial operations' or 'Expense on financial operations'. Interest income on financial assets held for trading are included in 'Interest and similar income'. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and an embedded derivative that must otherwise be separated.

To reduce accounting mismatch, the fair value option is applied to certain debt securities that are hedged with cross-currency interest rate swaps but for which the hedge accounting conditions of IAS 39 are not fulfilled. The aim is to recognize the changes in the fair value of the security together with change in the fair value of the derivatives in the income statement.

Financial assets for which the fair value option is applied are recognised in the balance sheet as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank includes in this category principally Loans originated by the Bank by providing money directly to a borrower.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers or as investment securities.

Interest on loans is included in the income statement and is reported as 'Interest and similar income'.

Preferential loans provided by the Bank

The Czech government and the Bank created various scheme to provide zero interest, low interest rate and subordinated loans to Czech enterprises that meet specified conditions (economic sectors supported by the Czech government or the European Union). The Bank participates partially on the funding of these loans, however, recognizes the full amount due from final recipient on its balance sheet in Loans and advances to customers. To compensate to the Bank for the below-market interest rate, the Bank receives from the funding partner the fees for managing the scheme, credit risk fee and the market interest rate agreed on the yearly basis for the Bank's share on funding. Overall amount of these fees is recognized as interest income.

Based on the arrangements, the Bank is effectively able to transfer part of credit risk on these loans to the government (subject to certain limits). Such arrangement represent in substance a guarantee issued by the government. Once the loans are written-off due to credit quality deterioration in accordance with the Bank's rules, the funds deposited by the government for the provision of these loans (included in Amounts due to state institutions - see Note 3.18) are settled against this amount. The financial guarantee received is not separately recognized as a receivable and is being effectively part of the funds provided by the government.

Following collection of the receivable or its settlement against the programme funding when deemed uncollectible, the receivable is derecognized, the loss exceeding the contractually agreed portion of credit risk, if any, covered by the government in respect of loans with the programme would be settled by the Bank.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than those that the Bank designates as available for sale and those that meet the definition of loans and receivables.

These financial assets are initially recognised at fair value including directly attributable and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on financial operations'. No provisions on held-to-maturity investments had to be recognised either in 2009 or 2008.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement.

However, interest calculated using the effective interest method, and foreign currency gains and losses on Bank's bonds classified as available for sale are recognised in the income statement.

(e) Recognition

The Bank uses settlement date accounting for regular way contracts when recording financial asset transactions. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment). When settlement date accounting is applied, the financial asset is recognised on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash). In case of a portfolio of financial assets measured at fair value, changes in the fair value of the financial assets are recognized from the purchase trade date to the sale trade date. Accrued interest on debt financial assets is recognised from the purchase settlement date to the sale settlement date.

All loans and receivables are recognised when funds are provided to customers. Loans and receivables are derecognised when fully repaid by the borrower or written-off.

The Bank settles and derecognises financial liabilities at the date on which all related risks and costs attributable to the specific liability are transferred or settled.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the balance sheet as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Financial liabilities

The Bank's holding in financial liabilities is comprised by financial liabilities at fair value through profit or loss (financial liabilities held for trading, i.e. financial derivatives), financial liabilities at amortised cost and hedging derivatives.

(a) Financial liabilities at fair value through profit or loss

In the Bank's case, this category comprises only financial derivatives held for trading. The Bank recognizes its financial derivatives in the category held for trading unless they are designated and effective as hedging instruments. These instruments are recognised in the balance sheet as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial operations'.

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are principally deposits and loans from banks or customers.

Determination of fair value

The best evidence of fair value are quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes the fair value by using a valuation technique.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

For more complex instruments, the Bank uses developed valuation models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market. All the inputs to these models are market observable. The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

For the categorization of the financial instruments carried at fair value see note 5.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Reclassification of the financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. The Bank has not performed any of the reclassification or any type of other reclassifications between categories of the financial assets neither in 2009 nor in 2008.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(f) Interest and fee income and expenses

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments on an accruals basis using the effective interest rate. Loan origination fees are included in the effective interest rate and are therefore reported in 'Interest income'. Other fees and commissions are recognised in the period to which they relate on an accruals basis. Interest income includes interest income for all fixed income instruments.

As part of its activities, the Bank acts as an agent disbursing government's funds as subsidy of interest costs of the loans provided by the Czech state agency to the debtors that meet specified criteria. Therefore, the grant is not recognized on the balance sheet of the Bank. The Bank's services are: (i) it is a payment agent and (ii) the Bank processes paperwork, e.g. subsidy agreements on behalf of the government. The Bank obtains remuneration for the services provided of the agreed percentage of funds disbursed. This remuneration from the government partner is recognized as earned as it is calculated on annual basis based on the agreed contract with the provider of the assistance.

(g) Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank regularly assesses its loan portfolio for impairment. As part of this analysis, the Bank splits all loans into two categories: non-performing loans, i.e., a larger than insignificant part of the principal and interest is past due for more than 90 days, and performing loans. If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The recognition, use and release of provisions are accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is released. Provisions are used when loans are sold or written off. Provisions are released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid).

The Bank makes an estimate of realised losses on an individual basis for individually significant loans and on a portfolio basis for individually insignificant loans by reference to historical experience.

Management of the Bank uses estimates based on historical experience of losses on loans that have similar risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data.

The Bank writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of these loans. Subsequent recoveries are credited to the income statement in the line 'Decrease/ increase in loan impairment and write-offs'.

For further information on credit risk refer to Note 4.1.

(b) Available for sale financial assets

The Bank performs regular assessments to determine whether available for sale financial assets suffered impairment. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the carrying amount of the impaired security is decreased directly and at the same time the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss line 'Net gains/ (losses) on financial operations' as a reclassification adjustment even though the financial asset has not been derecognised. The amount of this loss reflects the difference between the cost (less the repayments of principal and amortisation, if any) and the current fair value, reflecting previous impairment losses recognised in expenses.

(h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks or Due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(i) Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments which represent a financial instrument that requires none or a very low initial investment. The derivative financial instruments used include interest rate and currency forwards and swaps. These financial instruments are held by the Bank in order to hedge interest rate risk and currency exposures associated with its transactions.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured to their fair value. Fair values are obtained from the discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

On the date a derivative contract is entered into, the Bank designates certain derivatives as an accounting hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives and the hedged items designated in this way provided that certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as an accounting hedge include:

(a) They meet the Bank's risk management strategy,
(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing and documenting whether the hedge is effective, and
(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value of the hedged item are almost fully offset by changes in the fair value of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk are recorded in profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to profit or loss in line 'Income from financial operations' or 'Expense on financial operations'

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under 'Income from financial operations' or 'Expense on financial operations'.

(j) Provisions and financial guarantees obligations

Provisions for legal claims are recognised when the Bank has a present legal obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Financial guarantee contracts

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

Bank provides two main types of financial guarantees:
- the financial guarantees to the small and medium enterprises in various preferential guarantee programmes in cooperation with the Czech state, and
- the financial guarantees in PANEL programme launched by the State Fund of Housing Development ("SFRB") in support of reconstruction and refurbishment of specific block of flats with the aim to improve their quality and lifetime.

Under the agreements concluded between the Bank and the Czech state or the Bank and SFRB, the Bank issues preferential financial guarantees for loans provided by third party banks. The difference between the full market price of the guarantee and the fee paid by client is funded by the Czech state (intermediating in some cases the programmes of the European Union) or by SFRB. The Bank immediately deducts such support funded by the Czech state whole in advance from the customer's bank account as its fee for the issued financial guarantee and these fees received are recognised in the income statement over the life of the guarantee. The terms and conditions of the financial guarantee contracts with related parties are described in Note 3.24.

In addition, the government refunds to the Bank losses on financial guarantees issued under the schemes up to the amount agreed in the contract between the Bank and the Czech state. For these purposes the amounts are deposited within special bank account for each guarantee provided and recognized as Amounts due to state institutions (see Note 3.18).

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee (i.e. the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent assets). Provisions for guarantees are made for estimated losses above the amounts deposited by the Czech state. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Bank's management. Risk category method applied by the Bank is considering the likelihood that an outflow will be required in settlement by considering the class of obligations (i.e. those arising from a certain type of the financial guarantees) as a whole. A provision is therefore recognised even if the likelihood of an outflow with respect to any specific item included in the same class of obligations may be small.

(k) Property, plant and equipment and intangible assets

Tangible and intangible assets are stated at historical cost less the accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight line basis in order to write off the cost of each asset to their residual value over its estimated useful economic life. Assets in the course of construction are not depreciated.

The estimated useful economic lives in years are set out below:	
Machinery and equipment, computers, vehicles, software	4 years
Fixtures, fittings and equipment	10 years
Buildings and structures	30 years

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment. In respect of the assets owned by the Bank, the provision is assessed by reference to a fair value based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Leasehold assets are provisioned by reference to the net present value of future costs and the residual value of any technical improvements.

Repairs and renewals are charged directly to the income statement when the expenditure is incurred.

(l) Employee benefits

The Bank governs through internal guidelines provision of employee benefits. Some benefits are provided regularly to all employees (e.g. additional pension insurance); others are provided in relation to the actual need of an employee (e.g. loans).

Contributions are made to the government's retirement benefit scheme at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

(m) Current and deferred income tax

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic based on the profit determined in accordance with the Czech Accounting Standards.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. The principal temporary differences arise from specific allowances for loan losses and provisions for the guarantees and unrealised gains and losses from available for sale financial assets. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Current and deferred tax are recognised as an expense or income in the income statement, except for the deferred tax effects related to fair value re-measurement of available-for-sale investments. As the fair value re-measurement is recognised in other comprehensive income, deferred tax is also recognised in the other comprehensive income and subsequently reclassified to the income statement together with the gain or loss on derecognition.

(n) Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's general meeting of shareholders. Dividends for the year that are proposed or declared after the balance sheet date are disclosed in the subsequent events note.

(o) Subsequent Events

The effects of events which occurred between the balance sheet date and the date when the financial statements were authorised for issue are reflected in the financial statements in the event that these events provide further evidence of conditions which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to authorising the financial statements for issue which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed but do not result in adjustments in the financial statements.

(p) Key Bank's management judgments and estimates

The presentation of financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the impairment of financial assets and provisions arising from the provided financial guarantees, are based on the information available as of the date of preparation of the financial statements and actual results could differ from those estimates.

Impairment losses on loans to customers and provisions for financial guarantees

Management uses estimates based on historical loss experience for assets and financial guarantees with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Should the estimated percentages of the impairment provisions divert from the current management estimate by +/-1%, the impairment loss is to be estimated CZK 65,000,000 higher/lower.

Deferred income taxes

The deferred tax assets recognised at 31 December 2009 and 31 December 2008 have been based on the best management estimate of the recovery of the deferred tax asset over a five year horizon. In the event of changes to the assumptions underlying these estimates, the tax assets recognised may be adjusted. Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Bank would need to increase the deferred income tax asset by CZK 6,000,000 if favourable; or decrease the deferred tax asset by the same amount if unfavourable.

Impact of the current global economic crisis

The current global economic crisis, its acceleration and market turbulence increase the risk that the actual results and outcomes may significantly differ from these estimates. Key areas with a potential for significant differences between the actual results and the estimates principally include loan provisioning and provisions for the guarantees. Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are disclosed in individual notes as appropriate.

Management of the Bank has determined these estimates and assumptions by reference to the relevant information available to it.

3/ Additional information to balance sheet and income statement items

3.1. Interest income

CZKm	2009	2008
Interest income on loans and advances to banks	303	829
Interest income on loans and advances to customers	491	537
Interest on loans granted to the Czech state	940	1,160
Interest on debt securities	709	559
- held for trading	7	7
- designated at fair value through profit or loss	12	-
- available for sale	514	411
- held to maturity	176	141
Interest income	**2,443**	**3,085**
Interest on amounts due to banks	(782)	(1,007)
Interest on deposits due to customers	(81)	(196)
Interest on deposits from the Czech state	(498)	(783)
Interest from unwinding discounts on provisions (Note 3.6)	(87)	(96)
Interest expenses	**(1,448)**	**(2,082)**
Net interest income	**995**	**1,003**

3.2. Fee and commission income

CZKm	2009	2008
Fees from financial guarantees	563	584
Credit related fees and commissions	57	56
Fees and commissions from payment transactions	69	60
Fee and commission income	**689**	**700**
Fee and commission expense from loans	-	(4)
Fee and commission expense from trading activities	(6)	(4)
Fee and commission expense	**(6)**	**(8)**
Net fee and commission income	**683**	**692**

3.3 Income and expenses from financial operation

CZKm	2009	2008
Gains and (losses) on securities	28	(422)
- available for sale	19	(429)
- amounts reclassified from other comprehensive income at sale of securities	5	(6)
- impairment losses on available for sale securities	(16)	(349)
- changes in fair value of the hedged available for sale securities	30	(74)
- changes in fair value of the held for trading securities	(8)	7
- changes in fair value of the securities designated at fair value through profit or loss	16	-
Net gain/(loss) on derivatives held for trading	(51)	29
Net losses on hedging derivatives	(257)	(264)
Exchange differences (including also exchange differences on available for sale and held to maturity securities)	114	(10)
Total income and expenses on financial operations	**(167)**	**(667)**

Net losses on hedging instruments in amount of CZK 257,000,000 (2008: CZK 264,000,000) are due to high hedge accounting effectiveness almost fully compensated in the income statement in lines "Exchange differences" in case of the foreign currency risk hedging and in "Interest income" and "Interest expense" in case of interest rate risk hedging. The overall accounting hedge ineffectiveness amounts to CZK 1,000,000 in 2009 (2008: CZK 1,000,000 in 2008).

3.4. Administrative expenses

CZKm	2009	2008
Wages, salaries and bonuses	(163)	(164)
Social security costs	(45)	(46)
of which: state pension scheme contributions	(32)	(33)
Total personnel expenses	**(208)**	**(210)**
General administrative expenses	(142)	(144)
Total administrative expenses	**(350)**	**(354)**

Wages, salaries and key management compensations:

CZKm	2009	2008
Wages and salaries of the Bank's employees	(106)	(108)
Key management personnel compensation	(43)	(42)
- wages and salaries of the Bank's management	(36)	(35)
- compensations to Board of Directors members	(6)	(6)
- compensations to Supervisory Board members	(1)	(1)
Other employees' expenses	(8)	(8)
Directors' fees	(1)	(1)
Social fund expenditures	(5)	(5)
Total wages, salaries and bonuses	**(163)**	**(164)**

Staff Analysis

	2009	2008
Number of members of the Supervisory Board	9	9
Average number of the Bank's management	23	23
- of which: number of members of the Board of Directors	5	5
Average number of Bank's employees	197	207

Other administrative expenses comprise:

CZKm	2009	2008
General administrative expenses	(81)	(86)
Rental charges	(11)	(11)
Audit, legal and tax advisory services	(9)	(9)
Depreciation and amortisation	(41)	(38)
Total other administrative expenses	**(142)**	**(144)**

3.5. Increase in loan impairment and write-offs

Overall charge for the loan impairment can be analyzed as follows:

31 December 2009

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Additions to loan impairment allowances	(205)	(37)	(242)
Receivables written-off during the year not previously provided for	(20)	-	(20)
Additions to allowances to other assets	(1)	-	(1)
Total increase in loan impairment allowances and write-offs	**(226)**	**(37)**	**(263)**

31 December 2008

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Additions to loan impairment allowances	(6)	(36)	(42)
Receivables written-off during the year not previously provided for	(20)	-	(20)
Income received on claims previously written off	4	-	4
Total increase in loan impairment allowances and write-offs	**(22)**	**(36)**	**(58)**

Reconciliation of the allowance account for impairment:

Year ended 31 December 2009

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Balance at 1 January 2009	**1,121**	**176**	**1,297**
Additions to impairment allowances	206	37	243
Use of the allowances for write-offs	(47)	-	(47)
Balance at 31 December 2009	**1,280**	**213**	**1,493**

Year ended 31 December 2008

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Balance at 1 January 2008	**1,182**	**140**	**1,322**
Additions to impairment allowances	6	36	42
Use of the allowances for write-offs	(67)	-	(67)
Balance at 31 December 2008	**1,121**	**176**	**1,297**

3.6. Decrease in provisions for guarantess and other provisions

The balance of provisions for guarantees and other provisions comprises:

CZKm	31 December 2009	31 December 2008
Provisions for guarantees (Note 3.22)	1,984	1,936
Provisions for loan commitments (Note 3.22)	25	32
Other provisions	24	23
Total provisions	**2,033**	**1,991**

Reconciliation of the provisions for guarantees and other provisions:

CZKm	2009	2008
Balance at 1 January	**1,991**	**2,199**
Decrease in provisions for guarantees and loan commitments	(47)	(304)
Increase in other provisions	2	-
Interest expense from unwinding of discounts	87	96
Balance at 31 December	**2,033**	**1,991**

3.7. Income taxes

CZKm	2009	2008
Profit before income tax	**952**	**942**
Theoretical tax calculated at a statutory income tax rate 2009: 20 % (2008: 21 %)	190	198
Non-taxable income from securities –permanent difference	(15)	(24)
Effect of non-recognized contingent deferred tax asset	(42)	(43)
Other permanent items	2	(5)
Income tax expense as reported in the income statement	**135**	**126**
- current	179	113
- deferred	(44)	13
Income tax paid during the year	138	195
Current income tax asset/(liability) at 31 December	(41)	82
Effective tax rate	**14 %**	**13 %**

Deferred taxation

The recognised deferred tax asset can be analysed as follows:

CZKm	31 December 2009	31 December 2008
Provisions for guarantees	64	21
Other provisions	5	4
Deferred tax recognised in other comprehensive income for revaluation of available for sale securities	(24)	14
Total deferred tax asset	**45**	**39**

Deferred tax asset balance at 1 January	**39**	**78**
Movement through income statement	44	(13)
Movement in deferred tax recognised in other comprehensive income for revaluation of available for sale assets	(38)	(26)
Deferred tax asset balance at 31 December	**45**	**39**

The deferred tax asset is calculated at the statutory income tax rate of 19 % (31 December 2008: 19 %), which is a statutory income tax rate enacted for the period, when the Bank anticipates realising the temporary differences.

An additional contingent deferred tax asset of CZK 95,000,000 as at 31 December 2009 (31 December 2008: CZK 137,000,000) has not been recognised as it is not probable that it will be utilized in the future given the structure of the provided financial guarantees, and existing tax rules.

3.8. Cash and balances with central banks

CZKm	31 December 2009	31 December 2008
Obligatory minimum reserves	854	99
Cash in hand	9	9
Total cash in hand and balances with central banks	**863**	**108**

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank.

3.9. Loans and advances to banks

CZKm	31 December 2009	31 December 2008
Current accounts with other banks	4	-
Term deposits with banks and central bank	298	2,253
Amounts due under reverse repo transactions with central bank	16,723	19,807
Amounts due under reverse repo transactions with other banks	300	10,351
Other amounts due from banks	-	32
Unquoted bank bonds classified as loans and receivables	206	206
Total loans and advances to banks	**17,531**	**32,649**

All the amounts due from banks are unimpaired exposures before due date and no provisions are recognized. As the majority of the balances are the collateralized exposures with the central banks and local Czech banks under reverse repo transactions, the credit quality of the balances is not further analyzed in these financial statements.

3.10. Securities at fair value through profit or loss

CZKm	31 December 2009	31 December 2008
Government bonds	559	198
Total securities held for trading	**559**	**198**
Government bonds	112	-
Bonds issued by financial institutions in the Czech Republic	134	-
Bonds issued by other entities in the Czech Republic	312	-
Total securities designated at fair value through profit or loss	**558**	**-**
Total securities at fair value through profit or loss	**1,117**	**198**

3.11. Loans and advances to customers

CZKm	31 December 2009	31 December 2008
Loans to private legal entities and individuals	6,626	6,850
Loans to the Ministry of Finance of the Czech Republic and other government entities	16,462	19,020
Loans to municipalities	1,209	1,113
Gross amounts due from customers	**24,297**	**26,983**
Provisions for loans to customers (Note 3.5)	(1,491)	(1,295)
Net amounts due from customers	**22,806**	**25,688**

Loans to the Ministry of Finance represent principally the loans provided in connection with infrastructure programmes which were transferred to the Bank from Konsolidační banka Praha on 31 December 2000. These programmes are principally targeted at funding the construction of the highway network, repairs of international roads, removal of flood damage and water sector investments. The funding of these programmes was provided by the European Investment Bank (Note 3.17) and is denominated also in EUR currency. The Bank entered into fix-to-fix cross currency swap hedge accounting transaction to cover the associated foreign currency risk (Note 4.2.2).

Set out below is the currency structure of the outstanding infrastructure loan principal amounts on the side of assets and liabilities (Note 3.17):

	31 December 2009		31 December 2008	
	Assets CZKm	Liabilities CZKm	Assets CZKm	Liabilities CZKm
CZK – principal	10,365	7,191	12,315	7,959
CZK - accrued interest	174	6	200	14
EUR – principal	5,886	8,510	6,019	9,681
EUR – accrued interest	4	113	4	128
USD – principal	6	6	13	13
Fair value remeasurement	(18)	(299)	442	13
Total	**16,417**	**15,527**	**18,993**	**17,808**

The IFRS 7 disclosures per classes of the loans and advances to customers are made in the credit risk section in note 4.1 and a reconciliation of changes in the allowance account during the period for each class of the loans and advances to customers is disclosed in note 3.5.

3.12. Securities available for sale

Available for sale securities comprise:

CZKm	31 December 2009	31 December 2008
Fixed income debt securities	5,655	8,379
Variable yield debt securities	5,700	1,938
Treasury bills	2,767	3,755
Total debt securities available for sale	**14,122**	**14,072**

As of 31 December 2009, the available for sale portfolio included securities at a fair value of CZK 11,566,000,000 (2008: CZK 11,326,000,000) that were publicly traded on stock exchanges and securities at a fair value of CZK 2,556,000,000 (2008: CZK 2,746,000,000) that were not publicly traded securities. Available for sale securities are denominated in various currencies and the currency risk is hedged (see note 4.3).

Available for sale securities at fair value of CZK 739,000,000 (2008: CZK 98,000,000) were pledged as collateral to third parties in sale and repurchase agreements to provide security over the money borrowed. These assets have been reclassified as pledged assets on the face of the balance sheet as the borrower possessing the collateral has the right to re-pledge it or sell, however also has an obligation to return it.

Debt securities available for sale comprise:

CZKm	31 December 2009	31 December 2008
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	10,099	8,669
- Financial institutions in the Czech Republic	1,076	2,231
- Foreign financial institutions	2,150	2,163
- Other entities in the Czech Republic	451	90
- Other foreign entities	346	919
Total debt securities available for sale	**14,122**	**14,072**

3.13. Securities held to maturity

Held to maturity securities comprise:

CZKm	31 December 2009	31 December 2008
Fixed income debt securities	5,214	2,176
Total securities held to maturity	**5,214**	**2,176**

Held to maturity securities are denominated in various currencies (see also Note 4.3).

Securities Held to Maturity, allocated by issuer, comprise:

CZKm	31 December 2009	31 December 2008
State institutions in the Czech Republic	5,092	1,594
Foreign financial institutions	-	582
Other entities in the Czech Republic	122	-
Total debt securities held to maturity	**5,214**	**2,176**

3.14. Other assets

CZKm	31 December 2009	31 December 2008
Financial assets		
Accrued income	89	61
Receivables from unsettled transactions with securities	8	1
Non-financial assets		
Prepaid expenses	5	7
Other	12	11
Total other assets, gross	**114**	**80**
Impairment provisions	(2)	(2)
Total other assets, net	**112**	**78**

3.15. Investments in associates

The financial statements include an investment in the associate, Municipální finanční společnost a.s., accounted for using equity method, with its registered office address at Jeruzalémská 4, Prague 1 ('MUFIS'), key details of which are set out below.

The Bank formed MUFIS, a wholly owned subsidiary with share capital of CZK 1,000,000 in 1994. In 1995, the Bank disposed of 51 percent of the issued share capital, and holds a 49 percent investment in MUFIS at 31 December 2009 and 31 December 2008.

Shareholders' structure	31 December 2009	31 December 2008
ČMZRB	49 %	49 %
Ministry of Finance	49 %	49 %
Association of Czech Municipalities	2 %	2 %

MUFIS acts as the official broker and administrator of long-term funding obtained on the basis of an agreement with USAID from private US investors. This funding is designed to finance the infrastructure projects of municipalities. The ultimate beneficiaries were provided with the funding following an assessment of their business plans, through a selected number of commercial banks which act as MUFIS's debtors. Following preparatory negotiations with US investors and Czech institutions, MUFIS began to implement the programme in early 1995. As of 31 December 2009, MUFIS works with programme funding amounting to USD 9,000,000. The Bank signed on 27 August 2009 with MUFIS an agreement on the cooperation within area of financing infrastructure projects for municipalities in the Czech Republic.

Summary financial information in CZKm	Equity	The Bank's share of equity	Total assets	Profit after tax	The Bank's share of profit
At 31 December 2009 and for the year then ended	170	83	87	18	9
At 31 December 2008 and for the year then ended	151	74	453	41	20

3.16. Property, plant and equipment

CZKm	Land	Buildings	Equipment and fittings	Assets under construction	Total
At 1 January 2008					
Acquisition cost	10	302	159	-	471
Accumulated depreciation	-	(117)	(149)	-	(266)
Net book value	**10**	**185**	**10**	**-**	**205**
Year ended 31 December 2008					
Opening net book value	10	185	10	-	205
Additions	-	1	8	10	19
Disposals	-	-	(6)	(8)	(14)
Depreciation charge	-	(13)	(2)	-	(15)
Closing net book value	**10**	**173**	**10**	**2**	**194**
At 31 December 2008					
Acquisition cost	10	303	160	2	475
Accumulated depreciation	-	(130)	(151)	-	(281)
Net book value	**10**	**173**	**9**	**2**	**194**
Year ended 31 December 2009					
Opening net book value	10	173	9	2	194
Additions	-	1	16	15	32
Disposals	-	-	-	(17)	(17)
Depreciation charge	-	(12)	(12)	-	(24)
Closing net book value	**10**	**162**	**13**	**-**	**185**
At 31 December 2009					
Acquisition cost	10	304	124	-	438
Accumulated depreciation	-	(142)	(111)	-	(253)
Net book value	**10**	**162**	**13**	**-**	**185**

3.17. Amounts due to bank

CZKm	31 December 2009	31 December 2008
Due to other banks	18,761	19,799
Received term deposits from other banks	2,341	1,263
Amounts due to banks	**21,102**	**21,062**

Amounts due to other banks includes principally the payables to the development banks (European Investment Bank, Kreditanstalt für Wiederaufbau, Nordic Investment Bank and Council of Europe Bank) in amount of CZK 17,319,000,000 at 31 December 2009 (31 December 2008: CZK 19,701,000,000), majority of which represents a funding for infrastructure loan described in Note 3.11.

3.18. Amounts due to customers

Amounts due to customers, by type of deposit, comprise:

CZKm	31 December 2009	31 December 2008
Current accounts	7,714	6,591
Term deposits	14,948	30,250
Repo operations with the Ministry of Finance	4,762	4,987
Other credits received from clients	23	19
Security deposits	31	32
Other payables to clients	2,116	2,222
Total	**29,594**	**44,101**

Amounts due to customers, by type of customer, comprise:

CZKm	31 December 2009	31 December 2008
Amounts owed to state institutions	25,832	39,833
Amounts owed to local government institutions	38	32
Amounts owed to social security funds	-	-
Payables to other customers	3,724	4,236
Total amounts due to customers	**29,594**	**44,101**

The 'Amounts owed to state institutions' line includes, inter alia, payables comprising funding and funds to cover risks attached to the guarantee support programmes provided by the Bank (Note 2 b and 2 f):

CZKm	31 December 2009	31 December 2008
Funding from the providers of the individual support programmes not yet returned	2,057	2,133
Funds deposited by the programmes partners to cover risks attached to providing of the financial guarantees	2,437	1,558

3.19. Accrual and other liabilities

CZKm	31 December 2009	31 December 2008
Payable to employees	35	40
Deferred income	2,062	1,432
- financial guarantees premium deferred income	2,025	1,420
- other deferred income	37	12
Accrued expenses (financial liability)	3	3
Amount payable to Ministry for regional development with respect to intermediation of the support programme (financial liability)	206	133
Dividends declared and payable (note 3.20)	394	-
Other	43	41
Total accruals and other liabilities	**2,743**	**1,649**

3.20. Equity and profit allocation

Share capital

	31 December 2009	31 December 2008
8,900 shares with a nominal value of CZK 239,500	2,132	2,132

The shares are registered and issued in book-entry form.

The Bank's shareholders and their ownership interests as of 31 December 2009 and 2008 are set out below:

Shareholder	2009 %	2008 %
Ministry of Industry and Trade	24.25	24.25
Ministry for Regional Development	24.25	24.25
Ministry of Finance	23.83	23.83
Czech state total shareholding	**72,33**	**72,33**
Komerční banka, a.s.	13.00	13.00
Česká spořitelna, a.s.	13.00	13.00
Československá obchodní banka, a.s.	1.67	1.67
Other shareholders (Banks)	**27,67**	**27,67**
Total	**100.00**	**100.00**

Profit Allocation

The statutory net profit of the Bank as recognized in accordance with Czech accounting standards for the year ended 31 December 2009 is proposed to be allocated and net profit for 2008 of the Bank was allocated as follows:

CZKm	2009	2008
Allocated to retained earnings	163	160
Dividends payable/paid	652	642
Net profit per statutory financial statements	**815**	**802**

Following the decision of the general meeting of the Bank, dividends payable to the Ministry of Industry and Trade, Ministry for Regional Development and Ministry of Finance from 2008 net profit in the total amount of CZK 394,000,000 have been paid on 5 January 2010 and are included as Dividends declared and payable in Accruals and other liabilities (Note 3.19).

Revaluation reserve

The revaluation reserve shows the effects from the fair value measurement of financial instruments of the category available for sale after deduction of deferred taxes. Any gains or losses are not recognised in the consolidated income statement until the asset has been sold or impaired.

Retained earnings and statutory and other reserves

Retained earnings consist of undistributed profits from previous years. Statutory reserve consists of the amount of CZK 800,000,000, which has to be formed in accordance with national law and internally created reserve from profits of CZK 350,000,000.

3.21. Cash and cash equivalents

CZKm	31 December 2009	31 December 2008
Cash and balances with central banks	863	108
Current accounts with other banks	4	-
Treasury bills (available-for-sale securities)	799	2,489
Total	**1,666**	**2,597**

Cash and cash equivalents comprise balances with less than three months' original maturity, including cash in hand, deposits held at call with banks and other short-term highly liquid investments.

3.22. Financial guarantees and loan commitments

Commitments to extend loans, financial guarantees for loans to third parties expose the Bank to credit risk and loss in the event that the client fails to comply with contractual conditions.

CZKm	31 December 2009	31 December 2008
Total issued financial guarantees	18,564	13,951
Loan commitments issued to clients	1,724	1,634
Total balance of financial guarantees and loan commitments	**20,288**	**15,585**

In conducting repo and reverse repo transactions, the Bank uses government bonds. Receivables from reverse repo transactions are included in amounts due from banks (Note 3.9). Payables from repo transactions are included in amounts due to customers (Note 3.18). The securities received under repo transactions are not recognized on the balance sheet, but the Bank has the right to re-pledge it or sell, however also has an obligation to return it. Fair value of the securities held under repo transactions was CZK 6,178,000,000 at 31 December 2009 (31 December 2008: CZK 4,991,000,000).

3.23. Legal contingencies

On 21 February 2002, the Bank was named as a defendant in a legal dispute initiated by AO Invest, spol. s r.o., in respect of the compensation of a damage of CZK 238,000,000. The plaintiff alleges that the claimed damage was incurred with regard to the mediated purchase of 1,050 bonds of ZPS, a.s. The legal dispute was halted due to AO Invest, spol. s r.o., being declared bankrupt. The legal dispute is currently being conducted against the bankruptcy trustee of AO Invest. During 2008, the litigated amount decreased to CZK 138,000,000 as a result of the plaintiff withdrawing the claim for compensation of CZK 100,000,000. At the end of 2008, the bankruptcy trustee sold the receivable, which is subject to the legal dispute, to MISORA HOLDINGS Limited. No decision has yet been taken regarding the involvement of this entity in the legal dispute. The legal dispute has not yet been completed and it is not probable to result in a loss for the Bank, nor can the reliable estimate of the outflow of economic benefits be made.

3.24. Related party disclosures

Related parties of the Bank comprise:

1/ the Czech state. Dividend allocations are described in note 3.20 and income taxes in note 3.7.
2/ the associated undertaking MUFIS, with which the Bank entered into derivative transactions concluded in the normal course of business - see note 4.2.2 for the detail of the balances;
3/ key management personnel (being defined as Board of Directors, Supervisory Board and Bank's senior management) – for the detail of the expenses see note 3.4; and
4/ entities controlled by the same controlling entity, i.e. by the Czech state.

The balances from related-party transactions with the Czech state and entities controlled by the same controlling entity (in the table below - "Other related parties") at the balance sheet date, related expense and income for the year (except for the income taxes and dividends) and off-balance sheet exposures are as follows:

CZKm	31 December 2009	31 December 2008
Assets	32,243	29,333
Czech state	31,865	28,634
Other related parties	378	699
Liabilities	26,668	41,265
Czech state	15,846	31,233
Other related parties	10,822	10,032
Revenues	1,641	1,587
Czech state	1,470	1,430
Other related parties	171	157
Expenses	519	925
Czech state	84	138
Other related parties	435	787
Collaterals provided under repo transactions and other off-balance sheet assets in the normal course of business	**5,940**	**6,240**
Czech state	4,764	4,991
Other related parties	1,176	1,249
Collaterals received under reverse repo transactions and other off-balance sheet liabilities in the normal course of business	**343**	**316**
Czech state	34	63
Other related parties	309	253

A number of banking transactions are entered into with related parties in the normal course of business. These include current accounts, loans, deposits and securities issued by these entities and provided collaterals and loan commitments.

In PANEL guarantee programme the Bank receives from SFRB a fee of 1.6 % p.a. of the guaranteed balance amount which is payable quarterly and income from this fee in 2009 amounted to CZK 84,000,000 (2008: 78,000,000).

Revenues from the Czech state include also interest income (see Note 3.1) from the infrastructure loans taken over from the Ministry of Finance. For the details on the transaction see Note 3.11.

Terms and conditions of the related party transactions - average effective interest rates

The table below provides average interest rates of significant items of related parties assets and liabilities as of 31 December 2009 and 31 December 2008.

	31 December 2009	31 December 2008
Assets		
Loans to customers	5.14 %	6.00 %
Available for sale securities	3.74 %	3.71 %
Securities at fair value through profit or loss	3.56 %	2.67 %
Securities held to maturity	3.74 %	3.89 %
Liabilities		
Amounts due to customers	2.09 %	3.49 %

4/ Risk management and financial instruments

4.1. Credit risk

4.1.1. Risk management method

Credit rating of amounts due from customers and banks

The credit rating of the enterprises that are small and based on financial reporting medium-sized businesses, municipalities, water management enterprises, housing associations and associations of owners of housing units, and non-profit organisations is undertaken in accordance with the Bank's internal regulations and involves assessing the borrower's solvency on the basis of an analysis of economic and other aspects. The assessment of other than economic aspects involves analysing external and internal factors that impact the client's activities and operations. The economic assessment focuses on undertaking a financial analysis of economic indicators and additional information. Solvency is evaluated in relation to each transaction that carries an element of credit risk; credit risk exposure and the ratings are periodically assessed over the whole life of the loan transaction. Credit risk is expressed by assigning the borrower the relevant risk category. Credit risk exposure involved in a specific transaction is controlled by establishing contractual conditions and obtaining collateral in support of the transaction.

The monitoring of rating and credit risk involves assessing the following criteria (at minimum):

- Current financial and economic situation of the clients;
- Compliance with contractual terms, specifically reviews of the repayments of loan principal and interest amounts, payment of the fee for the provision of a guarantee, contractual penalties and charges, provision of information to the Bank, and balances on the client's bank accounts;
- Restructuring;
- External factors, primarily economic, political and legal;
- Loan analysts quarterly monitor the development of selected data and information for the monitoring of all clients as part of a client's financial analysis;
- Staff of the Risky Transactions Department monitor the records of clients in bankruptcy, settlement and liquidation on an ongoing basis, with regular weekly checks;
- Staff of business units monitor, on a monthly basis, the summary of clients for which the central loan register indicates that they have past due receivables.

Measuring credit risk of the portfolio

The Bank uses the following techniques to measure risks inherent in the loan and guarantee portfolio:

The method of quantified losses on the portfolio of loans and guarantees exposures compares the total quantified losses of doubtful and loss receivables with the redemption of these exposures. The quantification of losses also reflects the current balances of substandard exposures adjusted by an empirical and well-established coefficient which represents an estimate of the default rate of exposures in this category.

The weighted risk exposure method compares the weighted risk exposure with the original contractual amount of the loans (the balance of the actual loan draw-down) and guarantees. The weighted risk exposure consists of the sum of recorded provisions, the sum of receivables written-off, the sum of outstanding principal, the sum of outstanding interest and the sum of outstanding contractual penalties on client accounts, segmented by individual years of the portfolio's duration.

The risk category method compares quantified losses with the original contractual value of the loans or guarantees.

The incurred loss method is derived from calculated probabilities of individually unidentified default on individual internal risk categories described below and loss given default for specified type of exposures (loans, loans granted within the water infrastructure support programme and guarantees).

Risk categories

The Bank has risk (internal rating) categories 4 to 10, which are linked to the Czech National Bank's risk categories: standard loans 4, 5 and 6, watch 7, substandard 8, doubtful 9 and loss 10.

Credit enhancement

In the course of its lending and guarantees business, the Bank accepts movable and immovable assets pledged as collateral. This fact is also considered in calculation of the impairment provisions. The Bank also uses various forms of guarantee statements to collateralise its loan receivables.

Movable and immovable asset collateral is recorded in operating records and is valued on the basis of an appraisal prepared by a licensed appraiser (nominal value of collateral). The Bank centrally revalues real estate collateral to market values every two years on the basis of pricing maps prepared by an external agency. Collaterals provided by individuals and legal entities and bills of exchange are recorded in operating records and are valued at estimated values provided by the Bank's internal regulation.

The recoverable value of collateral takes into account both the cost of recovering collateral and the time value of money.

If the borrower's receivable is past due by more than 360 days, the Bank does not attribute any value to the collateral, since the historical evidence proves negligible workouts from such collaterals.

Recovery of Amounts due from Borrowers

The Bank recovers due receivables arising from bank guarantees and loans through its internal debt work-out system by using all statutory recovery instruments available according to generally applicable legal regulations. With a view to expediting the recovery process, the Bank has employed an arbitration clause in respect of loan contracts and enforceable notarial and distrainer deeds.

Risk Concentration

Economic sector risk concentrations

The Bank principally monitors risk concentrations in the area of loans issued to small and medium-sized businesses and receivables arising primarily from water management loans. These risks are periodically monitored and reassessed at least on an annual basis. Credit risk limits are approved by the Board of Directors. This concentration translates into the definition of the classes of the loans to customers.

Geographical concentrations

Although the Bank performs its key activities in the Czech Republic, some investments in securities are done also outside of the Czech Republic. For the geographical concentrations see note 4.1 B.

Credit risk of other financial assets

Generally, in accordance with its internal regulations, the Bank defines eligible financial instruments for its investments. These principally involve deposits, bonds (mortgage bonds, CZK bonds, EUR bonds, and other foreign currency bonds) and derivatives (FX FWD, FX SWAP, CCS, IRS, Euro Bund Futures).

Credit assessment of counterparties and issuers involves analysing the borrower's solvency on the basis of credit ratings published by internationally recognised rating agencies and evaluating economic and other aspects. The solvency of counterparties and issuers is periodically assessed over the whole life of the commercial loan transaction.

4.1.2. Credit risk – quantitative disclosures

aa) Quality of amounts due from customers

Information about the credit quality of financial assets that are neither past due nor impaired

31 December 2009

	Risk category							
CZKm **Classes of financial assets**	**4,5**	**6**	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	634	2 299	417	-	-	-	181	3 531
Loans to the Ministry of Finance of the Czech Republic and other government entities	16 462	-	-	-	-	-	-	16 462
Loans to municipalities	76	437	-	-	-	-	-	513
Total	**17 172**	**2 736**	**417**	**-**	**-**	**-**	**181**	**20 506**

31 December 2008

	Risk category							
CZKm **Classes of financial assets**	**4,5**	**6**	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	834	2 434	588	-	-	-	124	3 980
Loans to the Ministry of Finance of the Czech Republic	18 993	-	-	-	-	-	27	19 020
Loans to municipalities	85	496	-	-	-	-	-	581
Total	**19 912**	**2 930**	**588**	**-**	**-**	**-**	**151**	**23 581**

Analysis of financial assets that are individually determined to be impaired

31 December 2009

	Risk category							
CZKm **Classes of financial assets**	**4,5**	**6**	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	-	-	1 537	588	427	526	17	3 095
Loans to the Ministry of Finance of the Czech Republic and other government entities	-	-	-	-	-	-	-	-
Loans to municipalities	-	-	530	51	115	-	-	696
Total	**-**	**-**	**2 067**	**639**	**542**	**526**	**17**	**3 791**

Notes to the financial statements for the year ended 31 December 2009

31 December 2008

CZKm	Risk category 4,5	6	7	8	9	10	Not specified	Total
Classes of financial assets								
Loans to private legal entities and individuals	-	-	1 575	517	304	474	-	2 870
Loans to the Ministry of Finance of the Czech Republic and other government entities	-	-	-	-	-	-	-	-
Loans to municipalities	-	-	402	42	88	-	-	532
Total	**-**	**-**	**1 977**	**559**	**392**	**474**	**-**	**3 402**

Analysis by internal rating

The loan to clients of the Bank as of 31 December 2009 comprises the following, broken down by classification:

CZKm	31 December 2009	31 December 2008
Standard	20,079	23,001
Watch	2,496	2,559
Substandard	639	559
Doubtful	540	391
Loss	542	473
Total	**24,296**	**26,983**
Impairment provision for loans to customers (Note 3.5)	(1,491)	(1,295)
Net amounts due from customers	**22,806**	**25,688**

Analysis of provisions by risk category

CZKm		31 December 2009 Type of provision		31 December 2008 Type of provision	
Risk category		**Individual**	**Portfolio**	**Individual**	**Portfolio**
4 – 6	Standard	-	122	-	124
7	Watch	284	74	272	105
8	Sub-standard	209	-	174	-
9	Doubtful	366	-	208	-
10	Loss	436	-	412	-
Total		1,295	196	1,066	229
Total provisions		**1,491**		**1,295**	

Analysis by collateral

The loan portfolio of the Bank as of 31 December 2009 and 2008 comprises the following, broken down by type of collateral:

CZKm	31 December 2009	31 December 2008
Bank guarantees and collateral by reliable guarantors	47	89
Cash collateral	38	39
Real estate collateral	1,821	1,993
Other loan collateral	158	48
Uncollateralised	22,232	24,814
Total	**24,296**	**26,983**
Impairment provision for loans to customers (Note 3.5)	(1,491)	(1,295)
Net amounts due from customers	**22,806**	**25,688**

Notes to the financial statements for the year ended 31 December 2009

Renegotiated loans to customers

31 December 2009

CZKm	Balance in CZKm
Loans to private legal entities and individuals	444

31 December 2008

CZKm	Balance in CZKm
Loans to private legal entities and individuals	235

Aging analysis of loans past due which are not classified as individually impaired

31 December 2009

CZKm	Past due 30 days	Past due 30 – 60 days	Past due 60 – 90 days	Past due 90 – 180 days
Loans to private legal entities and individuals	1	-	-	3
Total	**1**	**-**	**-**	**3**

31 December 2008

CZKm	Past due 30 days	Past due 30 – 60 days	Past due 60 – 90 days	Past due 90 – 180 days
Loans to private legal entities and individuals	1	1	-	2
Total	**1**	**1**	**-**	**2**

Analysis of loans past due which are not classified as individually impaired, by collateral

31 December 2009

CZKm	Bank guarantee and collateral by reliable guarantors	Collateral by pledged real estate	Uncollateralised
Loans to private legal entities and individuals	-	-	4
Total	**-**	**-**	**4**

31 December 2008

CZKm	Bank guarantee and collateral by reliable guarantors	Collateral by pledged real estate	Uncollateralised
Loans to private legal entities and individuals	-	-	4
Total	**-**	**-**	**4**

ab) Quality of guarantees portfolio

31 December 2009, in CZKm

	Risk classification								
Programmes	**5**	**6**	**7**	**8**	**X9[1)]**	**9**	**10**	**No risk category ***	**Total**
Guarantees for small and medium sized enterprises provided until 2006	55	393	808	437	455	32	720	-	2,900
PANEL small portfolio guarantees	-	5	17	-	-	-	-	227	249
PANEL investment guarantees	10	1,406	3,702	318	86	-	1	6	5,529
Other previously provided guarantees	-	-	6	-	3	-	46	-	55
VADIUM	-	-	95	-	-	-	-	-	95
Small portfolio guarantees for businessmen since 2007	11	138	774	257	17	16	6	2,603	3,822
Investment and operating guarantees for small and medium sized enterprises since 2007	110	910	4,354	378	102	14	46	-	5,914
Total	**186**	**2,852**	**9,756**	**1,390**	**663**	**62**	**819**	**2,836**	**18,564**

* Portfolio approach

31 December 2008, in CZKm

	Risk classification								
Programmes	**5**	**6**	**7**	**8**	**X9[1)]**	**9**	**10**	**No risk category ***	**Total**
Guarantees for small and medium sized enterprises provided until 2006	164	647	1,295	677	385	42	719	-	3,929
PANEL small portfolio guarantees	-	5	16	-	-	-	-	194	215
PANEL investment guarantees	42	1,197	3,281	350	47	22	1	-	4,940
Other previously provided guarantees	-	2	7	15	1	-	71	-	96
VADIUM	-	6	43	-	-	-	-	-	49
Small portfolio guarantees for businessmen since 2007	4	31	210	68	7	-	-	1,391	1,711
Investment and operating guarantees for small and medium sized enterprises since 2007	202	971	1,683	96	31	10	10	4	3,007
Total	**412**	**2,859**	**6,535**	**1,206**	**471**	**74**	**801**	**1,589**	**13,952**

* Portfolio approach

[1)] Category X9 is used by the Bank to designate guarantees where the Bank anticipates delivery of the pay-out call.

ac) Quality of securities portfolio

The securities portfolio of the Bank comprises the following, broken down by rating classification and classes of financial instruments:

31 December 2009

CZKm	**AAA**	**AA- to AA+**	**A- to A+**	**Lower than A**
Securities at fair value through profit or loss	-	-	1,116	-
Securities available for sale	-	913	12,941	268
Securities held to maturity	-	-	5,214	-
Total	**-**	**913**	**19,271**	**268**

Notes to the financial statements for the year ended 31 December 2009

31 December 2008

CZKm	AAA	AA- to AA+	A- to A+	Lower than A
Securities at fair value through profit or loss	-	-	198	-
Securities available for sale	383	701	12,513	475
Securities held to maturity	-	307	1,869	-
Total	**383**	**1,008**	**14,580**	**475**

All securities are neither past due nor impaired, except for the impaired available-for-sale securities with fair value of CZK 32,000,000 at 31 December 2009 (31 December 2008: CZK 52,000,000). There is no collateral provided for these securities.

ad) Quality of derivatives portfolio

The derivatives portfolio as at 31 December 2009 and 2008 includes established banking counterparties (with external rating equivalent of from AA+ to A) and the transactions with the associate MUFIS, a. s.

b) Geographical concentration of assets

31 December 2009

Assets CZKm	Czech Republic	European Union	Other	Loan provisions and accumulated depreciation	Total
Financial assets	**60,335**	**2,447**	**579**	**(1,491)**	**61,870**
Cash and balances with central banks	863	-	-	-	863
Amounts due from banks	17,027	504	-	-	17,531
Securities at fair value through profit or loss	1,117	-	-	-	1,117
Positive fair values of financial derivative transactions	94	26	-	-	120
Loans and advances to customers	24,297	-	-	(1,491)	22,806
Securities available for sale	11,626	1,917	579	-	14,122
Securities held to maturity	5,214	-	-	-	5,214
Other financial assets	97				97
Non-financial assets	**878**	**-**	**-**	**(530)**	**348**
Total	**61,213**	**2,447**	**579**	**(2,021)**	**62,218**

31 December 2008

Assets CZKm	Czech Republic	European Union	Other	Loan provisions and accumulated depreciation	Total
Financial assets	**71,424**	**4,290**	**660**	**(1,295)**	**75,079**
Cash and balances with central banks	108	-	-	-	108
Amounts due from banks	31,389	1,228	32	-	32,649
Securities at fair value through profit or loss	198	-	-	-	198
Financial derivatives	102	24	-	-	126
Loans and advances to customers	26,983	-	-	(1,295)	25,688
Securities available for sale	10,989	2,455	628	-	14,072
Securities held to maturity	1,593	583	-	-	2,176
Other financial assets	62				62
Non-financial assets	**967**	**-**	**-**	**(541)**	**426**
Total	**72,391**	**4,290**	**660**	**(1,836)**	**75,505**

c) The Bank's maximum credit risk exposure

31 December 2009

CZKm	Total exposure On-balance sheet	Total exposure Total credit exposure	Collateral held
Cash and balances with central banks	863	863	-
Amounts due from banks	17,533	17,533	16,835
Securities at fair value through profit or loss	1,116	1,116	-
Financial derivatives	119	119	-
Loans to customers	22,806	22,806	2,063
- Loans to private legal entities and individuals	5,348	5,348	1,387
- Loans to the Ministry of Finance of the Czech Republic and other government entities	16,462	16,462	-
- Loans to municipalities	996	996	676
Securities available for sale	14,122	14,122	-
Securities held to maturity	5,214	5,214	-
Other financial assets	97	97	-
Financial guarantees and loan commitments	-	20,288	2,437
Total financial assets	**61,870**	**82,158**	**21,335**
Non-financial assets	348	-	-
Total assets	**62,218**	**-**	**-**

31 December 2008

CZKm	Total exposure On-balance sheet	Total exposure Total credit exposure	Collateral held
Cash and current balances with banks	108	108	-
Amounts due from banks	32,649	32,649	10,209
Securities at fair value through profit or loss	198	198	-
Financial derivatives	126	127	-
Loans to customers	25,688	25,688	2,169
- Loans to private legal entities and individuals	5,731	5,731	1,417
- Loans to the Ministry of Finance of the Czech Republic and other government entities	19,020	19,020	-
- Loans to municipalities	937	937	752
Securities available for sale	14,072	14,072	-
Securities held to maturity	2,176	2,176	-
Other financial assets	62	62	-
Financial guarantees and loan commitments	-	15,585	1,558
Total	**75,079**	**90,665**	**13,936**
Non-financial assets	426	-	-
Total assets	**75,505**	**-**	**-**

The maximum credit exposure is presented at carrying values net of any impairment losses recognized. Collaterals held for due from banks represents the fair value of the securities obtained under reverse repo transactions, for loans to customers principally the collateralized mortgages (see note 4.1.2) and in case of the financial guarantees the current level of funds deposited by the programmes partners to cover risks attached to providing of the financial guarantees (see note 3.18).

4.2. Market risk

4.2.1. Management of the market risk

Characteristics of Market Risks

The principal market risk management strategy is defined in the Bank's internal regulations and in the documents approved by the Board of Directors of the Bank, and primarily provides guidance on the following areas:

- Acceptable degree of market risks;
- Market risk management techniques;
- Set of limits used; and
- Basic requirements regarding the Bank's organisational structure in terms of market risk management, including segregation of duties and information flows.

Description of Transactions Carrying Market Risks

The Bank is exposed to market risks associated with losses arising from fluctuations in prices, exchange rates and financial market rates.

The Bank is exposed to market risks in acquiring, holding and selling investment instruments defined in the Investment Strategy of ČMZRB. This risk arises from open positions in interest rates and currencies.

Market Risk Measurement

The Bank measures interest rate risk using basic techniques (interest rate GAP analysis, duration and elasticity of interest rates) and techniques to calculate capital adequacy as set out in CNB Regulation 123/2007 Coll. In addition, the Bank has developed a series of internal limits to restrict its market risk exposure. The interest rate GAP analysis measures interest rate risk inherent in the trading and banking book on a collective basis. Interest rate risk is restricted through limits to net interest rate exposure in each time bucket. Interest rate risk inherent in all bond portfolios is restricted by having a limit in place in respect of the elasticity of the bond portfolio. The Bank undertakes stress testing on a quarterly basis in accordance with the requirements of the Czech National Bank.

Market Risk Management

The Bank's instrument for managing market risks involves the external capital adequacy limit and internal limits for interest rate risk and elasticity of the interest rate in respect of the bond portfolio. In addition, the market risk is mitigated through the implementation of an internal capital adequacy limit. Foreign currency risk is controlled through the use of the limits set out in Czech National Bank Regulation 123/2007 Coll.

Interest rate risk limits restrict the size of interest rate GAP in each time bucket of an interest rate GAP analysis in relation to the Bank's capital and are expressed in percentage terms.

The limit for elasticity of the interest rate in respect of the bond portfolio restricts the market risk associated with all bond portfolios together with derivatives hedging risk arising from the change in exchange rates when the Bank holds foreign currency bonds.

The Bank's internal capital adequacy limit sets out requirements that are more stringent than the external capital adequacy limit established by the banking regulator.

The Bank uses hedging derivatives to manage market risk. The Bank has secured loans from European Investment Bank and German Kreditanstalt fuer Wiederaufbau bank as well as bonds. The risk management department of the Bank calculates accounting hedge effectiveness.

4.2.2. Derivates

Trading Derivatives

CZKm	31 December 2009 Notional value asset	31 December 2009 Notional value liability	31 December 2008 Notional value asset	31 December 2008 Notional value liability
Interest rate swaps	607	607	1 079	1,079
Currency forwards	333	331	480	478
Currency and cross-currency swaps	1,904	1,899	1,866	1,845
Total	**2,844**	**2,837**	**3,425**	**3,402**

CZKm	31 December 2009 Positive fair value	31 December 2009 Negative fair value	31 December 2008 Positive fair value	31 December 2008 Negative fair value
Interest rate swaps	11	9	14	10
Currency forwards	18	16	13	11
Currency and cross-currency swaps	75	60	85	49
Total	**104**	**85**	**112**	**70**

Derivatives held for trading – related parties

CZKm	31 December 2009 Notional value asset	31 December 2009 Notional value liability	31 December 2008 Notional value asset	31 December 2008 Notional value liability
Currency forwards	176	156	249	231
Total	**176**	**156**	**249**	**231**

CZKm	31 December 2009 Positive fair value	31 December 2009 Negative fair value	31 December 2008 Positive fair value	31 December 2008 Negative fair value
Currency forwards	18	-	14	-
Total	**18**	**-**	**14**	**-**

Hedging Derivatives

The Bank uses the below fair value hedging derivatives to hedge currency risk relating to recognized hedged items, which are securities denominated in foreign currencies (see notes 3.12 and 4.3) and assets and liabilities from a specific transaction concluded with the Ministry of Finance of the Czech Republic (see note 3.11).

CZKm	31 December 2009 Notional value asset	31 December 2009 Notional value liability	31 December 2008 Notional value asset	31 December 2008 Notional value liability
Cross currency swaps	3,733	4,351	4,344	5,106
Total	**3,733**	**4,351**	**4,344**	**5,106**

CZKm	31 December 2009 Positive fair value	31 December 2009 Negative fair value	31 December 2008 Positive fair value	31 December 2008 Negative fair value
Cross currency swaps	16	1,095	14	1,442
Total	**16**	**1,095**	**14**	**1,442**

4.3. Foreign currency risk

The Bank's financial position and cash flows are exposed to the risks of changes in exchange rates of common foreign currencies. The Bank monitors its foreign currency positions on a daily basis. In the event that the Bank breaches limits, it undertakes measures as outlined in its internal regulations relating to foreign currency exposure limits.

The table below provides summary information about the Bank's exposure to foreign currency risk. The tables set out foreign currency assets and liabilities at carrying values, analysed by currency.

The Bank covers its open position by using financial derivatives as can be seen from the tables below and the sensitivity analysis.

31 December 2009

CZKm	CZK	EUR	USD	HUF	GBP	Total
Financial assets	**54,902**	**6748**	**147**	**73**	**-**	**61,870**
Cash and balances with central bank	863	-	-	-	-	863
Amounts due from banks	17,429	95	7	-	-	17,531
Securities at fair value through profit or loss	559	424	134	-	-	1,117
Financial derivatives	120	-	-	-	-	120
Loans to customers, net	16,910	5,890	6	-	-	22,806
Securities available for sale	13,710	339	-	73	-	14,122
Securities held to maturity	5,214	-	-	-	-	5,214
Other financial assets	97	-	-	-	-	97
Non-financial assets	**348**	**-**	**-**	**-**	**-**	**348**
Total assets	**55,250**	**6,748**	**147**	**73**	**-**	**62,218**
Financial liabilities	**41,531**	**10,542**	**12**	**-**	**-**	**52,085**
Amounts due to banks	10,642	10,454	6	-	-	21,102
Amounts due to customers	29,500	88	6	-	-	29,594
Financial derivatives	1,180	-	-	-	-	1,180
Other financial liabilities	209	-	-	-	-	209
Non-financial liabilities and equity	**10,132**	**-**	**-**	**-**	**1**	**10,133**
Total liabilities and equity	**51,663**	**10,542**	**12**	**-**	**1**	**62,218**
On balance sheet position, net	3,587	(3,794)	135	73	(1)	
Off-balance sheet derivatives notional position, net	-	3,848	(129)	(68)	-	
Net position	**3,587**	**(54)**	**6**	**5**	**(1)**	

31 December 2008

CZKm	CZK	EUR	USD	HUF	GBP	Total
Financial assets	**68,067**	**6,842**	**45**	**125**	**-**	**75,079**
Cash and balances with central bank	108	-	-	-	-	108
Amounts due from banks	32,155	462	32	-	-	32,649
Securities at fair value through profit or loss	198	-	-	-	-	198
Financial derivatives	126	-	-	-	-	126
Loans to customers, net	19,652	6,023	13	-	-	25,688
Securities available for sale	13,590	357	-	125	-	14,072
Securities held to maturity	2,176	-	-	-	-	2,176
Other financial assets	62	-	-	-	-	62
Non-financial assets	**426**	**-**	**-**	**-**	**-**	**426**
Total	**68,493**	**6,842**	**45**	**125**	**-**	**75,505**
Financial liabilities	**54,584**	**12,183**	**44**	**-**	**-**	**66,811**
Amounts due to banks	9,307	11,730	25	-	-	21,062
Amounts due to customers	43,629	453	19	-	-	44,101
Financial derivatives	1,512	-	-	-	-	1,512
Other financial liabilities	136	-	-	-	-	136
Non-financial liabilities and equity	**8,694**	**-**	**-**	**-**	**-**	**8,694**
Total	**63,278**	**12,183**	**44**	**-**	**-**	**75,505**
On balance sheet position, net	5,215	(5,341)	-	124	-	
Off-balance sheet derivatives notional position, net	-	5,339	-	(121)	-	
Net position	**5,215**	**(2)**	**-**	**3**	**-**	

Foreign exchange rates sensitivity analysis

Set out below is a sensitivity analysis to foreign currency risk. The balance sheet items in foreign currencies were tested in respect of the upward movement of a foreign exchange rate by 10% (a 10% appreciation of the currencies would have an equal and opposite effect). The open position in EUR, USD and HUF currencies is hedged using derivatives. The hedging instruments almost fully counter-balance the open position (see tables above) and therefore also the income statement and equity impact of the movements in foreign exchange rates is not significant as of the balance sheet date and also during the year. The table below summarises the sensitivities in CZK in comparison only to CZK/EUR exchange rates valid as of 31 December 2009 or 2008 as EUR was the only significant currency in which the Bank had open position as at that date (for open position amounts see above).

	2009 CZKm	2008 CZKm
Sensitivity to changes in EUR rates		
Expected rate fluctuation, %	10%	10%
Open position	(54)	(2)
Effect on profit and loss	(5)	-
Effect on equity	-	-

4.4. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market interest rate before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the 'non-specified' category.

The Bank has a significant portion of amounts due to customers which are not interest bearing instruments. These comprise part of state deposits and risk funds (see Note 3.18). These liabilities are presented as liabilities with non-specified interest rate sensitivity.

Impaired loans are carried on a non-accrual basis and presented as items with non-specified interest rate sensitivity.

31 December 2009

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Non-specified CZKm	Total CZKm
Financial assets	**20,582**	**8,203**	**17,186**	**13,830**	**2,069**	**61,870**
Cash and balances with central bank	853	-	-	-	10	863
Amounts due from banks	17,322	-	206	-	3	17,531
Securities at fair value through profit or loss	1	10	710	396	-	1,117
Financial derivatives	-	-	-	-	120	120
Loans to customers, net	1,287	2,159	9,115	8,408	1,837	22,806
Securities available for sale	1,119	3,784	4,861	4,356	2	14,122
Securities held to maturity	-	2,250	2,294	670	-	5,214
Other financial assets	-	-	-	-	97	97
Non-financial assets	**-**	**-**	**-**	**-**	**348**	**348**
Total	**20,582**	**8,203**	**17,186**	**13,830**	**2,417**	**62,218**
Financial liabilities	**23,205**	**7,472**	**7,450**	**8,337**	**5,621**	**52,085**
Amounts due to banks	4,120	1,399	7,450	8,337	(204)	21,102
Amounts due to customers	19,085	6,073	-	-	4,436	29,594
Financial derivatives	-	-	-	-	1,180	1,180
Other financial liabilities	-	-	-	-	209	209
Non-financial liabilities and equity	-	-	-	-	10,133	10,133
Total	23,205	7,472	7,450	8,337	15,754	62,218
Net interest position	**(2,623)**	**731**	**9,736**	**5,493**	**(13,337)**	**-**

31 December 2008

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Non-specified CZKm	Total CZKm
Financial assets	**35,576**	**7,423**	**15,121**	**13,899**	**3,060**	**75,079**
Cash and balances with central bank	99	-	-	-	9	108
Amounts due from banks	30,804	1,550	206	-	89	32,649
Securities at fair value through profit or loss	-	100	98	-	-	198
Financial derivatives	-	-	-	-	126	126
Loans to customers, net	1,124	2,022	9,480	10,288	2,774	25,688
Securities available for sale	3,458	2,970	4,701	2,943	-	14,072
Securities held to maturity	91	781	636	668	-	2,176
Other financial assets	-	-	-	-	62	62
Non-financial assets	**-**	**-**	**-**	**-**	**426**	**426**
Total	**35,576**	**7,423**	**15,121**	**13,899**	**3,486**	**75,505**
Financial liabilities	**34,912**	**7,242**	**7,718**	**10,292**	**6,647**	**66,811**
Amounts due to banks	1,281	1,604	7,718	10,292	167	21,062
Amounts due to customers	33,631	5,638	-	-	4,832	44,101
Financial derivatives	-	-	-	-	1,512	1,512
Other financial liabilities	-	-	-	-	136	136
Non-financial liabilities and equity	**-**	**-**	**-**	**-**	**8,694**	**8,694**
Total	**34,912**	**7,242**	**7,718**	**10,292**	**15,341**	**75,505**
Net interest position	**664**	**181**	**7,403**	**3,607**	**(11,855)**	**-**

Interest rate sensitivity analysis

Balance sheet items sensitive to interest rates were analysed under the 2% expected parallel increase in interest rates. The Bank modelled 8 scenarios for possible movements of interest rates as the benchmark; the most probable alternative of 2% parallel shift was selected for reporting purposes. The impact on profit and loss and equity (in case of available-for-sale securities) is outlined below.

Balance sheet item	31 December 2009 Sensitivity/Impact	31 December 2008 Sensitivity/Impact	Comment
Assets			
Loans to customers	(126)	(223)	
Held to maturity securities	-	-	Only fixed interest rates securities in the portfolio
Available for sale securities – impact on equity	(380)	(605)	
Available for sale securities – impact on profit and loss	(276)	(171)	
Financial derivatives	(2,163)	(1,517)	
Liabilities			
Due to banks	99	175	
Financial derivatives	2,987	2,203	

4.5. Liquidity risk

Liquidity risk is the risk that the Bank will lose its ability to meet its financial obligations as they fall due or that it will not be able to fund its assets. Liquidity risk may result from a temporary payment insolvency and low liquidity of the market with financial instruments, which makes it impossible to quickly close out positions thereby limiting access to funding. The basic liquidity management tool involves the record-keeping and planning of the Bank's cash flows. In support of liquidity management, the Bank uses two mechanisms - payment notices and price setting. The liquidity management strategy is established and implemented through the preparation of a 'Liquidity Scenario' and 'Emergency Plan for Events Jeopardising the Bank's Liquidity'. The Bank's liquidity position is monitored through the liquidity reserve limit in relation to the value of adjusted weighted risk exposure.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees, margins and settlement of derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based upon the remaining maturity period as of the balance sheet date.

As the main depositors of the Bank are state institutions (Ministry of Finance, Ministry for Regional Development etc.) the current accounts of the Bank are presented as being repayable on demand because these funds can be withdrawn upon demand. However these deposits represent specific financing granted, e.g. funding for state approved programmes and therefore their withdrawal is not likely in large volume upon demand.

The Bank has a significant portion of amounts due to customers which are held for an undefined amount of time to finance individual support programmes. These comprise part of state deposits and risk funds (see Note 3.18). These liabilities are presented as liabilities with undefined maturity.

31 December 2009

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Financial assets	**23,604**	**8,171**	**16,421**	**13,575**	**99**	**61,870**
Cash and balances with central bank	863	-	-	-	-	863
Amounts due from banks	17,325	-	206	-	-	17,531
Securities at fair value through profit or loss	1	10	710	396	-	1,117
Financial derivatives	21	6	58	35		120
Loans to customers, net	4,275	2,121	8,292	8,118	-	22,806
Securities available for sale	1,119	3,784	4,861	4,356	2	14,122
Securities held to maturity	-	2,250	2,294	670	-	5,214
Other financial assets	-	-	-	-	97	97
Non-financial assets	**55**	**1**	**-**	**-**	**292**	**348**
Total	**23,659**	**8,172**	**16,421**	**13,575**	**391**	**62,218**
Financial liabilities	**23,886**	**7,098**	**8,317**	**8,069**	**4,715**	**52,085**
Amounts due to banks	4,452	1,400	7,264	7,986	-	21,102
Amounts due to customers	19,430	5,658	-	-	4,506	29,594
Financial derivatives	4	40	1,053	83	-	1,180
Other financial liabilities	-	-	-	-	209	209
Non-financial liabilities and equity	**544**	**640**	**1,672**	**1,649**	**5,628**	**10,133**
Total	**24,430**	**7,738**	**9,989**	**9,718**	**10,343**	**62,218**
Net liquidity exposure	**(771)**	**434**	**6,432**	**3,857**	**(9,952)**	**-**

31 December 2008

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Financial assets	**38,630**	**7,506**	**14,508**	**14,342**	**93**	**75079**
Cash and balances with central bank	108	-	-	-	-	108
Amounts due from banks	30,827	1,585	206	-	31	32,649
Securities at fair value through profit or loss	-	100	98	-	-	198
Financial derivatives	3	11	60	52	-	126
Loans to customers, net	4,143	2,059	8,807	10,679	-	25,688
Securities available for sale	3,458	2,970	4,701	2,943	-	14,072
Securities held to maturity	91	781	636	668	-	2,176
Other financial assets	-	-	-	-	62	62
Non-financial assets	**-**	**-**	**-**	**-**	**426**	**426**
Total	**38,630**	**7,506**	**14,508**	**14,342**	**519**	**75,505**
Financial liabilities	**36,881**	**6,980**	**8,779**	**10,341**	**3,830**	**66,811**
Amounts due to banks	1,654	1,813	7,333	10,262	-	21,062
Amounts due to customers	35,224	5,165	18	-	3,694	44,101
Financial derivatives	3	2	1,428	79	-	1,512
Other financial liabilities	-	-	-	-	136	136
Non-financial liabilities and equity	**42**	**175**	**709**	**1,042**	**6,726**	**8,694**
Total	**36,923**	**7,155**	**9,488**	**11,383**	**10,556**	**75,505**
Net liquidity exposure	**1,707**	**351**	**5,020**	**2,959**	**(10,037)**	**-**

Contractual liquidity of the main non-derivative financial liabilities at amortized cost and derivatives – undiscounted basis

a/ Amounts due to banks and customers

31 December 2009

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to banks	4,466	1,724	8,589	9,012	23,791
Amounts due to customers	21,342	6,225	5	2,134	29,706

31 December 2008

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to banks	1,666	2,229	9,061	11,381	24,337
Amounts due to customers	36,189	5,864	2	2,238	44,293

b/ Derivatives settled on a net basis

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted net cash flows.

31 December 2009

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps	10	(4)	(5)	-	1

31 December 2008

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps	3	(1)	2	-	4

c/ Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis include foreign exchange derivatives: currency forward, currency swaps and cross currency interest rate swaps.

The table below analyses the Bank's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2009

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Foreign exchange derivatives:					
Cash inflows	67	67	198	-	332
Cash outflows	(67)	(66)	(197)	-	(330)
Cross-currency swaps:					
Cash inflows	574	1,178	4,339	1,104	7,195
Cash outflows	(686)	(1,504)	(5,031)	(1,116)	(8,337)

31 December 2008

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Foreign exchange derivatives:					
Cash inflows	70	69	336	-	475
Cash outflows	(69)	(69)	(334)	-	(472)
Cross-currency swaps:					
Cash inflows	517	1,245	5,161	1,325	8,248
Cash outflows	(635)	(1,559)	(6,167)	(1,319)	(9,680)

4.6. Operational risk

The Bank defines operational risk as the risk of loss arising from human errors, the inappropriateness or failure of internal processes, failures of systems or the risk of loss resulting from external events.

The system of the Bank's operational risk management is built around the following four cornerstones:

- Strategy (clear vision, management attitude, culture);
- Organisation (Board of Directors, Assets and Liabilities Management Committee, internal audit, operational risk management coordinator, and the Bank's departments);
- Processes (identification, evaluation, countermeasures, monitoring and reporting); and
- Infrastructure (system, source of information, data collection and communication).

Identification of Operational Risk

The Bank identifies individual operational risks in all of its departments and categorises them according to the underlying cause (human error, internal process, information system, external factor). Responsibility for identifying operational risks primarily rests with the head of the department where the risk originates (via a self-evaluation form). Collection of information from individual departments and its processing is within the remit of the coordinator. The Bank identifies and records each risk to which it is exposed, even a risk that is no longer treated as a risk due to the countermeasures that are currently being implemented.

Evaluation of Operational Risk

Operational risk is evaluated in terms of the likelihood of its occurrence (graded one to five) and the significance of impact if it materialises (graded one to five). The Bank has opted for a qualitative approach to evaluating the risk which better meets its needs and better reflects the situation within the Bank. The evaluation is based on a reasonable estimate and uses scores to assess the likelihood of the occurrence and the significance of impact. Following the evaluation, individual risks are rated according to their overall significance (risk profile) into the following three levels:

- Low (ideal risk profile where the Bank only checks the effectiveness of the existing measures);
- Medium (the risk is acceptable only if the implementation of an appropriate countermeasure to mitigate the risk is too costly); and
- High (the risk is not acceptable, additional countermeasures need to be put in place and the risk mitigated).

Countermeasures

Responsibility for the implementation of an appropriate countermeasure against operational risks rests within the department where the risk originates (mitigation of the likelihood of the occurrence of operational risk or its impact on the Bank).

Monitoring and Reporting

The basic tool for monitoring is the database of incidents and a report on operational risk management within the Bank. These activities result in a risk profile of the Bank. Operational risk events include all events that have a direct impact on the Bank's profit or loss according to the Bank's activities during which the event occurred.

4.7. Capital management

The Bank has identified the following risks which should be covered entirely or partially by capital: market risks, interest rate risk of the banking book, credit risk and concentration risk, liquidity risk and operational risk.

The principal objectives of the Bank in managing capital risks are as follows:

- Quantification of risks in the form of economic capital which is needed to cover potential losses arising from these risks;
- Comparison of capital requirements with capital resources;
- Management of capital resources with respect to current and future risks;
- Determination of the maximum acceptable degree of risks with respect to available capital resources;
- Monitoring and management of the performance of business activities with respect to the risk or the capital requirements; and
- Strategic planning with respect to the risk, allocated capital resources and capital efficiency of individual business activities of the Bank.

The Bank has established an internal limit for capital adequacy at 11% of the Bank's capital. The Bank has implemented the standard approach for capital management which is in compliance with Basel II requirements.

CZKm	31 December 2009	31 December 2008
Tier 1 capital		
Share capital	2,132	2,132
Statutory and other reserves	1,150	1,150
Retained earnings (without profit for the current year, statutory non-consolidated)	1,250	1,095
Less: intangible assets	(20)	(21)
Total qualifying Tier 1 capital	**4,512**	**4,356**
Total regulatory capital	**4,512**	**4,356**
Total risk-weighted assets	**29,684**	**27,569**
Capital adequacy ratio	**15.2%**	**15.8%**

5/ Fair values of assets and liabilities and fair value hierarchy

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates might not be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and balances with the Central Bank

The carrying values of cash and balances within the central bank are generally deemed to approximate their fair value.

(b) Securities Held to Maturity

Fair values of securities in the 'Held-to-Maturity' portfolio are taken from the active market, where these instruments are quoted.

c) Due from banks

The fair value of amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

d) Loans to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

e) Amounts due to banks and customers

The fair value of term deposits repayable on demand approximates the carrying value of amounts repayable on demand as of the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as of the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

CZKm	31 December 2009 Carrying value	31 December 2009 Fair value	31 December 2008 Carrying value	31 December 2008 Fair value
Financial assets				
Cash and balances with the central bank	863	863	108	108
Amounts due from banks	17,531	17,517	32,649	32,595
Loans to customers	22,806	21,783	25,688	24,576
- Loans to private legal entities and individuals	5,348	4,514	5,731	4,876
- Loans to the Ministry of Finance of the Czech Republic and other government entities	16,462	16,462	19,020	19,020
- Loans to municipalities	996	807	937	680
Securities held to maturity	5,214	5,227	2,176	2,139
Financial liabilities				
Amounts due to banks	21,102	20,809	21,062	20,861
Amounts due to customers	29,594	29,468	44,101	43,940

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges (for example Prague Stock Exchange and other recognized stock exchanges)

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivative contracts. The sources of input parameters like PRIBOR or other yield curves are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes financial instruments with significant unobservable components

This hierarchy requires the use of observable market data when available. The Bank considers only relevant and observable market prices in its valuations and does not have any financial assets or liabilities at fair value to be categorized in Level 3. There have not been any reclassifications between the Levels 1 and 2 during the presented periods.

31 December 2009

	Level 1	Level 2
Financial assets at fair value through profit and loss		
Financial assets held for trading		
- Debt securities	559	-
- Derivatives	-	104
Debt securities designated at fair value	424	134
Hedging derivatives	-	16
Available-for-sale debt securities:	13,911	212
Total assets at fair value	**14,894**	**466**
Financial liabilities at fair value through profit and loss		
- Financial liabilities held for trading - derivatives	-	85
Hedging derivatives	-	1,095
Total liabilities at fair value	**-**	**1,180**

31 December 2008

	Level 1	Level 2
Financial assets at fair value through profit and loss		
Financial assets held for trading		
- Debt securities	198	-
- Derivatives	-	112
Hedging derivatives	-	14
Available-for-sale debt securities:	13,628	444
Total assets at fair value	**13,826**	**570**
Financial liabilities at fair value through profit and loss		
- Financial liabilities held for trading - derivatives	-	70
Hedging derivatives	-	1,442
Total liabilities at fair value	**-**	**1,512**

6/ Subsequent events

No significant events having a material impact on the financial statements of the Bank for the year ended 31 December 2009 occurred subsequent to the balance sheet date.

The Board of Directors has authorised these financial statements for submission to the General Meeting of Shareholders. These financial statements have been signed, on the basis of authority delegated by the Board of Directors, by Ladislav Macka, Chairman of the Board and Chief Executive Officer, and Jan Ulip, Member of the Board and Chief Financial Officer.

0920092009200

Contact addresses

Headquarters

110 00 Prague 1
Jeruzalémská 964/4
tel.: 255 721 111
fax: 255 721 110
e-mail: info@cmzrb.cz
www.cmzrb.cz

CEO's secretariat	tel.: 255 721 441 – 442
Secretariat of the Deputy to the CEO heading the Administration, Human Resources and IT departmens	tel.: 255 721 426
Secretariat of the Deputy to the CEO heading the Trade Support Division	tel.: 255 721 431
Strategy Division secretariat	tel.: 255 721 252
Economic Division secretariat	tel.: 255 721 455
Trade Management secretariat	tel.: 255 721 381

Branch Offices

Brno	603 00 Brno, Hlinky 120/47 tel.: 538 702 111, fax: 538 702 110 e-mail: infoBM@cmzrb.cz
Hradec Králové	500 03 Hradec Králové, Eliščino nábřeží 777/3 tel.: 498 774 111, fax: 498 774 110 e-mail: infoHK@cmzrb.cz
Ostrava	701 77 Ostrava, Přívozská 133/4 tel.: 597 583 111, fax: 597 583 110 e-mail: infoOV@cmzrb.cz
Pilsen	303 76 Pilsen, Bezručova 147/8 tel.: 378 775 111, fax: 378 775 110 e-mail: infoPM@cmzrb.cz
Prague	110 00 Prague, Jeruzalémská 964/4 tel.: 255 721 111, fax: 255 721 584 e-mail: infoAB@cmzrb.cz
Regional office	370 01 České Budějovice, Husova 9 tel./fax: 387 318 428 e-mail: plojhar@cmzrb.cz
Information centre	760 30 Zlín, Štefánikova 167 tel.: 576 011 503, fax: 576 011 505 e-mail: info@ohkzlin.cz

0920092009200

2009

092009**2009**200

Českomoravská záruční a rozvojová banka, a. s., Jeruzalémská 964/4, Praha 1 www.cmzrb.cz