VOLKSBANK
ČESKÁ REPUBLIKA

Business Results of Volksbank CZ, a.s.

Annual Report 2009

Výroční zpráva 2009

Austria

Bosnia-Herzegovina

Croatia

CZECH REPUBLIC

Hungary

Romania

Serbia

Slovakia

Slovenia

Ukraine

Důvěra spojuje.

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FOREWORD FROM THE BOARD OF DIRECTORS

from left:
Frank Guthan
Johann Lurf
Gernot Daumann
Libor Holub

Dear Ladies and Gentlemen,
Dear Clients, Business Partners and Shareholders,

In 2009, a year that will forever be associated with global economic recession, Volksbank reaffirmed its performance and its stable position on the Czech banking market founded on long-term cooperation with clients.

The volume of client deposits rose in the past year by more than 11% to a final CZK 30 billion as a result of an expanded deposit products offering and sales mobilisation. Due to Volksbank's continued lending activities in corporate as well as in retail area the volume of newly provided loans reached CZK 5.4 billion, and thus the Bank's total loan portfolio exceeded CZK 38 billion. Total assets, at CZK 47.6 billion, remained level with the previous year while the number of the Bank's clients increased by 5%. An important element reaffirming the Bank's stability is its capital adequacy, which exceeded 15% and thus was among the highest in the banking sector.

Volksbank CZ closed out 2009 with a pre-tax profit of CZK 276 million. In the context of an economic downturn in the Czech Republic, asymmetrically falling interest rates, and increased costs of risk, it is a very satisfactory result. The main cause of the lower profit was a decline in net interest income. Volksbank has kept credit risk under control over a long-term time horizon, and provisioning expenses were lower than planned for 2009. Rigorous control and management of costs also impacted positively on the results.

We devoted great attention to developing further products and services in order to expand and improve their quality. From a product perspective, deposits became Volksbank's main priority in the past year. The Bank dedicated increased attention to this area, focusing on the offering of a key product, the Current Savings Account, with attractive interest rates. The tools available to clients for electronic communication with the Bank were expanded with new state-of-the-art security with an electronic key. In the second half of the year, mortgage loan refinancing also met with success.

The Volksbank Board of Directors was reinforced in 2009 with two new members: Messrs Gernot Daumann and Frank Guthan. The four-member Board of Directors undertook the management of the Bank with renewed vigour and effectively implemented measures limiting negative impacts of the financial crisis on the Bank while creating foundations for organic growth in coming years.

The branch network was expanded with another point of sale in Prague 4 – Pankrác, where Volksbank CZ's headquarters also have been newly located since April 2009.

The long-term development of basic indicators clearly demonstrates that Volksbank CZ will continue steadily to grow. Since 2005, the Bank has more than doubled the volumes of its loans and deposits as well as its total revenues. Behind these results are the trust of our clients, the client-oriented approach of employees and the support of our shareholders. We would like to thank all of them for their contributions to this success. After a year of reflecting on the fundamentally changed conditions in the economy and their projection into the Bank's management and operations, we expect in the coming months to see renewed growth and a continuation of the Bank's successful development founded on long-term cooperation with clients.

Johann Lurf　　Gernot Daumann　　Frank Guthan　　Libor Holub

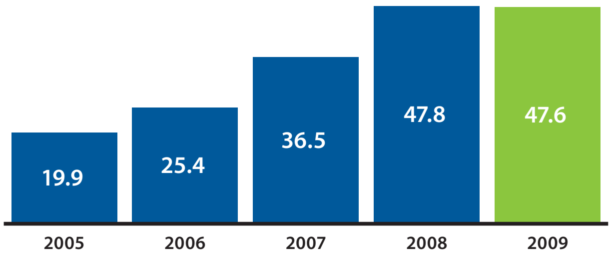
KEY FIGURES IN SUMMARY

CZK million	2009	2008	2007	2006	2005
Total assets	47,598	47,784	36,448	25,414	19,915
Capital adequacy	15.46%	13.95%	12.57%	11.13%	9.92%
Liabilities to clients, including deposit certificates	30,170	27,155	23,685	16,842	13,971
Receivables from clients	38,093	39,059	30,161	21,020	16,532
Income on financial transactions before provisions and allowances	1,508	1,749	1,342	907	736
Operating expenses	835	825	725	580	548
Profit on ordinary activities before tax	276	443	440	255	171
Profit for the year	**185**	**339**	**320**	**177**	**121**
Number of employees*	695	726	635	497	453
Number of points of sale	57	56	54	32	22

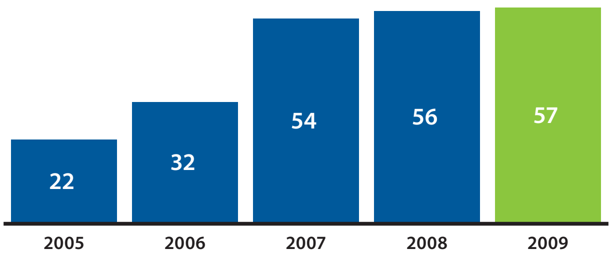
* including employees on maternity leave

TOTAL ASSETS

CZK billion

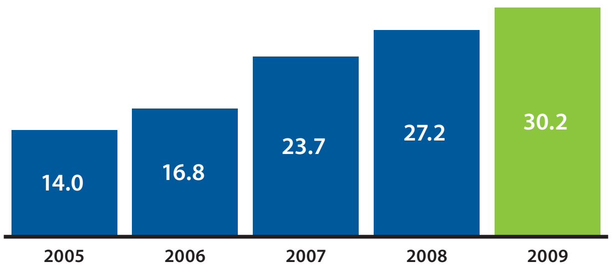


POINTS OF SALE



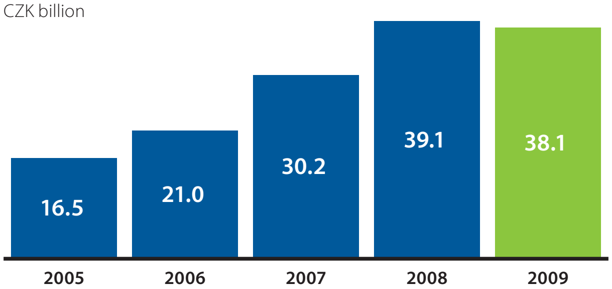
CLIENT DEPOSITS

CZK billion



LOANS TO CLIENTS

CZK billion



INTERNATIONAL NETWORK

Volksbank CZ has prospered in the Czech market since 1993. The bank's main shareholder is Volksbank International AG.

Volksbank International AG (VBI), located in Vienna, Austria, is majority-owned by VBAG (51 %), the remaining shares are equally held by the German DZ BANK / WGZ BANK and the French Banque Populaire Caisse d'Epargne (both 24.5 %). VBI is managing a successful and steadily expanding network of 600 outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Ukraine.

As of 2009 the total assets of VBI Group amount to EUR 13.9 billion. 5,500 employees offer a full range of modern banking products and services to both private and corporate clients.

SHAREHOLDERS STRUCTURE BY PROPORTION OF TOTAL SHARE CAPITAL AS AT 31 DECEMBER 2009

Volksbank International AG, Vienna	98.14%
Banca Popolare di Vicenza S.C.P.A., Vicenza	0.93%
EM.RO Popolare S.P.A., Modena	0.93%

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GOVERNING BODIES

SUPERVISORY BOARD

CHAIRMAN

Friedhelm BOSCHERT
Chairman of the Supervisory Board

Appointed on: 24 April 2008
Experience:
22 years of banking experience, 15 years of management experience
Membership on other companies' bodies:
Volksbank International AG, Austria: Chairman of the Board of Directors; Volksbank Banja Luka, Bosnia and Herzegovina: Chairman of the Supervisory Board; Volksbank BH d.d., Bosnia and Herzegovina: Chairman of the Supervisory Board; VB-Holding AG, Austria: Member of the Supervisory Board; Volksbank-Invest GmbH, Austria: Member of the Supervisory Board; IK Investmentbank AG, Austria: Member of the Supervisory Board; Vienna Economic Forum, Austria: Member of the Board of Directors; Hayek Institut, Austria: Member of the Board of Directors

VICE-CHAIRMAN

Engelbert BRAMERDORFER
Vice-Chairman of the Supervisory Board

Appointed on: 20 April 2009
Experience:
12 years of banking experience, 9 years of management experience
Membership on other companies' bodies:
Volksbank BH d.d., Bosnia and Herzegovina: Vice-Chairman of the Supervisory Board; Electron Bank, Ukraine: Member of the Supervisory Board

SUPERVISORY BOARD MEMBERS

Gabriele UGOLINI
Member of the Supervisory Board

Appointed on: 24 April 2008
Experience:
36 years of banking experience, 24 years of management experience

Membership on other companies' bodies:
Volksbank BH d.d., Bosnia and Herzegovina: Member of the Supervisory Board

Peter SZENKURÖK
Member of the Supervisory Board

Appointed on: 24 April 2008
Experience:
15 years of banking experience, 9 years of management experience
Membership on other companies' bodies:
Volksbank Slowakei, Slovakia: Member of the Supervisory Board; Volksbank Kroatien, Croatia: Member of the Supervisory Board; Volksbank Rumänien, Romania: Member of the Supervisory Board

Igor DOBŘICKÝ
Member of the Supervisory Board

Appointed on: 25 June 2009
Experience:
12 years of banking experience, 5 years of management experience
No membership on other companies' bodies.

Ing. Miroslav JANDA
Member of the Supervisory Board

Appointed on: 25 June 2009 (till 30 November 2009)
Experience:
19 years of banking experience, 15 years of management experience
No membership on other companies' bodies.

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BOARD OF DIRECTORS

CHAIRMAN

Johann LURF
Appointed on: 24 April 2008
Experience:
34 years of banking experience, 23 years of management experience
No membership on other companies' bodies.

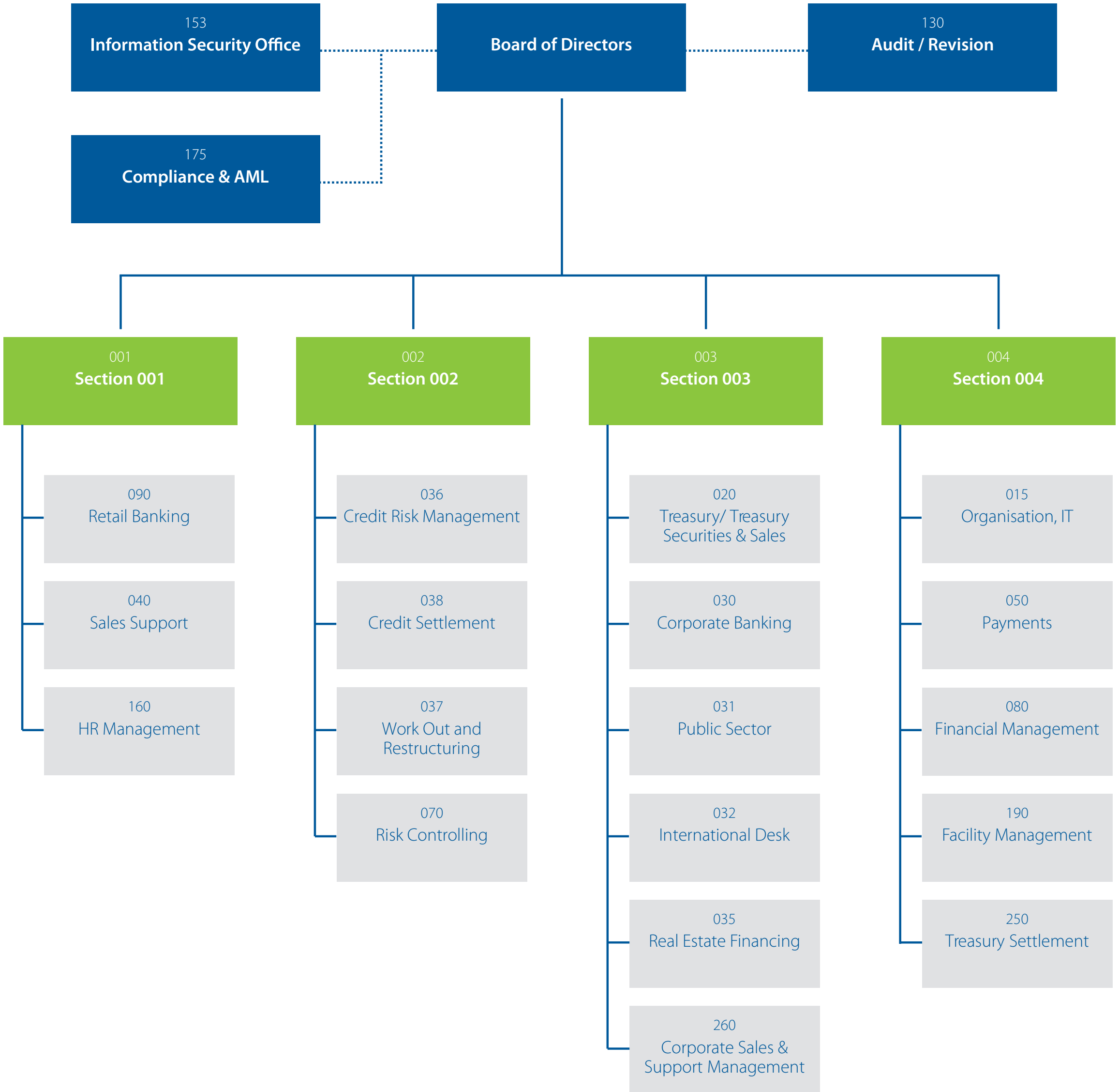
MEMBER OF THE BOARD OF DIRECTORS

Gernot DAUMANN
Appointed on: 1 February 2009
Experience:
21 years of banking experience, 21 years of management experience
No membership on other companies' bodies.

Frank GUTHAN
Appointed on: 1 March 2009
Experience:
17 years of banking experience, 15 years of management experience
No membership on other companies' bodies.

Ing. Libor HOLUB
Appointed on: 26 November 2008
Experience:
8 years of banking experience, 15 years of management experience
No membership on other companies' bodies.

ORGANISATION CHART



GENERAL ECONOMIC BACKGROUND

MACROECONOMIC DEVELOPMENT IN THE CZECH REPUBLIC IN 2009

Czech economy in recession

The year 2009 was marked by global recession, which also significantly affected the Czech economy. After a period of growth that had begun in 1998, the Czech economy fell sharply in 2009. The Czech economy, characterised by a high share of exports in GDP, was very severely hit by the downturn in demand, and particularly in euro zone countries.

Despite hints of recovery at the end of the year, data from the last quarter of 2009 did not confirm this modest optimism. Gross domestic product for 2009 declined by 4.1%. Gradual recovery of the Czech economy can be expected in 2010, as GDP could rise by 1.5%.

After a long-term decline in unemployment, which had reached a low point in 2008, the year 2009 marked a change in that trend. In late 2009, unemployment reached 9.2% and data from early 2010 suggests that it will continue to rise. From this perspective, it is highly probable that unemployment can approach the 10% level during 2010.

Consumer inflation reached 1% in 2009, thus bouncing back from the bottom it had reached in October 2008. We expect no significant inflationary pressures in 2010, and inflation thus could hover around 1%. The Czech National Bank's inflation target of 2% should therefore not be threatened.

Industrial production grew by 1.8% in 2009. Although this result seems good at first sight, signs of recovery are generally very hard to find. This result was generated almost solely due to the influence of foreign automobile "scrapping" programmes. Moreover, the motor vehicles industry represents a risk for the remaining months of 2010. We expect industrial production to increase by 5% in 2010. The reason for this optimism is an expected rise in the global economy that will bring recovery to export activities.

CZECH CROWN AND INTEREST RATES

Crown-denominated interest rates continued to decrease in 2009. The Czech National Bank reduced the key interest rate four times during the year, from 2.25% at the beginning of the year to 1% at year's end. Considering the development of inflation, the key interest rate has reached its bottom and will very likely remain at this level through the first half of 2010.

The Czech crown's exchange rate was very volatile in 2009. In the first quarter of 2009, it weakened excessively to levels approaching 30 CZK to the EUR. Despite persisting uncertainty and high market volatility, the Czech currency returned during the year to levels corresponding to the long-term trend. It then reached its strongest level in the third quarter when it approached the level of 25 CZK to the EUR.

Although modestly optimistic, we remain very cautious in our macroeconomic outlook for 2010. The positive impact on the Czech economy of the expected moderate recovery abroad will be dampened by fiscal reform in consolidating public finances, expected stagnation in household consumption, and rising unemployment.

BUSINESS ACTIVITIES

CORPORATE CLIENTS

Lending activities in 2009 were greatly influenced by the ongoing economic recession. The growth in new business slowed markedly from previous years, and greater effort had to be dedicated to existing business, where a drop in orders on the market as well as the generally worsening payment discipline caused a corresponding decrease in turnover for a number of business entities and often also problems with cash flow.

In the past year, the Bank began financing photovoltaic projects. Thanks to the creation of a specialised team, photovoltaic projects constituted a considerable portion of new business cases.

The Corporate Clients division recorded a very successful year in deposit transactions. The established plan was exceeded and the results achieved notably influenced fulfilment of the demanding targets that had been set for the entire Bank. The volume of deposit transactions increased in December 2009 compared with the same period of the previous year by fully 37%.

Similar development was seen in the size of the managed client portfolio. As measured by the number of new clients, 2009 was the most successful year in the Corporate Clients division's history. The client portfolio grew by nearly 15%. This included in particular clients from the SME segment, which only confirmed the continuity of the Bank's strategy of focusing on that segment.

The aforementioned results were influenced primarily by three main factors: very successful regionally oriented marketing campaigns, which also helped to boost the Bank's reputation and prestige in individual regions; the creation in late 2008 of the position of SME business development manager; and, last but not least, the commitment and contribution of this division's individual employees.

RETAIL BANKING

Deposits became the main priority for 2009 in retail banking. Especially in the first half of the year, the Bank devoted great attention to this matter and focused on its offer of the Current Savings Account with an attractive interest rate that brought substantial business success and caught the attention of the entire Czech market.

After an ever-stressful first quarter of 2009, the financial market began to stabilise globally and its gradual "thawing" made it possible to begin focusing fully as from the second quarter on other priorities as well, such as sales of guaranteed securities, insurance and construction savings.

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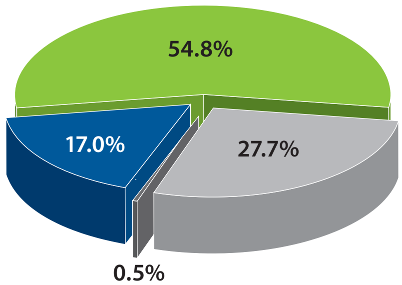
The Bank entered the second half of the year with an improved loans-to-deposits ratio. This enabled it further to focus on housing loans and providing financing for tradespeople, entrepreneurs and small businesses. Mortgage specialists focused in 2009 especially on selling mortgage refinancing, for which there is a high certainty of trouble-free repayment due to the already verified history of the refinanced mortgages. In the agricultural sector, the Bank focused on deposits and agricultural technology loans. At year's end, a new and much-in-demand product for financing the purchase of agricultural land was introduced.

During 2009, the Bank also evaluated the success of the Volksbank SHOP low-cost banking sales channel. Based on the results of an extensive analysis, the Bank's Board of Directors decided to restructure the entire project with the aim to make sales more effective and to increase revenues. Vital changes began already in the fourth quarter of 2009 and are scheduled to be completed in June 2010.

Sales of insurance from our partner company Victoria-Volksbanken grew by 20% in 2009, while sales of building society products from Českomoravská stavební spořitelna increased by 25% compared with the previous year. As a result of its conservative advisory strategy, Volksbank also recorded a successful year in the area of securities sales.

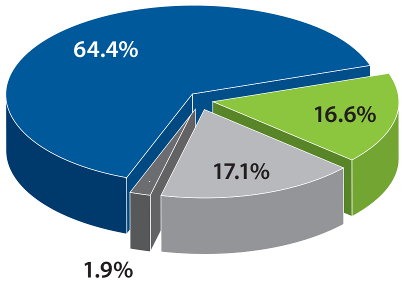
In the coming months, Volksbank's retail banking will be concentrated particularly on improving the quality of advisory services to the Bank's existing clients and the ensuing active offer of appropriate products supported by direct marketing.

STRUCTURE OF CLIENT DEPOSITS



- Current savings accounts
- Other current accounts
- Term deposits
- Savings books

LOANS TO CLIENTS



- Investment loans
- Working capital financing
- Mortgages
- Consumer loans

INTERNATIONAL DESK

Despite the concerns prevailing at the start of the year, the generally worsening international economic situation did not significantly affect the International Desk's business activities in 2009.

On the one hand, we can state that the notably upward trend from previous years has changed rather to one of stagnation that did not permit the operating results from 2008 to repeat themselves. On the other hand, it should be emphasised that during the past year the Bank recorded no increase in risk allowances. From this point of view, the International Desk's development met with the opposite tendency compared to the overall situation on the banking market, as the majority of its allowances created in 2008 were released in 2009.

A conservative approach in the area of lending to businesses and upholding the "know-your-customer" principle – principles that had been introduced in previous years – paid off for the Bank in these difficult times.

Despite an increasingly competitive environment, the number of the International Desk's clients remained stable during the past year.

In 2010, we are once again optimistic and anticipate significant growth both in business volumes and in the number of clients.

REAL ESTATE FINANCING

The real estate market in 2009 showed signs of stagnation. The area of new residential projects in particular was strongly influenced by weaker demand from buyers. This fact also was reflected in Volksbank's business activities, as financing of new projects (whether residential or administrative) was more or less sporadic. In 2009, the Bank focused above all on monitoring existing projects, on minimising and addressing risks associated with these projects (project restructuring, renewal and the like), and especially on supporting the sale of the final product (advantageous mortgages plus active cooperation and communication with developers in selling residential units).

Even in this difficult time, Volksbank experienced several major achievements in the real estate financing area. These include successful realisation of a large residential complex in the Vysočany area of Prague with a cost volume of approximately CZK 650 million. The project was successfully completed and all of its 270 residential units have been sold.

In late 2009, the first signs of the residential market's recovery could be observed in increased sales. The Bank believes that this positive trend will continue also in 2010. As evidence, it points to, among others, the planned financing of a large new administrative and residential complex in Pankrác, Prague 4, with a volume of some CZK 850 million. This project will consist of 8,300 sqm of class A office space and 180 modern residential units.

PUBLIC SECTOR

The Bank's business activities in the public sector in 2009 continued to focus especially on supporting the drawing of EU funds. This was achieved mostly by providing loans for pre-financing and co financing of EU subsidies for projects implemented by cities and municipalities and related advisory services. In accordance with the Bank's strategy, the volume of loans granted by the Bank to regional and district governments has remained stable over the long term.

The external conditions in the target group of housing cooperatives and apartment owners associations changed significantly as a result of an amendment, effective from 1 May 2009, to the "New Panel" state programme supporting repairs and modernisation of apartment buildings. The amendment extended the list of supported repairs and made grants available also to owners of non prefabricated apartment buildings. Given the steady demand for this type of financing, the Bank's loan exposure in the cooperative segment increased slightly. This development was accompanied by a rise in this client group's deposits by 45% in comparison with 2008.

TREASURY / SECURITIES

Financial markets

As true of the previous year, 2009 can be considered as exceptional from many perspectives. The situation on the domestic financial market in 2009 was affected by the ongoing financial crisis. Unlike in neighbouring countries, the financial crisis found the Czech banking sector in a very solid position and thus the impact on the domestic banking sector was not so dramatic.

The domestic inter-bank market was characterised in particular by a liquidity surplus, relative insulation and sufficient resources, as well as by a very small proportion of so-called toxic assets, good capitalisation and high profitability.

Despite continuing distrust from late 2008, when banks almost ceased lending to one another, there gradually appeared a certain easing during 2009 and the market became liquid once again. Banks' willingness to lend to one another, however, was limited to short maturities of one or three months in late 2009. Banks parked the majority of their available liquidity in secure instruments such as central bank deposits and government bonds.

The Czech National Bank responded to the financial market situation by gradually reducing its key interest rate to a historical low of 1%. At the same time, the central bank began trading instruments in order to stabilise the situation on the inter-bank market and support its liquidity.

Volksbank continued to strengthen its position on the inter-bank market even during the financial crisis. In addition to money market and foreign exchange instruments, the Bank focused on capital markets trading. Investments in secure government bonds contributed significantly to the Bank's total profit.

Investment instrument sales

After several previous quiet years, the Czech economy and banking sector experienced a stormy one. Despite the difficult period of financial crisis that shifted from the financial to the business sector during the year, Volksbank maintained its strong position on the inter-bank market in 2009. The Bank continued to pursue its successfully established long-term strategy for selling investment instruments to hedge currency and interest rate risks. In 2009, Volksbank successfully expanded its cooperation with institutional clients. The individual approach of its Treasury experts to all customers, increase in the quality and comprehensiveness of its services, and innovation through custom-tailored products will over the long term bring a growing number of clients using treasury products. Particularly through its active approach to institutional clients, the Bank was able even during the financial crisis to secure sufficient stable funds to strengthen the liquidity position.

Investment products for retail clients

Volksbank continued to improve the quality of services provided and to expand the offer of investment instruments for its clients. In the atmosphere of ongoing crisis and clients' aversion to riskier products, demand grew especially for secure products. Volksbank responded to this new situation requiring secure investments by offering high-quality government and bank bonds. The Bank also continued to sell new issues of guaranteed certificates, albeit on a limited scale.

Bank issues

In 2009, Volksbank continued as in previous years to successfully issue mortgage-backed securities. It was one of few banks successfully to place a new issue this year, and that in a total volume of CZK 500 million with maturity in 2014. This marked the fifth successive bonds issue. Both institutional investors and private clients subscribed for the mortgage-backed securities.

PAYMENT SYSTEM

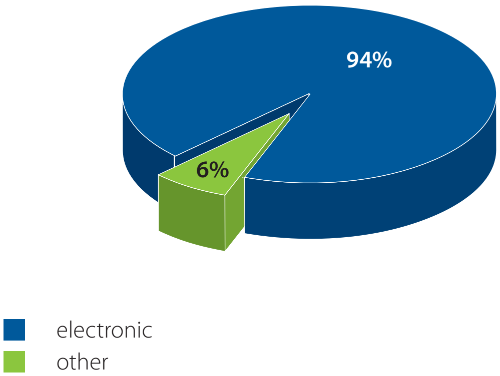
In connection with the financial crisis, the Bank also recorded changes in the volumes of non-cash payments executed in 2009 compared to previous years, when development had shown an upward trend.

The number of domestic payments grew by 3% in the case of outgoing payments and decreased by 8% for incoming payments as compared with 2008. The number of outgoing foreign payments executed decreased by 2%, while the number of executed incoming payments was 5% more than in the previous year.

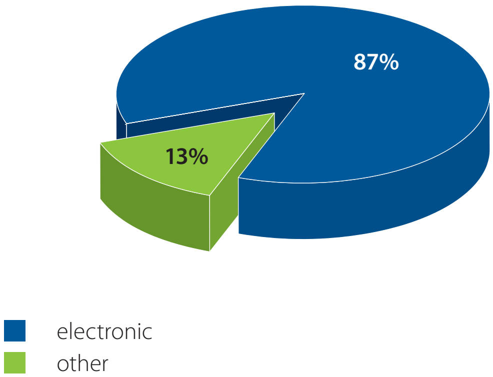
A high degree of payment system computerisation is evidenced by the proportion of electronically submitted payment orders in the total amount of executed payments. The shares of such payments was 94% within the domestic payment system and 87% within the foreign payment system. Compared with the previous year, this proportion was 1% higher for both domestic and foreign payments.

Payment system – outgoing payments in 2009 by method of submission

DOMESTIC PAYMENTS



FOREIGN PAYMENTS



IT / ORGANISATION

For the Organisation / IT division, the year 2009 was characterised by a search for cost savings and effective solutions. This fact could not in any way negatively impact business objectives, sales support or other important tasks. Nevertheless, significant savings were found and helped to increase the operational efficiency of IT systems. In this area, the incorporation of new internal processes according to the ITIL methodology, and in particular "incident and request management", should be highlighted. As support for these internal processes, new Service Desk software was installed.

Despite a complex situation in the IT investments area, software helping to simplify and accelerate the work of staff at branches was put into operation. The so-called Front End system project was completed according to the original time schedule and budget. Volksbank CZ thereby joined its associated companies in Hungary and Slovakia which had begun using the software a few months earlier.

A number of the division's activities were associated with implementing changes connected to the new Payment System Act which came into force in 2009. Despite sometimes ambiguous interpretation of the Act, the Bank was able to meet all the legal requirements and at the same time offer new services and information to clients, such as dissemination of information on fees and unexecuted payments and issuance of Bank statements in electronic form.

An important change within electronic banking was the initiation of a more secure form of user identification and transaction authorisation. With introduction of the so-called token, the Bank is increasing the security of its Internet Banking to the maximum possible technical level currently available on the market.

SALES SUPPORT

In line with the Bank's general business strategy, it focused in the sales support area during 2009 primarily on increasing the volume of client deposits. Support for the lending business was subdued in the first half of the year. While in the second half of the year support of sales activities continued to focus especially on deposits, lending activities generating new revenues for the Bank were renewed.

To support achieving the established business objectives, the Bank implemented, and by mid-year had launched the live operation of, an instrument enhancing the effectiveness of sales departments – the Front End System. This is an integrated banking system web superstructure enabling more sensitive and more flexible reaction to market demands while reducing operational risk and at the same time improving data quality.

An innovation in electronic banking for Volksbank clients is represented by the new advanced security of internet banking operations through use of an electronic key (token).

In the past year, the Sales Support division participated in preparing and implementing the new Payment System Act and Code on Client Mobility.

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Product Development

One of the main activities of the Product Development department in the past year was to support sales of deposit products. Efforts in the loans area were directed especially to optimising the processes inside the Bank for providing loans.

The popular Current Savings Account that is supported by the “rabbit” campaign has been offered also to micro-enterprises and entrepreneurs since 2009. Moreover, the savings account offer was supplemented by the possibility to earn higher returns on deposited funds in the form of time deposits bearing advantageous interest rates. Since April 2009, the Current Savings Account, including advantageous term deposits, also has been offered in the Volksbank SHOP network.

In the case of Volksbank SHOPs, the Product Development department’s activities were directed to preparing new sales tools improving the quality of this sales channel’s client service.

The provision of corporate and business loans was supported by extending cooperation with Czech-Moravian Guarantee and Development Bank (CMZRB). Thanks to this cooperation, Volksbank clients are now able to secure their loans using all types of guarantees provided under the Guarantee programme. Cooperation with the international consulting company EUFC CZ, which deals in advisory and project activities for drawing grants from EU Structural Funds, was begun in the second half of 2009. Expansion of the Bank’s activities in that direction created space for providing an additional customer service and contributed to increasing client awareness about the subsidies. In the area of private sector financing, the Bank accommodated the needs of clients organising housing investments leading to energy savings and it introduced the new “Green Loan” as from September 2009.

At the start of 2009, Volksbank extended its collaboration with the European Investment Bank in relation to refinancing projects for small and medium enterprises. The year 2009 also was successful in terms of partnership collaborations with other companies. These include Českomoravská stavební spořitelna, a.s., with which the Bank cooperates in providing building society products; ČSOB Penzijní fond Stabilita, a.s. and ČSOB Penzijní fond Progres, a.s., in providing supplemental pension insurance; Victoria Volksbanken pojišťovna, a.s., which provided the Bank’s clients with insurance products in 2009; AXA penzijní fond, a.s. (supplementary pension insurance); and VB Leasing CZ, spol. s r.o.

Moreover, an important step in the second quarter of 2009 was the launch of the new electronic list of fees. Its division into Individuals, Entrepreneurs, and Corporate and Public Sector sections simplifies orientation for customers, and its interactive form allows them to quickly find a particular fee.

An important date in 2009 was 1 November, at which time the new Payment System Act became effective. Pursuant to this Act, the Bank made a number of changes associated with account statements, time limits for executing payments, payment cards, and more. Also since the start of November 2009, Volksbank has joined the ranks of banks applying Czech Banking Association Standard No. 22, the so-called Code on Client Mobility. The Bank thereby helps clients (individuals – consumers) in changing banks, including to transfer standing payment orders and direct debit permissions from the original bank to a new bank.

External sales networks

For Volksbank, 2009 entailed a volume decrease in the area of collaborating with its external sales partners, although the quality of the Bank's external partners portfolio improved.

Products for retail clients, namely standard and American mortgages, pre-mortgages, mortgages combined with investment life insurance, and investment loans for small companies and entrepreneurs, predominated in the offerings of external partners. Great emphasis also was placed on loan refinancing, which was supported by making conditions more advantageous, and this attracted strong interest from external partners and their clients. Products for housing cooperatives and apartment owners associations also drew considerable interest, as this area, too, has shown its potential for further growth.

Deposits became a new area of cooperation with external partners. Such cooperation was developed mainly with individual local partners and, since mid-2009, also with Českomoravská stavební spořitelna.

Payment cards

The total volume of processed transactions made in 2009 using Volksbank CZ payment cards slightly exceeded the amount from 2008. The number of transactions in the past year also recorded a slight increase as compared with the previous year.

The Bank has been issuing all payment cards with state-of-the-art chip technology since 2008. During 2009, Volksbank continued intensively to replace already existing cards with cards having the chip technology. As at the end of 2009, 97% of the total number of valid Volksbank cards were equipped with a chip. This percentage ranks Volksbank among the leading banks on the market when comparing the status of migration to the chip technology.

During 2009, the Bank stabilised its ATM network, which operates using the most modern security technologies. Through its collaboration with ČSOB, Volksbank's clients are given access to a network of more than 800 ATMs under favourable conditions.

In the past year, the Cards department devoted itself as a matter of priority to security measures directed to protecting Volksbank clients to the greatest extent possible and to actively notifying them of any potential risk.

In November 2009, Volksbank changed the frequency of charging card maintenance fee from annual to monthly. The new model for charging fees should better correspond to clients' needs. In mid-2009, the Bank began to issue cards with five-year validity. This change increases customer convenience and is also more environmentally friendly.

All the aforementioned changes related to payment cards should contribute to greater awareness, security and procedural simplicity, which ultimately should lead to greater customer satisfaction.

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Electronic banking

Direct banking services were provided to clients in 2009 by means of the applications Internet banking, Phone banking, Homebanking and Multicash.

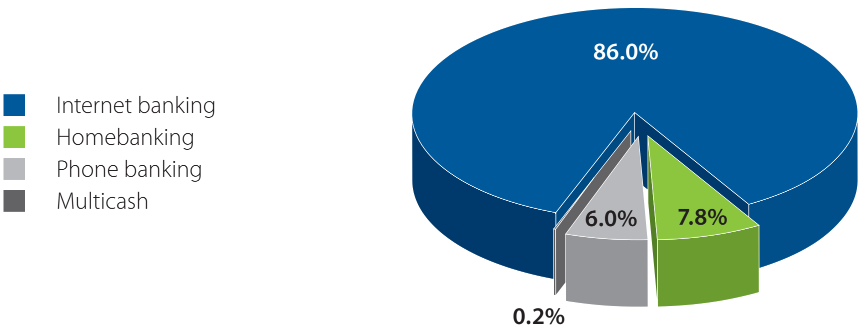
In August 2009, the Bank introduced greater Internet banking security for its clients. It implemented an electronic key, the so-called token. By year's end, the number of clients who had begun using the token was already 2,500, representing 12.2% from the total of 20,500. At the end of the year, moreover, the Bank introduced an electronic bank statement, the so-called eStatement, which is available to clients in the Internet banking application free of charge.

Internet banking continues to be the most used product in Volksbank's electronic banking offer. As at the end of 2009, it had 20,573 users. This represents an increase of 15% as compared with the previous year. Internet banking also became the hit of the year with its higher security and eStatement.

Relative to other applications, this majority product enjoys an 86% share in the total number of direct banking products used. Homebanking and Multicash together comprise 8%, while Phone Banking accounts for 6%.

The significant savings on transaction fees and time savings from eliminating personal visits to the Bank's branches are the main advantages clients receive from direct banking products. Volksbank favours secure use of Internet banking and is planning to further expand the services provided within this product.

BREAKDOWN OF DIRECT BANKING CHANNELS AS AT 31 DECEMBER 2009

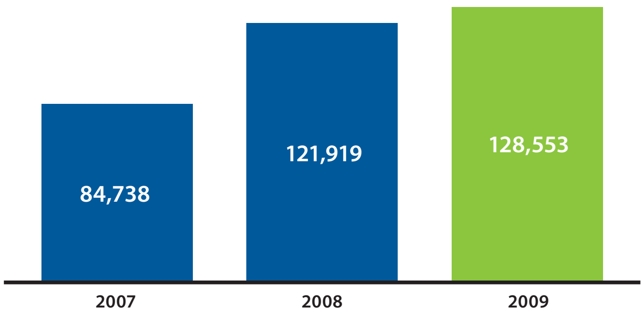


Call Centre

In 2009, the Call Centre handled nearly as many calls as in 2008. The variety of services provided grew above all, and, owing to the amendment to the Payment System Act, there increased certain administrative activities that are not handled directly by telephone but are now centrally handled by the Call Centre.

Claims and Complaints Administration became an important part of the Call Centre in 2009, and the new position of customer support manager was filled. This led to centralisation of the claims resolution process, which has helped to improve the quality of claims handling and bring a better overview of the claims that are handled throughout the Bank.

GROWTH IN THE NUMBER OF CALLS HANDLED



Marketing & Communication

The year 2009 brought to the Bank's business strategy new objectives and challenges, to which its marketing activities responded. Great emphasis was placed on supporting the acquisition of new deposits across all segments served by the Bank.

The May campaign to support deposits acquisition in the retail banking area was the Bank's main advertising activity. The popularity of the Current Savings Account grew, and with media support throughout the year the product was able to win the favour of more than 9,000 clients. Direct marketing activities oriented in particular on cross-selling in key retail segments also gained in importance during the year.

Marketing support combining direct marketing tools and relationship building with corporate clients was adapted to suit the specific characteristics of corporate banking. Direct marketing served as a tool for cross-selling as well as for acquiring new corporate clients, while personalised PR articles in regional media created space for further building business relationships with new clients.

As part of the search for new market opportunities, other activities also focused on such specific but commercially attractive segments as agriculture and the public sector.

Additional marketing support was directed to projects aimed at improving the quality of direct banking channels. This includes, for instance, support of the new internet banking security.

Finally, the Bank confirmed its strong position on the Czech media market due to intensive work in the field of Public Relations. The number of media appearances and references to the Bank, which in 2009 reached 1,466, clearly reflects a good result. This represents an increase of more than 33% as compared to the 1,100 articles for 2008.

RISK MANAGEMENT

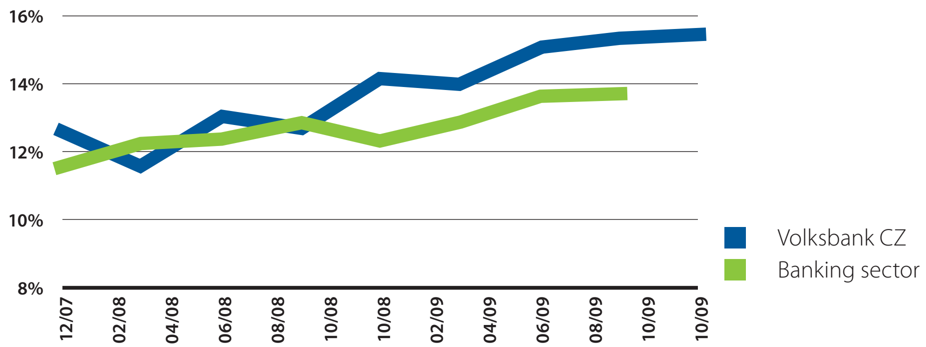
Volksbank CZ maintains a conservative approach to risk management that takes as its starting point the applicable legal regulations and risk strategy of the Group. The Bank uses a system of regulatory and internal limits. The amounts of these limits and adherence to them are regularly monitored.

The overriding general principles in the risk management process are optimisation of the relationship between risk and expected return, an effective internal control system, proper segregation of duties, identification and analysis of risks, portfolio diversification, and ensuring accuracy and completeness of the data in the Bank's system. The Bank's management is regularly informed as to the level of risk undertaken, and the risk management system is monitored and evaluated.

The Bank's Board of Directors plays a key role in risk management's organisational structure. The Board determines the risk management strategy; approves the Bank's control documentation, including limits and authorised guidelines; and decides upon the most important risk positions. The Risk Management Committee monitors the Bank's risk profile for all major types of risk, including their sufficient coverage by capital (a system of internal capital adequacy assessment). Departments directly subordinate to the board member responsible for risk management analyse the Bank's risk positions, monitor compliance with established limits, report on the results of their findings, and, as appropriate, approve their own risk positions within the scope of their assigned authorities.

In accordance with regulatory requirements, risks are sufficiently covered by capital.

DEVELOPMENT OF CAPITAL ADEQUACY



CREDIT RISK

Providing loan products is one of the Bank's most important business activities, and the emphasis given to managing credit risk reflects that fact. This process includes identifying risks, measuring risk positions, monitoring limits and adopting measures leading to mitigation of the credit risk undertaken. The process takes place at the levels of both the individual client and the loan portfolio.

In assessing a client's creditworthiness, the Bank places particular emphasis on analysing the client's financial situation, his or her ability to repay the provided loan from cash flow, and the experience with the client to date.

Volksbank CZ is preparing its transition to calculating capital adequacy for the credit risk of the investment portfolio according to the internal ratings-based (IRB) approach. The credit quality of each client is assessed using an internal rating system corresponding to the type of client being assessed. Within each rating system, a client is classified at one of 25 points on the internal rating scale, of which five points are intended for default exposures. Each point corresponds to a fixed one-year probability of the client's default. This probability is used as one of the parameters in the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probabilities of default are correct.

The quality of the collateral instruments is another criterion taken into account in assessing a credit application. A catalogue of these instruments defines the acceptable types of collateral, the methods for establishing their fair values, the frequency of revaluation, and the responsibilities of the Bank's individual branches.

The assessment and approval of credit applications is independent from the selling departments. Authorisation powers are delegated by the Board of Directors and are segmented by value into several layers.

The Bank regularly monitors individual exposures in order to continuously check the quality of the loan portfolio. This process increases the probability for timely recognition of future client defaults. For such cases, the Bank has established a system to address problematic loans in a timely manner. This reduces the probability of incurring losses from providing loans.

Volksbank CZ is in compliance with all regulatory limits for its investment portfolio exposure.

MARKET RISK

The main instrument for managing market risk is a system of limits for individual types of market risk. Compliance with these limits is regularly monitored and the findings are reported to the Board of Directors, the Risk Management Committee, and the appropriate business units. The limits are established internally in cooperation with the parent company or are based on the relevant CNB regulations. Stress testing of market risks is carried out regularly.

With regard to currency risk, the Bank manages its risk position by trading on the currency market. The risk position is monitored daily and compared with the applicable limits.

The Bank's exposure to interest rate risk is quantified by simulating the impact of a standardised interest rate shock of 200 b.p. on the Bank's capital where this impact is represented by the change in the net present value of the Bank's investment portfolio. The difference between assets and liabilities with fixed long-term interest rates (the main source of interest rate risk) is balanced using interest rate swaps and bonds issuance. The Bank's interest rate position is regularly measured and compared to the applicable limits.

Exposure to securities market volatility occurs in relation to the bonds portfolio held, in which Czech government bonds nevertheless predominate. From a regulatory point of view, the Bank holds a small trading portfolio.

LIQUIDITY RISK

Management of liquidity risk begins with daily analysis of the actual residual maturities of assets and liabilities, which are examined both in the main individual currencies and on an aggregate basis for all currencies. Based on this analysis, the Bank monitors daily the compliance with liquidity limits that are established internally. The structure of limits is based upon the ratio of assets to liabilities within a given period of residual maturity.

In managing its short-term liquidity position, the Bank includes planned and expected cash flows for five consecutive business days. For the purpose of long-term forecasting, a scenario for liquidity risk management is regularly prepared that includes data on the existing as well as planned structure of the balance sheet. This scenario is submitted to the Risk Management Committee. A contingency liquidity plan is prepared for the theoretical possibility that extraordinary circumstances would threaten the Bank's liquidity position.

OPERATIONAL RISK

In accordance with regulatory requirements, Volksbank CZ has an internal database of the requisite internal regulations for operational risk management, including those for the areas of information security, continuity of operations, outsourcing, and the internal control system that is established for individual processes and units.

The basic methods used are elimination, reduction, transfer and acceptance of operational risk. The operational risk management process includes identification, recording, evaluation and valuation of risks, as well as measures for their minimisation, and it is applied at the levels of both actual events and hypothetical risks.

Identified operational risk events are recorded and subsequently evaluated centrally. The measures to be taken are aimed at effectively minimising the probability of a similar type of event's occurring in future and are designed in accordance not only with the frequency of occurrence and amount of the realised or anticipated loss or gain, but also their seriousness and original cause of origin.

CONCENTRATION RISK

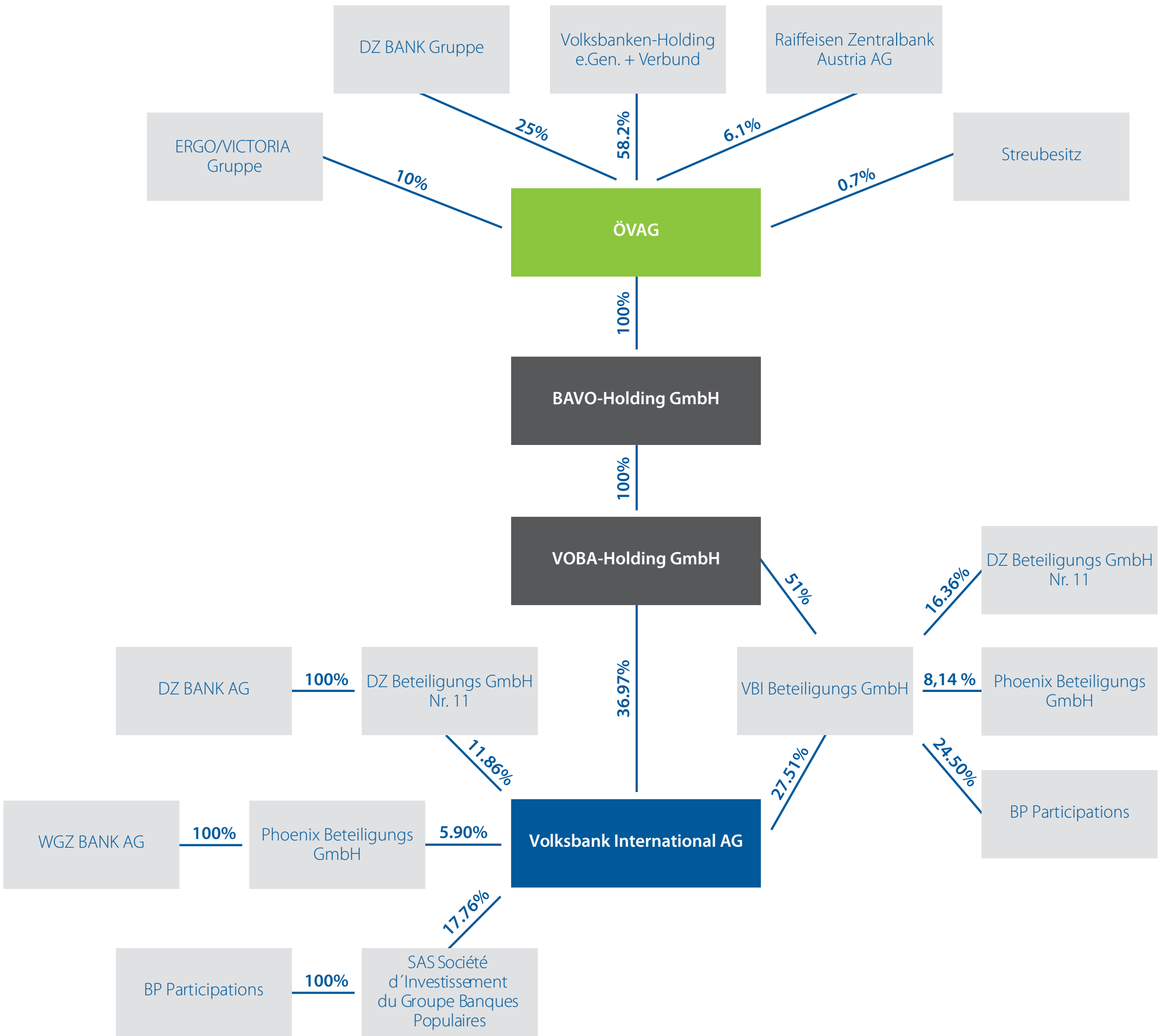
Sufficient diversification of underlying credit risk is ensured by a system of limits on risk concentrations in relation to economically connected groups of clients, sectors in which clients operate, and countries.

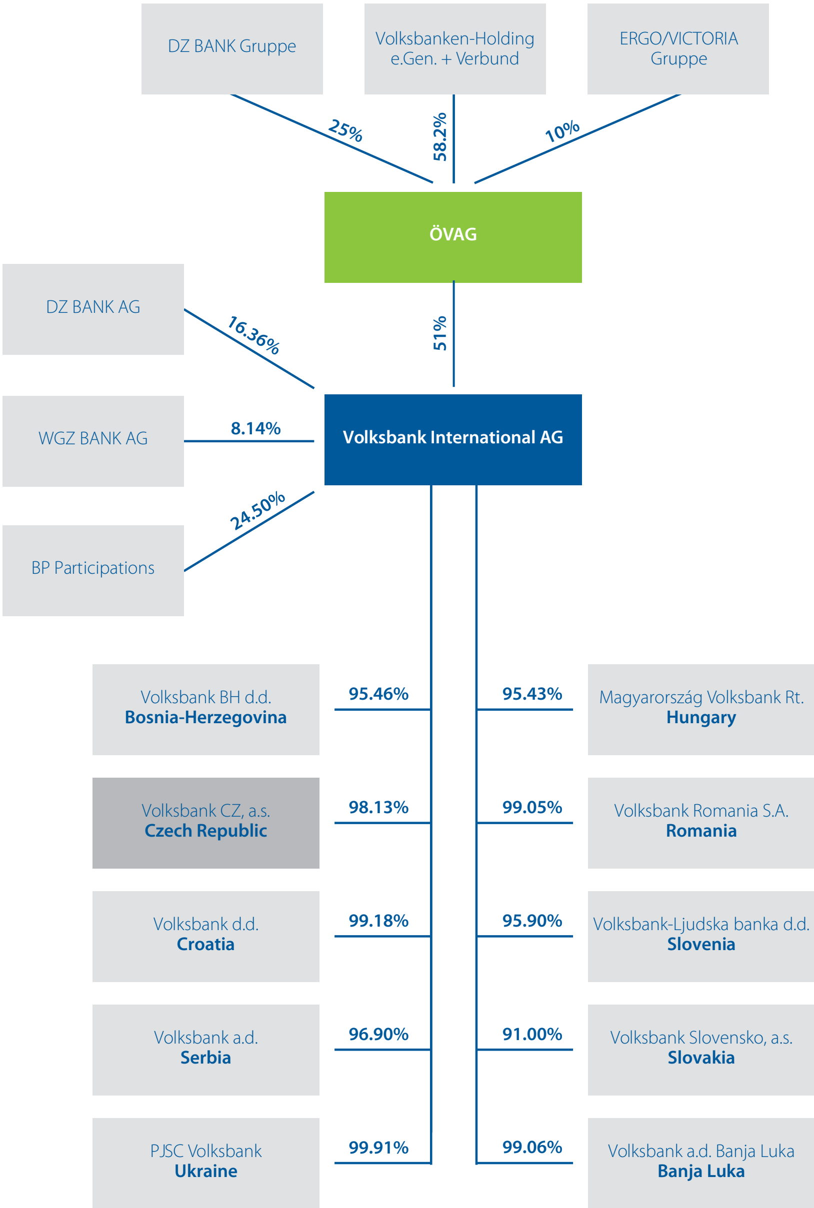
The Bank also monitors risks resulting from concentration of exposures under individual products or indirect exposures – for example, from a single type of collateral, collateral provider, or issuer of securities accepted as collateral. In the liquidity area, the level of concentration in providers of short-term liabilities is monitored.

OTHER INFORMATION

INFORMATION ON RELATIONS

Volksbank International AG (VBI) is the controlling entity of Volksbank CZ, a.s. and is part of the group Volksbank AG (ÖVAG). The group's structure is laid out in the following diagram:




DZ BANK Gruppe
Volksbanken-Holding e.Gen. + Verbund
ERGO/VICTORIA Gruppe
25%
58.2%
10%
ÖVAG
DZ BANK AG
16.36%
51%
WGZ BANK AG
8.14%
Volksbank International AG
BP Participations
24.50%
Volksbank BH d.d.
Bosnia-Herzegovina
95.46%
95.43%
Magyarország Volksbank Rt.
Hungary
Volksbank CZ, a.s.
Czech Republic
98.13%
99.05%
Volksbank Romania S.A.
Romania
Volksbank d.d.
Croatia
99.18%
95.90%
Volksbank-Ljudska banka d.d.
Slovenia
Volksbank a.d.
Serbia
96.90%
91.00%
Volksbank Slovensko, a.s.
Slovakia
PJSC Volksbank
Ukraine
99.91%
99.06%
Volksbank a.d. Banja Luka
Banja Luka

Measures that should ensure that the controlling entity does not misuse its powers stem from the Commercial Code. The measures concern, in particular, a prohibition against misusing the majority of votes in the company (Section 56a, paragraph 1 of the Commercial Code); a prohibition against misusing the controlling entity's influence in order to force adoption of a measure or conclusion of a contract due to which financial damage may arise to a controlled entity, unless the controlling entity compensates for the damage so arising no later than by the end of the accounting period within which the damage occurred, or unless within the same time limit an agreement is concluded establishing a reasonable period and method for the damage's reimbursement by the controlling entity (Section 66a, paragraph 8 of the Commercial Code); the company's obligation to prepare a report on relationships between related parties in accordance with Section 66a, paragraph 9 nn of the Commercial Code (see page 112 of the Annual Report – Report on Relations); the obligation of the controlling entity to compensate damage incurred by the controlled entity in accordance with Section 66a, paragraph 14 of the Commercial Code; and the liability of members of the controlling entity's and controlled entity's statutory bodies in accordance with Section 66a, paragraph 15 of the Commercial Code.

Contracts concluded between VBI AG and Volksbank CZ, a.s.:

	Title of the contract	Concluded with	Subject of the contract
1	Agreement on the Provision of Services	VBI AG	Provision of advisory services
2	Loan Agreement	VBI AG	Provision of a loan facility
3	Loan Agreement	VBI AG	Provision of a loan facility
4	Stand-by Liquidity Commitment	VBI AG	(terminated in June 2008)
5	Agreement	VB IT-Services GmbH	Provision of IT services
6	Contract for Use	VB Managementberatung GmbH	Right to use Riskwarehouse and rating systems

INFORMATION ON TREASURY SHARES AND SECURITIES

During 2009, Volksbank CZ, a.s. did not trade or hold any of its own shares, nor did it own any shares of the controlling entity, VBI AG.

No restriction exists on the transferability of securities issued by Volksbank CZ, a.s. except that treasury shares of Volksbank CZ, a.s. are not publicly traded. Other than for the interests resulting from ownership, there is no other significant direct or indirect participation in the voting rights of Volksbank CZ, a.s., nor are there any restrictions on voting rights with the exception that, as results from provisions under the Banking Act, voting rights do not pertain to priority shares.

Priority shares of Volksbank CZ, a.s. bear a right to share in profit that is one percentage point greater than the same right pertaining to ordinary shares.

As far as Volksbank CZ, a.s. is aware, no agreements exist between shareholders that may result in hindering the transferability of shares or voting rights. Apart from the statutes, there exist no special regulations governing the election and dismissal of members of the Board of Directors and modification of the company's statutes. The members of the Board of Directors have no special powers such as the authorisation under Sections 161a and 210 of the Commercial Code.

There exist no significant agreements to which Volksbank CZ, a.s. is a contracting party and which will become effective, change or lapse in the case of a change in the control of Volksbank CZ, a.s. due to a takeover bid and the effects resulting from such agreements.

There exist no agreements between Volksbank CZ, a.s. and the members of its Board of Directors or employees that Volksbank CZ, a.s. is obliged to fulfil in the case that their offices or employment will be terminated in relation to a takeover bid.

There exist no programmes on the basis of which employees and members of the company's Board of Directors are allowed to acquire participating securities of the company, options on these securities or other rights thereto under advantageous conditions.

No persons or entities with management authority hold shares or similar securities representing a share in Volksbank CZ, a.s.

DATA ON ISSUED SECURITIES

Shares of Volksbank CZ, a.s.

- Kind: ordinary and preference shares
- Type: 308,561 registered ordinary shares, 92,515 registered preference shares
- Form: dematerialised
- Quantity: 401,076 shares in total
- Total volume in issue: CZK 2,005,380,000
- Nominal value per share: CZK 5,000
- Marketability of shares: The shares are not traded on any public market.

Issues of mortgage-backed securities (HZL) of Volksbank CZ, a.s.

HZL VB CZ 3.70% payable in 2010

- Identification code (ISIN): CZ0002000599
- Date, type and form of issue: 18 October 2005, bearer shares, dematerialised
- Total volume of issue: CZK 0.5 billion
- Nominal value, quantity: CZK 10,000, 50,000
- Coupons: fixed annual interest rate of 3.70% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 18 October 2010.

HZL VB CZ 4.60% payable in 2011

- Identification code (ISIN): CZ0002000813
- Date, type and form of issue: 27 June 2006, bearer shares, dematerialised
- Total volume of issue: CZK 0.5 billion
- Nominal value, quantity: CZK 10,000, 50,000
- Coupons: fixed annual interest rate of 4.60% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 27 June 2011.

HZL VB CZ 5.40% payable in 2012

- Identification code (ISIN): CZ0002001159
- Date, type and form of issue: 25 September 2007, bearer shares, dematerialised
- Total volume of issue: CZK 0.7 billion
- Nominal value, quantity: CZK 10,000, 70,000
- Coupons: fixed annual interest rate of 5.40% paid each year in arrears
- Traded on: Prague Stock Exchange, official free market
- Maturity: The securities will be paid up in their nominal value on 25 September 2012.

HZL VB CZ 5.30% payable in 2017

- Identification code (ISIN): CZ0002001688
- Date, type and form of issue: 18 December 2007, bearer shares, dematerialised
- Total volume of issue: CZK 0.8 billion
- Nominal value, quantity: CZK 10,000, 80,000
- Coupons: fixed annual interest rate of 5.30% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 18 December 2017.

HZL VB CZ 5.70% payable in 2014

- Identification code (ISIN): CZ0002002116
- Date, type and form of issue: 27 October 2009, bearer shares, dematerialised
- Total volume of issue: CZK 0.5 billion
- Nominal value, quantity: CZK 10,000, 50,000
- Coupons: fixed annual interest rate of 5.70% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 27 October 2014.

REMUNERATION CHARGED BY AUDITING COMPANY KPMG FOR 2009

Auditing services	CZK 1.42 million
Tax services	CZK 0.57 million
Others	CZK 0.78 million
Total	**CZK 2.77 million**

PRINCIPLES OF REMUNERATING THE BANK'S MANAGERS

A person or entity with management authority in Volksbank CZ, a.s. includes the managing entity and members of the Supervisory Board.

Managing Entity of the Issuer

The managing entity of the issuer Volksbank CZ, a.s. comprises the Chairman of the Board of Directors, who is also the general director; the members of the Board of Directors; and company secretaries.

By law, the Board of Directors is the statutory body directing the company's operations and acting on its behalf. Members of the Volksbank CZ Board of Directors perform their functions with a proper manager's care and act in good faith, with appropriate diligence and care, and in the best interest of the company and its shareholders. They are experts in managing large corporations and have international experience and ability to work as a team. Their office requires ongoing development both in their fields of expertise and in the general operation and management of companies; an active approach to fulfilling their obligations and the ability to contribute to the company's strategy development; and, last but not least, loyalty to the company. Members of the Board of Directors adhere to high ethical standards and are responsible for the company's observance of the applicable laws. They are personally liable for any damage that they may cause by violating their legal obligations, and they also are functionally responsible to the company represented by the shareholders.

The Chairman of the Board of Directors and members of the Board of Directors are remunerated on the basis of the "Contract on Discharging the Office of a Member of the Board of Directors" concluded in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The Contract on Discharging the Office of a Member of the Board of Directors was approved by the company's Supervisory Board.

The company pays fixed monthly remuneration to the Chairman and members of the Board of Directors for their management activity, attendance at the body's meetings, due preparation for those meetings, and for other activities associated with discharging the office of a member of the Board of Directors.

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Moreover, the Chairman and members of the Board of Directors are remunerated in consideration of a performance evaluation regarding their activity, which is measured on the basis of their fulfilling established performance criteria. The performance criteria, which are established in cooperation with VBI AG, are drawn up each calendar year and are derived from the financial goals (profit before taxes of VBI AG, profit before taxes of Volksbank CZ, and profit of the controlled organisational unit) and the fulfilment of structural duties. The variable component of the remuneration may be as much as 35% of the fixed component.

The general director and company secretaries are not additionally remunerated due to their positions. Thus, only the employment salaries of company secretaries are listed for other managers.

Based on their managerial and professional knowledge and experience and their contribution to the company, the Chairman of the Board of Directors, members of the Board of Directors and company secretaries receive:

- all monetary earnings pertaining to members of the Board of Directors in the total amount of CZK 19.026 million,
- all monetary earnings pertaining to other managers in the total amount of CZK 4.239 million,
- all in-kind earnings pertaining to members of the Board of Directors in the total amount of CZK 0.863 million,
- all in-kind earnings pertaining to other managers in the total amount of CZK 0.155 million.

These earnings were paid on the basis of fulfilling financial, qualitative and development criteria, as well as on the basis of efficiency criteria. The earnings pertaining to members of the Board of Directors for 2009 amounting CZK 2.676 million haven't been paid out yet.

Neither the Chairman of the Board of Directors, members of the Board of Directors, company secretaries nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

Supervisory Board

The Supervisory Board is the company's controlling body and oversees the performance of the Board of Directors in carrying out the company's business operations. The Supervisory Board in particular monitors whether the Board of Directors is performing its duties in accordance with legal regulations and the company's statutes and whether members of the Board of Directors are acting in accordance with the company's interests while exercising a proper manager's care. Members of the Supervisory Board perform their functions with a proper manager's care. To perform the duties of a member of the Supervisory Board, members must be expertly qualified and maintain loyalty to the company and discretion regarding confidential information and facts.

Members of the Supervisory Board are liable for any damage that they may cause by violating their legal obligations. Moreover, members of the Supervisory Board are functionally responsible to the company represented by the shareholders. Members of the Supervisory Board are remunerated in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The amount of the relevant remuneration for members of the Supervisory Board is approved by the general meeting. No monthly remuneration is paid for activities in the Supervisory Board of Volksbank CZ.

Neither members of the Supervisory Board nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

No remunerations due to membership in the Supervisory Board, including those of an in-kind nature, were paid in 2009 to members of the Supervisory Board of Volksbank CZ for their activities in that body.

Volksbank CZ declares that there are no conflicts of interests in relation to the obligations of members of administrative, managing and supervisory bodies and their private interests or other obligations.

MARKET POSITION IN RELATION TO THE BANK'S PRINCIPAL ACTIVITIES

Volksbank CZ has successfully operated on the Czech market since 1993. Although 2009 was marked by global economic recession, the Bank's total assets remain at the same level as in 2008. Volksbank CZ, a.s. held a 1.13% share in the total assets of all 39 banks operating in the Czech Republic. The year-on-year growth in client deposits by 10.48% is greater than that for the banking sector as a whole (5.12%). The share of Volksbank CZ's client deposits was 0.96% of the banking sector's total client deposits, while the share of its client loans in the banking sector was 1.85%.

INFORMATION ON THE COMPANY'S OPERATING AND MANAGEMENT PRINCIPLES

The governing bodies are the shareholders' general meeting as the supreme body, the Board of Directors, the Supervisory Board and the Audit Committee. The composition of these bodies is set out in detail on page 8, "Organisation Chart". These bodies make decisions usually by a simple majority of votes, unless the law or statutes stipulate a different majority.

The general meeting is the Issuer's supreme body. The general meeting's functions include in particular deciding upon:

- amending the statutes,
- increasing or decreasing the share capital,
- issuing bonds,
- electing and dismissing members of the Supervisory Board with the exception of those elected by employees,
- approving the annual financial statements and deciding on profit distribution or covering a loss,
- submitting an application for a licence for public trading of the company's shares and for cancelling the public tradability of shares,
- selling the business, winding up the company through liquidation, or transforming, merging, consolidating or dividing the company,
- changing the rights connected with individual kinds or types of shares,
- restricting the transferability of registered shares and cancelling the public transferability of shares,
- eliminating or restricting the priority right to obtain convertible and preference bonds and eliminating or restricting the priority right to obtain new shares,
- increasing the share capital with material noncash investments,
- changing the subject of business.

The general meeting meets at least once per year. The Board of Directors is obliged to convene the regular general meeting annually no later than 6 months after the end of the calendar year, unless valid legal regulations establish an earlier date.

The Board of Directors is the company's statutory body and directs its operations, acts on its behalf and represents the company externally. It is responsible for organising the company's activities and exercises the rights of an employer. A record is drawn up of all the Board of Directors' deliberations and votes and is kept throughout the company's existence.

The term of office for members of the Board of Directors runs from their election until the adjournment of the fourth general meeting deciding on the annual financial statements for the fourth business year following the election. The business year in which the election of the Board of Directors took place is not calculated into this period. The Supervisory Board can decide on a shorter term of office.

Re-election is permitted. The Supervisory Board can recall individual members of the Board of Directors during their terms of office. A replacement election must be held upon the early termination of a term of office. As of 5 January 2010, the Board of Directors is comprised of four members. The Chairman of the Board of Directors is elected by its members at the proposal of the Supervisory Board. The members of the Board of Directors also form the company's senior management.

Company secretaries act and sign on behalf of the company either both jointly or only one along with any member of the Board of Directors by means of an annex indicating the company's business name, designating the company secretary, and including his or her signature.

The Supervisory Board oversees the performance of the Board of Directors in its competence and conduct of the company's business operations and represents the interests of the company's shareholders in the period between general meetings. The Supervisory Board has six members in total. The Supervisory Board members are elected, unless the general meeting decides otherwise, for the period until the adjournment of the third general meeting deciding on the annual financial statements for the third business year following the election. The business year in which the election of the Supervisory Board took place is not calculated into this period. If the number of Supervisory Board members drops during the term of office, the Supervisory Board is entitled in accordance with the conditions established by law (Section 200, paragraph 3 and Section 194, paragraph 2 of the Commercial Code) to appoint a replacement member until the next general meeting. Of the total number of Supervisory Board members, two thirds are elected by the general meeting from among the shareholders' representatives and one third are elected by the company's employees.

The Audit Committee follows the procedure for preparing and auditing the financial statements and fulfils tasks in other areas that the statutes and relevant legal regulations entrust to its competence and responsibility. The Audit Committee is comprised of three members who are elected by the general meeting. A member of the Audit Committee can only be an individual, who at the same time may not be a member of the Board of Directors, a company secretary, or a person authorised to act on behalf of the company according to the entry in the Commercial Register. Members of the Audit Committee are elected, unless the general meeting decides otherwise, for the period until the adjournment of the third general meeting deciding on the annual financial statements for the third business year following the election. The business year in which the election of the Audit Committee took place is not calculated into this period. The general meeting is entitled to approve the Audit Committee's rules of procedure.

The financial reporting process may be exposed to risks by presenting inaccuracies resulting from human or technical factors. Volksbank CZ, a.s. addresses these risks in the following manners:

- detailed systematic directives, accounting policies (see pages 43–59 for more details) and risk management strategy (see pages 83–104 for more details);
- regular internal and external audit;
- automation of processes.

Furthermore, risk events are monitored and regularly evaluated, especially within the context of operational risk. The methods of addressing these risks are updated continuously based on analyses of risk events.

The Board of Directors of Volksbank CZ, a.s. has created an internal control system and is responsible for maintaining its functionality and effectiveness. Volksbank CZ, a.s. has established control mechanisms at all management and organisation levels. These control mechanisms are re-evaluated at regular intervals and updated as needed. All the Bank's employees are involved in the control system. The Board of Directors and Audit Committee regularly evaluate the control system's functionality and effectiveness. Internal audit, which independently examines all activities of Volksbank CZ, a.s., including the Bank's risk management and control systems, plays a significant role in all the Bank's operating activities.

Volksbank also has established information flows in appropriate places regarding the control system, including escalation mechanisms.

Volksbank CZ, a.s. is a member of the Czech Banking Association and voluntarily adheres to the following codes, which are available for inspection on the website www.czech-ba.cz:

- Code of Conduct on Home Loans (CBA Standard No. 18/2005, Principles of Providing Pre-contractual Information on Home Loans)
- Code of Conduct Banks and Clients (CBA Standard No. 19/2005, Code of Conduct in Relations between Banks and Clients)
- Code on Client Mobility (CBA Standard No. 22/2009, Client Mobility – Procedure for Changing Banks

Financial Statements

Volksbank CZ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Volksbank CZ, a.s.

Residence:	Na Pankráci 1724/129, 140 00 Praha 4
Identification number:	25083325
Legal form:	joint-stock company
Primary business:	banking
Date of preparation:	3 March 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	31 December 2009	31 December 2008
Interest and similar income		2,071	2,333
Interest expense and similar charges		(927)	(1,001)
Net interest income	**3**	**1,144**	**1,332**
Fee and commission income		420	437
Fee and commission expense		(70)	(54)
Net fee and commission income	**4**	**350**	**383**
Net trading income	5	7	35
Net income from financial investments		13	-
Impairment charge for credit losses	13	(363)	(460)
Provisions	25	(22)	(13)
Administrative expenses	6	(835)	(825)
Other operating income	7	9	14
Other operating expenses	8	(27)	(23)
Operating profit		**276**	**443**
Profit before income tax		276	443
Income tax expense	9	(91)	(104)
Profit for the year		**185**	**339**
Other comprehensive income			
Fair value reserves (available-for-sale financial assets):	27		
– Net change in fair value		15	6
Other comprehensive income for the period, net of income tax		**15**	**6**
Total comprehensive income		**200**	**345**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	As at 31 December 2009	As at 31 December 2008
ASSETS			
Cash and balances with central banks	10	3,116	2,809
Loans and advances to banks	11	2,865	4,587
Loans and advances to customers	12,13	38,093	39,059
Derivative financial instruments	14	76	342
Financial assets at fair value through profit or loss	15	320	144
Investment securities:			
– Available for sale	16	2,283	171
– Held to maturity	16	401	204
Intangible assets	17	120	114
Property and equipment	18	228	257
Current income tax assets		7	26
Deferred income tax assets	19	13	17
Other assets	20	76	54
Total assets		**47,598**	**47,784**
LIABILITIES			
Deposits from banks	21	11,252	14,409
Due to customers	22	25,917	23,458
Derivative financial instruments	14	45	111
Debt securities in issue	23	4,253	3,697
Other liabilities	24	343	537
Provisions	25	43	21
Subordinated debt	26	267	273
Total liabilities		**42,120**	**42,506**
EQUITY			
Share capital	27	2,005	2,005
Share premium account		2,695	2,695
Statutory reserve		70	53
Cumulative gains not recognised in the profit for the period	27	25	10
Retained earnings		683	515
Total equity		**5,478**	**5,278**
Total equity and liabilities		**47,598**	**47,784**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Share capital	Share premium account	Statutory reserve	Cumulative gains not recognised in the income statement	Retained earnings	Total Equity
As at 1 January 2008	**1,683**	**2,017**	**37**	**4**	**398**	**4,139**
Net change in available-for-sale investments, net of tax	-	-	-	6	-	6
Net income recognised directly in equity	**-**	**-**	**-**	**6**	**-**	**6**
Net profit	-	-	-	-	339	339
Total recognised income for 2008	**-**	**-**	**-**	**6**	**339**	**345**
Transfer to statutory reserve	-	-	16	-	(16)	-
Dividend relating to 2007	-	-	-	-	(206)	(206)
Equity issue	322	678	-	-	-	1,000
As at 31 December 2008	**2,005**	**2,695**	**53**	**10**	**515**	**5,278**
As at 1 January 2009	**2,005**	**2,695**	**53**	**10**	**515**	**5,278**
Net change in available-for-sale investments, net of tax	-	-	-	15	-	15
Net income recognised directly in equity	**-**	**-**	**-**	**15**	**-**	**15**
Net profit	-	-	-	-	185	185
Total recognised income for 2009	**-**	**-**	**-**	**15**	**185**	**200**
Transfer to statutory reserve	-	-	17	-	(17)	-
As at 31 December 2009	**2,005**	**2,695**	**70**	**25**	**683**	**5,478**

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million Item	Note	2009	2008
Cash flow from / (used in) operating activities			
Profit before income tax		**276**	**443**
Adjustment for:			
Impairment losses on loans and advances	13	27	448
Provisions	25	22	13
Depreciation of property and equipment	6	84	84
Net income from financial investments		(13)	0
Change in cumulative gains not recognised in the profit for the period	27	15	6
(Increase)/ decrease in operating assets:			
Due from banks, non-demand, over 3 months		(490)	-
Financial assets at fair value through profit or loss		90	(66)
Loans and advances		939	(9,346)
Other assets		(6)	(19)
Prepayments and accrued income		(16)	11
Increase / (decrease) in operating liabilities			
Due to banks, term		(4,187)	7,828
Financial liabilities at fair value through profit and loss		(66)	(43)
Due to customers		2,459	2,920
Promissory notes and certificates of deposits		229	62
Other liabilities		(181)	(139)
Accruals and deferred income		(13)	(23)
Net cash flow from / (used in) operating activities before income tax		**(831)**	**2,179**
Net income tax paid		(74)	(192)
Net cash flow from (used in) operating activities		**(905)**	**1,987**
Cash flow from / (used in) investing activities			
Purchase of investment securities	16	(2,531)	-
Proceeds from sale and redemption of securities		240	551
Purchase of property and equipment	18	(61)	(109)
Disposal of property and equipment		1	-
Net cash flow from (used in) investing activities		**(2,351)**	**442**
Cash flow from / (used in) financing activities			
Issue of bonds		327	488
Issue of shares		-	1,000
Increase / (decrease) in borrowings		(6)	3
Dividends paid	34	-	(206)
Net cash flow from financing activities		**321**	**1,285**
Net increase / (decrease) in cash and cash equivalents		**(2,935)**	**3,714**
Cash and cash equivalents at the beginning of the year	30	6,476	2,762
Net increase / (decrease) in cash and cash equivalents		**(2,935)**	**3,714**
Cash and cash equivalents at the end of the year	30	3,541	6,476

These financial statements were approved for issue by the Board of Directors on 3 March 2010 and signed on its behalf by:

Signature of the statutory representatives		Person responsible for accounting	Person responsible for the preparation of the financial statements
Johann Lurf Chairman of the Board of Directors	Libor Holub Member of the Board of Directors	Alena Sládková	Libor Nosek

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 GENERAL INFORMATION

VOLKSBANK CZ, a.s. (hereinafter referred to as "the Bank") was incorporated on 31 October 1996. The Bank had 57 domestic regional branches in the Czech Republic as at 31 December 2009 (as at 31 December 2008: 56 branches) and employed on average 658 people (as at 31 December 2008: 620 people).

The ultimate holding company is Österreichische Volksbanken AG, which is incorporated in Austria.

The Bank's operations primarily consist of the following:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currencies;
- accepting current and term accounts denominated in Czech and foreign currencies;
- rendering of general banking services through a network of branches and agencies;
- providing foreign exchange transactions on the inter-bank money market;
- providing foreign trade finance and related banking services; and
- trading in securities and portfolio management.

During 2009 Supervisory Board members Luboš Vlček a Jindřich Horníček resigned from his office and were replaced by Igor Dobřický.

During 2009 and until preparation of financial statements Frank Guthan became new member of the Board of Directors.

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity, statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (aa).

The financial statements are rounded to millions of Czech Crowns ("CZK million" or "CZKm") unless otherwise stated.

(b) Operating segments reporting

The Bank determines and presetns operating segments based on the information that internally is provided to the Board of Directors as the Bank's chief operating decision maker with regard to resources to be allocated to the segment and assess its performance. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously, operating segments were determined and presented in accordance with IAS 14 Segment Reporting.

Comparative segment information has been re-presented in confortmity with the transitional requirements of new standard.

Operating segment is a component of the Bank:

- that engages in business activities from which it may earn revenues and Ince expenses (including revenues and expenses relativ to transactions with other components of the Bank);
- whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

(c) Foreign currencies translation

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit for the period.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(d) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. They are classified based on management's intention at inception.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing 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 as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modifying the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of trading derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "net trading income".

Gains and losses arising from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss at inception are included in "net income from financial investments".

(ii) Loans and receivables

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

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as fair value through profit or loss;
(b) those that the Bank upon initial recognition designates as available for sale; or
(c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) 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. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

(iv) Available-for-sale financial assets

Available-for-sale investments are those 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 equity prices.

(v) Recognition and derecognition of financial assets

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit for the period. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at the amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit for the period in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit for the period. Dividends on available-for-sale equity instruments are recognised in the profit for the period when the Bank's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(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) Derivative financial instruments and hedge accounting

Derivatives including foreign exchange contracts, currency and interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit for the period unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The Bank does not apply hedge accounting.

(g) Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique the variables of which include only data from observable markets.

(h) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within “interest and similar income” and “interest expense and similar charges” in the profit for the period using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(i) Fee and commission income and fee expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(j) Dividend income

Dividends are recognised in the profit for the period when the Bank's right to receive payment is established.

(k) 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 re-pledge the collateral; the counterparty liability is included in "deposits from banks" or "due to customers", as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as "loans and advances to banks" or "loans and advances to 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. Securities lent to counterparties are also retained in the financial statements.

(l) Impairment of financial assets

(i) Assets carried at amortised costs

The Bank assesses as at each balance sheet 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 criteria that the Bank uses to determine that there is objective evidence of an impairment loss include the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy or insolvency proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between one month and three months.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit for the period. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. These procedures mainly include cession of a loan, filing a lawsuit in order to recover the loan through demand for payment and filing a distraint or bankruptcy petition.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit for the period in "impairment charge for credit losses".

(ii) Assets classified as available for sale

The Bank assesses as at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the profit for the period on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit for the period.

(iii) Renegotiated loans and advances

Since the moment of renegotiation, such loans are treated as impaired for the period of six months. If a loan performs according to the renegotiated schedule, it becomes treated as watched during the subsequent 18 months, and as standard starting the third year since the renegotiation.

(m) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised on the basis of the expected useful lives (three to four years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding three years).

(n) Property, premises and equipment

Land and buildings comprise mainly branches and offices. All property, premises and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to "other general administrative expenses" during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other long-term assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and constructions	30
Administrative buildings	30
Hardware and equipment	4
Fixtures and fittings	6
Safes	12
Motor vehicles	4

The leasehold improvements are depreciated over the term of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in “other operating income“ or “other operating expenses” in the profit for the period.

(o) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to “other general administrative expenses” in the profit for the period on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months’ maturity from the date of acquisition, including cash and balances with central banks (including Mandatory Minimum Reserves), trading assets, debt securities, amounts due from banks and due to banks.

(r) Provisions

Provisions for legal claims, financial guarantee contracts and other contingent liabilities are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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 the passage of time is recognised as interest expense.

(s) 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. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit for the period the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as at the balance sheet date. These estimates are determined based on experience with similar transactions and history of past losses, supplemented by the judgment of management.

(t) Staff costs

Staff costs are included in "administrative expenses" and they also include board emoluments.

Employee benefits

The Bank provides its employees

- retirement benefit or disability benefit. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if were employed with the Bank for a minimum defined period;
- anniversary benefit. The employees are entitled to receive anniversary benefit if were employed with the Bank for a minimum defined period and throughout thie period their service was of appropriate quality.

The Bank recognised provision in amount of present value of defined post-employment and other long-term employee benefits. Defined benefit obligation is calculated in accordance with the projected unit credit method which estimates the present value of defined benefit obligation based on generally recognoised actuarial principles. In determining the parameters of the model, the Bank refers to the most recent data (the length of employment with the Bank, age, gender, banafit value and its anticipated growth) and actuarial assumptions (endownment age according to mortality tables, legal retirement age, estimated amount of social security and health insurance contributions and discount rate).

Pensions

The Bank currently executes a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Social fund

The Bank creates a social fund to finance the social needs of its employees and employee benefit programmes. The allocation to the social fund is recognised in the profit for the period.

(u) Taxation and deferred income tax

Income tax

Income tax payable on profits, based on Czech tax law, is recognised as an expense in the period in which profits arise.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax losses carried forward. The rates enacted or substantively enacted as at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the profit for the period together with the deferred gain or loss.

(v) Value added tax

The Bank is registered for value added tax ("VAT"). Intangible and tangible fixed assets are stated at acquisition cost including the appropriate VAT. The Bank does not claim input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT.

(w) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit for the period over the period of the borrowings using the effective interest method.

(x) Share capital and reserves

Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on shares
Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Statutory reserve
In accordance with the Commercial Code, the Bank is required to set aside a statutory reserve in equity.

The statutory reserve represents accumulated transfers from retained earnings. Five percent of net profit shall be allocated to the statutory reserve until the value of 20 % of share capital is achieved. This reserve is not distributable and can be used exclusively to cover losses.

(y) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, and other institutions. These assets and income arising thereon are excluded from these financial statements, as they do not belong to the Bank.

(z) IFRS / IAS accounting and reporting developments

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods and which the Bank has not early adopted:

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. Any investment retained in the former subsidiary will have to be measured at its fair value at the date when control is lost. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The Bank is currently assessing the impact of the amended standard on its financial statements.

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 IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its financial statements.

IAS 39 Amendment, Eligible hedged items (issued in July 2008; effective for annual periods beginning on or after 1 July 2009).

The amendment provides clarification on identifying inflation as a hedged risk or portion and hedging with options. Inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. However, the amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge because such a component is not separately identifiable and reliably measurable. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged. The amendment also permits an entity to designate purchased options as a hedging instrument in a hedge of a financial or non-financial item. The entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. The Bank is currently assessing the impact of the amendment on its financial statements.

Other new standards or interpretations

The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18, Transfers of Assets from Customers (effective for transfers of assets from customers received on or after 1 July 2009).

The IASB and the IFRIC made certain amendments to existing standards and interpretations as part of their improvement projects. The effective dates for these amendments vary and most will be applicable to the Bank's 2010 financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

(aa) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit for the period, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of the Bank's debtors, or national or local economic conditions that correlate with defaults on examined portfolio of assets.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment 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. To the extent that the net present value of estimated cash flows differs by ±5%, the provision would be estimated CZK 50 million lower or CZK 62 million higher.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Deferred tax

Significant estimates are required in determining deferred income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of temporary differences is different from the amounts that were initially recorded, such differences will impact the current income tax provision and deferred tax in the period in which such determination is made.

(ab) Change in accounting policies

The Bank changed classification or presentation of the following comparative amounts in order to ensure their comparability with current year:

- Values of collateral held and other credit enhancements (Note 32 (b)) in the Notes to the Financial statements for the year ended 31 December 2008 weren't stated in values recalculated to amounts limited by values of corresponding receivables. Total value of collateral as at 31 December 2008 was thus decreased from CZK 36,716 million to CZK 23,219 million.
- Bank's exposure to interest rate risks as at 31 December 2008 was expressed by the sensitivity analysis showing effect of change in market interest rates by 75 basis points (b.p.) on the Bank's annual net profit and other movements in equity. The effect on the Bank's 2008 annual net profit was CZK 6 million. As at 31 December 2009 the 100 basis points were used to show the effect on the Bank's annual net profits (Note 32 (d)).
- The Bank has applied IFRS 8 Operating Segments – Note 2 (b).
- The bank has applied the revised IAS 1 Presentation of Financial Statements (2007) with effect from 1 January 2009. The result is a modified presentation of the statement of comprehensive income.
- The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7) that require enhanced discosures about fair value measurements in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of inputs used in measuring the fair values of financial instruments:
  - Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities.
  - Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or lability either directly (i.e., as prices) or indirectly (i.e., derived from prices).
  - Level 3 – fair value measurements using inputs for the asset or lability that are not based on observable market data (i.e., unobservable inputs).

Revised disclosures in respect of fair values of financial instruments are included in Note 33.

3 NET INTEREST INCOME

INTEREST AND SIMILAR INCOME

(CZKm)	2009	2008
Loans and advances to customers	1,943	2,147
Due from banks	90	132
Mandatory minimum reserves with central banks	8	15
Loans and advances to banks	**98**	**147**
Investment securities available for sale	12	-
Investment securities held to maturity	15	38
Securities designated at fair value	3	1
	2,071	**2,333**

INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

(CZKm)	2009	2008
Receivables from companies and individuals including consumer loans	1,898	2,063
Receivables from municipalities	19	28
Receivables from governmental bodies	1	1
Other receivables from customers	25	55
	1,943	**2,147**

INTEREST INCOME FROM INVESTMENT SECURITIES HELD TO MATURITY

(CZKm)	2009	2008
Receivables from companies	15	38
	15	**38**

Management estimates that approximately CZK 156 million of interest income was recognised on impaired receivables in 2009 (2008: CZK 84 million).

INTEREST AND SIMILAR EXPENSE

(CZKm)	2009	2008
Due to customers	390	395
Due to banks	405	469
Debt securities in issue	132	137
	927	**1,001**

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4 NET FEE AND COMMISSION INCOME

(CZKm)	2009	2008
Fee and commission income	420	437
Fee and commission expense	(70)	(54)
	350	**383**

FEE AND COMMISSION INCOME

(CZKm)	2009	2008
International payment transactions	183	203
Domestic payment transactions	97	97
Lending business	56	53
Foreign exchange, foreign notes and coins transactions	51	46
Securities and custody business	16	24
Other	17	14
	420	**437**

Fee and commission income from securities and custody business includes CZK 2 million of fee income from custody activities (2008: CZK 2 million).

5 NET TRADING INCOME

(CZKm)	2009	2008
Fixed-income securities and money market	10	13
Net foreign exchange gains	11	26
Equity contracts	11	-
Interest rate contracts	(25)	(4)
	7	**35**

Net foreign exchange gains include results arising from both customer and proprietary activities in foreign exchange cash, spot, forward, swap and option operations.

6 ADMINISTRATIVE EXPENSES

(CZKm)	2009	2008
Personnel expenses	440	414
Depreciation of property and equipment and amortisation of intangible assets	84	84
Other general administrative expenses	311	327
	835	**825**

PERSONNEL EXPENSES

(CZKm)	2009	2008
Salaries and bonuses of Board of Directors members	22	22
Salaries and bonuses of senior management	28	31
Salaries and bonuses of Supervisory Board members	3	2
Salaries and bonuses of the employees	277	257
Social security costs	100	90
Other personnel costs	10	12
	440	**414**

Social security costs also include the contribution to the state pension scheme.

Management bonus scheme

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval of the Supervisory Board. The key performance indicator of the Annual performance bonus is based on the growth of the net profit before taxes.

Retirement benefits

The Bank provides its employees with a defined contribution retirement scheme in accordance with the Act No. 42/1994 Coll. Participating employees can contribute some percentage of their salaries to a pension fund. The Bank contributes up to CZK 3,600 a year per person. The Bank's contribution is added to the employee's basic salary. Total Bank expense for the retirement scheme in 2009 was CZK 1.2 million (2008: CZK 0.6 million).

OTHER GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2009	2008
Rent and leasing	93	86
Information technology	70	67
Marketing and public relations	33	36
Material consumption	26	29
Audit, tax, legal consultancy	28	37
Tax and fees	2	2
Other	59	70
	311	**327**

7 OTHER OPERATING INCOME

(CZKm)	2009	2008
Gain on disposal of fixed assets	1	2
Rental income	1	1
Other	7	11
	9	**14**

8 OTHER OPERATING EXPENSES

(CZKm)	2009	2008
Deposit insurance	25	20
Other	2	3
	27	**23**

9 INCOME TAX EXPENSE

(CZKm)	2009	2008
Current tax expense	91	91
Deferred tax income/expense relating to the origination and reversal of temporary differences (Note 19)	-	13
	91	**104**

The following table shows how the tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate:

(CZKm)	2009	2008
Profit before taxation	276	443
Applicable rates	20 %	21 %
Taxation at applicable tax rates	55	93
Tax effect of non-taxable income	-	-
Tax effect of non-deductible expenses	9	10
Other	27	1
	91	**104**

The effective tax rate was 32.97 % (2008: 23.47 %).

10 CASH AND BALANCES WITH CENTRAL BANKS

The Bank classifies its cash and balances with central banks, except for cash in hand, in the category of financial assets "loans and receivables".

(CZKm)	31.12.2009	31.12.2008
Loans and deposits to central bank	2,427	2,130
Mandatory minimum reserves with central banks	254	211
Cash in hand	359	400
Balances with central banks	76	68
	3,116	**2,809**

Mandatory minimum reserves with the Czech National Bank ("CNB") are generally not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 1.00% as at 31 December 2009 (31 December 2008: 2.25%).

Cash and balances with central bank include CZK 2,427 million (31 December 2008: CZK 500 million) recognised as a result of the cash collateral placements in respect of securities purchased under reverse repos. The fair value of the securities collateral held amounted to CZK 2,376 million (31 December 2008: CZK 490 million).

Cash and balances with central bank further include term deposit of CZK 0 million (31 December 2008: CZK 1,630 million).

11 LOANS AND ADVANCES TO BANKS

The Bank classifies its loans and advances to banks in the category of financial assets "loans and receivables".

(CZKm)	31.12.2009	31.12.2008
Analysed by product and bank domicile		
Current accounts		
Domestic	24	18
Foreign	22	76
Term deposits		
Domestic	1,920	3,061
Foreign	899	1,432
	2,865	**4,587**
Allowances for credit losses	-	-
Net due from banks	**2,865**	**4,587**

12 LOANS AND ADVANCES TO CUSTOMERS

Bank classifies its loans and advances to customers in the category of financial assets "loans and receivables".

(CZKm)	31.12.2009	31.12.2008
Analysed by product		
Investment loans	25,116	23,032
Working capital financing	6,481	9,724
Mortgages	6,653	5,956
Consumer loans	724	1,201
Gross loans and advances	**38,974**	**39,913**
Allowance for impairment (Note 13)	(881)	(854)
Net loans and advances	**38,093**	**39,059**

For the analysis of individual categories of loans and advances to customers according to their credit quality see Note 32 (b).

13 IMPAIRMENT CHARGE FOR CREDIT LOSSES

The movement in allowance for impairment of loans and advances to customers can be analysed as follows:

(CZKm)	Retail	Corporate	Total
As at 1 January 2008	166	240	406
Net addition to provision for loan impairment	187	272	459
Loans written off during the year as uncollectible	(9)	-	(9)
Unwind of discount of allowance	(1)	(1)	(2)
As at 31 December 2008	**343**	**511**	**854**
Net addition to provision for loan impairment	198	165	363
Loans written off during the year as uncollectible	(168)	(148)	(316)
Unwind of discount of allowance	(7)	(13)	(20)
As at 31 December 2009	**366**	**515**	**881**

Segments Corporate/Retail are determined in accordance with Basel II standardised approach as opposed to Note 31, where the segments are defined based on the Bank's organisational structure.

The Bank also realised loss amounting to CZK 16 million (2008: CZK 12 million) on ceded receivables.

As at 31 December 2009, the Bank had an overdue receivable against Chladící věže Praha, a.s. amounting to CZK 51 million. The receivable is insured by Atradius Credit Insurance N.V., Praha. The payment order issued by the Court is subject to the legal dispute. Based on the opinion of the external legal agency the Bank does not expect loss from the receivable and therefore no individual provision is created.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's trading activities primarily involve providing various derivative products to its customers and managing positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage interest rate position and which do not meet the criteria of hedge accounting.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2009 and 31 December 2008 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

Derivative financial instruments

TRADING DERIVATIVES

	31.12.2009			31.12.2008		
(CZKm)	Contract/ notional	Fair value positive	Fair value negative	Contract/ notional	Fair value positive	Fair value negative
Interest rate derivatives						
Swaps	696	2	23	234	-	3
	696	**2**	**23**	**234**	**-**	**3**
Foreign exchange derivatives						
Swaps	2,277	33	2	3,486	237	15
Forwards	1,624	30	20	4,742	105	93
Options	-	-	-	1	-	-
	3,901	**63**	**22**	**8,229**	**342**	**108**
Equity derivatives						
Options	250	11	-	-	-	-
	250	**11**	**-**	**-**	**-**	**-**
Total	**4,847**	**76**	**45**	**8,463**	**342**	**111**

Fair value gains less losses of trading derivatives are recognised in the profit for the period.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore presented above as trading derivatives with fair value gains and losses recognised in the profit for the period.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

SECURITIES HELD FOR TRADING

(CZKm)	31.12.2009	31.12.2008
Debt securities	69	137

SECURITIES DESIGNATED AT FAIR VALUE

(CZKm)	31.12.2009	31.12.2008
Debt securities	7	7
Variable yield securities	244	-
	251	**7**

16 INVESTMENT SECURITIES

The Bank classifies its investment securities in the categories of financial assets "available for sale" and "held to maturity".

(CZKm)	31.12.2009	31.12.2008
Securities available for sale		
Debt securities thereof:		
– Listed	2,250	-
Share units thereof:		
– Unlisted	-	141
Equity securities thereof:		
– Unlisted	33	30
	2,283	**171**
Securities held to maturity		
Debt securities thereof:		
– Listed	294	204
– Unlisted	107	-
	401	**204**

The Bank holds a 9.72% share of Victoria pojišťovna a.s. ("Victoria") at a value of CZK 33 million (31 December 2008: CZK 30 million). Victoria increased its registered capital from retained earnings by CZK 29 million in 2009 (in 2008: CZK 30 million). Accordingly, the Bank acquired shares corresponding to its share on Victoria's equity. The Bank does not exert significant influence in Victoria.

(CZKm)	Securities available for sale	Securities held to maturity	Total
As at 1 January 2008	167	759	926
Disposals	(4)	(555)	(559)
Gains from changes in fair value	8	-	8
As at 31 December 2008	**171**	**204**	**375**
Additions	2,235	296	2,531
Disposals	(142)	(99)	(241)
Gains from changes in fair value	19	-	19
As at 31 December 2009	**2,283**	**401**	**2,684**

17 INTANGIBLE ASSETS

(CZKm)	Software	Development in progress	Other	Total
Costs				
As at 1 January 2008	199	19	1	219
Additions	16	49	-	65
Transfer	3	(3)	-	-
Disposal	(2)	-	-	(2)
As at 31 December 2008	**216**	**65**	**1**	**282**
Additions	30	5	-	35
Transfer	65	(65)	-	-
Disposal	(3)	-	-	(3)
As at 31 December 2009	**308**	**5**	**1**	**314**
Accumulated amortisation				
As at 1 January 2008	(137)	-	(1)	(138)
Amortisation charge	(32)	-	-	(32)
Disposals (accumulated amortisation)	2	-	-	2
As at 31 December 2008	**(167)**	**-**	**(1)**	**(168)**
Amortisation charge	(29)	-	-	(29)
Disposals (accumulated amortisation)	3	-	-	3
As at 31 December 2009	**(193)**	**-**	**(1)**	**(194)**
Net book value				
As at 1 January 2008	62	19	-	81
As at 31 December 2008	**49**	**65**	**-**	**114**
As at 31 December 2009	**115**	**5**	**-**	**120**

18 PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	Leasehold improvement	Equipment	Other	Construction in progress	Total
Costs						
As at 1 January 2008	168	68	286	149	4	675
Additions	-	4	15	20	5	44
Transfer	-	-	1	1	(2)	-
Disposal	-	-	(14)	(13)	-	(27)
As at 31 December 2008	**168**	**72**	**288**	**157**	**7**	**692**
Additions	-	9	9	8	-	26
Transfer	-	2	-	5	(7)	-
Disposal	-	-	(16)	(17)	-	(33)
As at 31 December 2009	**168**	**83**	**281**	**153**	**-**	**685**
Accumulated depreciation						
As at 1 January 2008	(72)	(25)	(194)	(118)	-	(409)
Depreciation charge	(5)	(7)	(29)	(11)	-	(52)
Disposals (accumulated depreciation)	-	-	13	13	-	26
As at 31 December 2008	**(77)**	**(32)**	**(210)**	**(116)**	**-**	**(435)**
Depreciation charge	(5)	(8)	(29)	(13)	-	(55)
Disposals (accumulated depreciation)	-	-	16	17	-	33
As at 31 December 2009	**(82)**	**(40)**	**(223)**	**(112)**	**-**	**(457)**
Net book value						
As at 1 January 2008	96	43	92	31	4	266
As at 31 December 2008	**91**	**40**	**78**	**41**	**7**	**257**
As at 31 December 2009	**86**	**43**	**58**	**41**	**-**	**228**

19 DEFERRED INCOME TAX ASSETS

Deferred income taxes in 2009 are calculated on all temporary differences under the liability method using the 19% income tax rate enacted for 2010 (20% for 2009).

The movement on the deferred income tax account is as follows:

(CZKm)	2009	2008
As at 1 January	17	31
Profit for the period (debit) / credit (Note 9)	-	(13)
Available-for-sale securities		
Fair value re-measurement (Note 27)	(4)	(1)
As at 31 December	**13**	**17**

Deferred income tax asset and liability are attributable to the following items:

(CZKm)	31.12.2009	31.12.2008
Allowance for impairment	26	29
Available-for-sale securities	(6)	(2)
Depreciation of the fixed assets	(12)	(11)
Provisions	4	-
Other temporary differences	1	1
	13	**17**

The deferred tax (debit) / credit in the statement of income comprise the following temporary differences:

(CZKm)	2009	2008
Allowance for impairment	(3)	(12)
Depreciation of fixed assets	(1)	1
Reserves	4	-
Other temporary differences	-	(2)
Total (Note 9)	**-**	**(13)**

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

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20 OTHER ASSETS

(CZKm)	31.12.2009	31.12.2008
Prepayments and accrued income	29	14
Other debtors, net of provisions	23	17
Anticipated receivables	2	2
Other	22	21
	76	**54**

21 DEPOSITS FROM BANKS

The Bank classifies its deposits from banks in the category of financial liabilities “measured at amortised cost”.

(CZKm)	31.12.2009	31.12.2008
Analysed by product and bank domicile		
Current accounts		
domestic	41	1
foreign	79	116
Term deposits		
domestic	1,552	1,224
foreign	479	103
Borrowings		
domestic	2,158	2,160
foreign	6,941	10,792
Other		
foreign	2	13
	11,252	**14,409**

22 DUE TO CUSTOMERS

The Bank classifies its due to customers in the category of financial liabilities "measured at amortised cost".

(CZKm)	31.12.2009	31.12.2008
Analysed by product		
Current accounts	18,610	15,257
Term deposits	7,188	8,053
Savings accounts with notice period	118	147
Savings accounts	1	1
	25,917	**23,458**
Analysed by customer type		
Private companies	12,162	10,415
Individual - households	8,143	6,154
Individual - entrepreneurs	1,516	1,632
Government bodies	2,637	4,076
Non-profit institutions	359	314
Insurance companies and pension funds	899	738
Other financial institutions	201	129
	25,917	**23,458**

The Bank has not given any collateral for its liabilities.

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23 DEBT SECURITIES IN ISSUE

The Bank classifies its debt securities in issue in the category of financial liabilities "measured at amortised cost".

	Issue date	Currency	Maturity date	31.12.2009 CZKm	31.12.2008 CZKm
Issued mortgage bonds					
Mortgage bond emission 3.70/10	18.10.2005	CZK	18.10.2010	507	508
Mortgage bond emission 4.60/11	27.6.2006	CZK	27.6.2011	519	518
Mortgage bond emission 5.40/12	25.9.2007	CZK	25.9.2012	732	739
Mortgage bond emission 5.30/17	18.12.2007	CZK	18.12.2017	845	834
Mortgage bond emission 5,70/14	27.10.2009	CZK	27.10.2014	323	-
				2,926	**2,599**
Promissory notes and certificates of deposits					
Promissory notes and certificates of deposits short-term				1,257	1,023
Promissory notes and certificates of deposits long-term				70	75
				1,327	**1,098**
Debt securities in issue				**4,253**	**3,697**

The Bank issued one mortgage bonds issue in 2009 in the nominal amount of CZK 500 million.

Issued mortgage bonds are collateralised by the Bank's receivables arising from the granted mortgages in line with Czech regulatory requirements.

24 OTHER LIABILITIES

(CZKm)	31.12.2009	31.12.2008
Payments in transit	46	162
Other clearing accounts	106	153
Other creditors	113	127
Accruals and deferred income	32	45
Payables to Deposit insurance fund	25	21
Anticipated payables	15	22
VAT and other tax payables	4	6
Other	1	1
Suspense account loans	1	-
	343	**537**

25 PROVISIONS

(CZKm)	Provision for financial guarantees and other contingent liabilities	Restructuring provision	Employee benefits provision	Other operating provision	Total provisions
As at 1 January 2008	3	-	-	5	8
Additions	13	-	-	-	13
As at 31 December 2008	**16**	**-**	**-**	**5**	**21**
Release	(16)	-	-	-	(16)
Additions	14	7	17	-	38
As at 31 December 2009	**14**	**7**	**17**	**5**	**43**

Other operating provisions cover also possible losses regarding legal proceedings. The provision of CZK 3 million as at 31 December 2009 (31 December 2008: CZK 3 million) for litigation is not discounted to its net present value, as the timing of its utilisation could not be predicted with sufficient certainty.

26 SUBORDINATED DEBT

The Bank classifies its subordinated debt in the category of financial liabilities "measured at amortised cost".

The Bank received a subordinated liability of EUR 10 million from the European Bank for Reconstruction and Development on 24 December 2004, which is payable in one instalment on 9 April 2015. As at 31 December 2009 this debt bears 6M EURIBOR interest of 1.71 % plus a margin of 0.8% p.a. until the fifth year from the date of the agreement and 1.50% p.a. in the subsequent years which is payable semi-annually. This liability of CZK 267 million, including accrued interest, (31 December 2008: CZK 273 million) is subordinated to all other liabilities of the Bank and in amount of CZK 265 million (31 December 2008: CZK 269 million) forms a part of the tier 2 capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy (Note 32 (g)).

27 EQUITY

In 2009, there has been no change in the amount of share capital.

SHARE CAPITAL

(CZKm)	31.12.2009	31.12.2008
Voting shares	1,543	1,543
Non-voting shares	462	462
Issued, paid and registered in the Commercial register	**2,005**	**2,005**

ISSUES OF SHARES

ISIN	Date of issue	Nominal value of share CZK	Number of shares	Nominal value CZKm
770980001406	23.10.1998	5,000	30,000	150
770980001414	23.10.1998	5,000	100,000	500
770980001406	7.8.2002	5,000	4,600	23
770980001414	7.8.2002	5,000	15,400	77
770980001406	23.11.2005	5,000	3,165	16
770980001414	23.11.2005	5,000	10,555	53
770980001406	31.7.2006	5,000	6,565	33
770980001414	31.7.2006	5,000	21,895	109
770980001406	20.12.2006	5,000	8,479	42
770980001414	20.12.2006	5,000	28,281	142
770980001406	16.5.2007	5,000	8,336	42
770980001414	16.5.2007	5,000	27,804	139
770980001406	21.12.2007	5,000	16,488	82
770980001414	21.12.2007	5,000	54,992	275
770980001406	30.7.2008	5,000	14,882	74
770980001414	30.7.2008	5,000	49,634	248
			401,076	**2,005**

Non-voting shares are not allowed to vote and bear a 1% higher dividend payment than voting shares.

Cumulative gains not recognised in the profit for the period may be analysed as follows:

(CZKm)	2009	2008
As at 1 January	10	4
Net gains/(losses) from changes in fair value (Note 16)	19	8
Change in deferred income taxes (Note 19)	(4)	(2)
As at 31 December	**25**	**10**

28 CONTINGENT LIABILITIES AND COMMITMENTS

Commitments to provide a loan, loan guarantees to third parties and guarantees from acceptance of letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

Contingent liabilities include:

(CZKm)	31.12.2009 Contract amount	31.12.2008 Contract amount
Documentary credits	119	193
Financial guarantees	1,167	1,308
Provision for guarantees (Note 25)	(10)	(10)
Net financial guarantees	**1,157**	**1,298**
Un-drawn formal standby facilities, credit lines	3,482	7,624
Provision for un-drawn credit lines (Note 25)	(4)	(6)
Net un-drawn formal standby facilities, credit lines	**3,478**	**7,618**
Total in gross amount	**4,768**	**9,125**

Un-drawn credit lines are irrevocable.

29 OTHER CONTINGENT LIABILITIES

(a) Litigation

Apart from litigation for which provisions have already been raised (Note 25), the Bank is not involved in any other litigation with material impact on its position.

(b) Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Czech tax authorities are authorised to perform tax inspection for three years retrospectively. The last tax inspection was for year 2007.

(c) Assets under management and custody

(CZKm)	31.12.2009	31.12.2008
Assets held under custody	**1,259**	**1,024**

Assets held under custody are shown at their nominal value.

(CZKm)	31.12.2009	31.12.2008
Assets held under management	**3,985**	**4,786**

Assets held under management are shown at their fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2009 and 31 December 2008.

(d) Operating lease commitments

Future minimum lease payments under land, building and equipment operating leases are as follows:

(CZKm)	31.12.2009	31.12.2008
Not later than 1 year	108	79
Later than 1 year and not later than 5 years	300	214
Later than 5 years	85	78
	493	**371**

30 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalents as shown in the balance sheets:

(CZKm)	31.12.2009	31.12.2008	1.1.2008
Cash and balances with central banks	3,116	2,809	809
Due from banks due up to 3 months	2,335	4,547	3,667
Due to banks due up to 3 months	(1,910)	(880)	(1,714)
	3,541	**6,476**	**2,762**

31 OPERATING SEGMENTS

The Bank has the following three reportable segments. These operating segments are the Bank's strategic business units which offer different products and services, and are managed separatelly because they require different technology, product distribution and service rendering methods and marketing strategies. Board of Directors reviews internal management reports of each of these strategic business units on a monthly basis.

- **Retail banking:** Private individuals and entrepreneurs and companies with a turnover less than CZK 30 million;
- **Corporate banking:** Companies with turnover greater than CZK 30 million and non-banking institutions in the financial sector;
- **Treasury:** Asset and liability management, Dealing.

Result of other Bank's activities (head office expenses, unallocated expenses and eliminating and reconciling items) is reported within reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items with corresponding items in the Bank's financial statements.

The accounting policies of the reportable segments are the same as described in Note 2.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Bank's Board of Directors.

OPERATING SEGMENT INFORMATION FOR 2009

(CZKm)	Retail Banking	Corporate Banking	Treasury	Total
Net interest income	421	675	48	1,144
Non-interest income	156	210	4	370
Total segment revenue	**577**	**885**	**52**	**1,514**
Segment expenses	(371)	(135)	(24)	(530)
Other material non-cash items:				
Impairment charge to credit losses	(79)	(284)	-	(363)
Reportable segment profit efore income tax	**127**	**466**	**28**	**621**
Reportable segment assets	11,727	26,715	9,148	47,590
Reportable segment liabilities	13,883	11,992	13,532	39,407
Capital expenditure	**20**	**-**	**6**	**26**
Depreciation	**25**	**4**	**3**	**32**

OPERATING SEGMENT INFORMATION FOR 2008

(CZKm)	Retail Banking	Corporate Banking	Treasury	Total
Net interest income	417	673	242	1,332
Non-interest income	162	232	24	418
Total segment revenue	**579**	**905**	**266**	**1,750**
Segment expenses	(358)	(143)	(28)	(529)
Other material non-cash items:				
Impairment charge to credit losses	(20)	(440)	-	(460)
Reportable segment profit efore income tax	**201**	**322**	**238**	**761**
Reportable segment assets	11,072	28,365	8,330	47,767
Reportable segment liabilities	12,443	10,597	16,562	39,602
Capital expenditure	**23**	**4**	**9**	**36**
Depreciation	**24**	**3**	**2**	**29**

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RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT BEFORE INCOME TAX AND ASSETS AND LIABILITIES

(CZKm)	2009	2008
Profit before income tax		
Total profit before income tax for reportable segments	621	761
Unallocated expenses	(345)	(318)
Profit before income tax	276	443
Assets		
Total assets for reportable segments	47,590	47,767
Unallocated assets	8	17
Total assets	**47,598**	**47,784**
Liabilities		
Total liabilities for reportable segments	39,407	39,602
Unallocated liabilities	2,713	2,904
Total liabilities	**42,120**	**42,506**

Total Bank's revenue is generated solely by reportable segments.

Vast majority of the Bank's total revenues is generated from customers domiciled in the Czech Republic.

All the Bank's property and equipment and intangible assets are located in the Czech Republic.

32 FINANCIAL RISKS

(a) Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar contingent liabilities.

The Bank also, in a limited extent trades in financial instruments where it takes positions in traded and over-the-counter instruments including derivatives to take advantage of short-term market movements in the debt securities markets, in currency and interest rate. The Board of Directors places trading limits on the level of exposure that can be taken in relation to relevant market positions.

(b) Credit risk

The Bank defines credit risk as the risk that a counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation.

Credit risk management is performed in a close co-operation with the Bank's parent company, thus reflecting the risk strategy and risk-appetite of shareholders, as well as the entire Volksbank Group.

Overall, the credit-risk policy is conservative. Considered within the general context of the overall business relations existing with the respective customer, each transaction for which the Bank knowingly undertakes risk should yield a contribution margin that is commensurate with the specific risk incurred.

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to the decrease of the accepted level of credit risk. This process is performed on the level of each individual borrower and the whole loan portfolio. When deciding about acceptance of a new exposure, an analysis of customer's cash flow and overall financial situation is a key factor, as well as the existing experience with the customer together with the quality of received collateral. The decision-making is performed independently from sales units.

The capital requirement for credit risk in investment portfolio is calculated using the standardised approach as the Bank continues its preparation for gaining regulatory approval for the transition to internal rating based approach.

The table below summarises maximum exposure to credit risk before collateral held or other credit enhancements. Included in the table are the Bank's assets at carrying amounts.

Maximum exposure to credit risk before collateral held or other credit enhancements

(CZKm)	31.12.2009	31.12.2008
Credit risk exposures relating to on-balance sheet assets		
Loans and advances to banks	2,865	4,587
Loans and advances to customers:		
– Corporate loans		
Investment loans	17,801	16,892
Working capital financing	3,788	6,426
Mortgages	250	224
Consumer loans	3	194
– Retail loans		
Investment loans	6,995	5,970
Working capital financing	2,178	2,721
Mortgages	6,379	5,646
Consumer loans	699	986
Derivative financial instruments	76	342
Financial assets at fair value through profit or loss		
Debt securities	320	144
Investment securities		
Debt securities	2,651	204
Other exposures	76	54
Credit risk exposures relating to off-balance sheet items (nominal amount)		
Financial guarantees	1,167	1,308
Loan commitments and other credit related liabilities	3,601	7,817
	48,849	**53,515**

Corporate loans include loans and advances to customers with the total exposure above EUR 1 million or with annual turnover of at least EUR 50 million. Segments Corporate/Retail are determined in accordance with Basel II standardised approach for calculation of the capital requirement for credit risk in investment portfolio as opposed to Note 31, where the segments are defined based on the Bank's organisational structure.

Collateral held and other credit enhancements

Collateral held and other credit enhancements may be summarised by collateral type as follows:

As at 31 December 2009	
Bank and similar guarantees	1,906
Mortgage right on real estate	22,688
Financial collateral	4,499
Other	534
Total	**29,627**
As at 31 December 2008 (restated)	
Bank and similar guarantees	1,606
Mortgage right on real estate	17,885
Financial collateral	3,049
Other	679
Total	**23,219**

Loans and advances

The Bank's exposure to credit risk from loans and advances is summarised as follows:

	31.12.2009		31.12.2008	
(CZKm)	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	35,071	2,865	36,819	4,587
Past due but not impaired	814	-	479	-
Impaired	3,089	-	2,615	-
Loans and advances - gross	**38,974**	**2,865**	**39,913**	**4 587**
Allowances for impairment (Note 13)	(881)	-	(854)	-
Loans and advances - net	**38,093**	**2,865**	**39,059**	**4,587**

From the total loans and advances to customers which are neither past due nor impaired represent CZK 19,762 million (31 December 2008: CZK 22,252 million) Corporate loans and advances and CZK 15,309 million (31 December 2008: CZK 14,567 million) belong to Retail loans and advances.

The total impairment provision for loans and advances as at 31 December 2009 is CZK 881 million (31 December 2008: CZK 854 million) of which CZK 826 million (31 December 2008: CZK 775 million) represents the individually impaired loans and the remaining amount of CZK 55 million (31 December 2008: CZK 79 million) represents the portfolio provision.

Loans and advances neither past due nor impaired

Loans and advances which are not overdue are allocated to this category. These loans and advances are not individually impaired.

The Bank is collecting statistical data necessary for the allocation of these high-quality loans and advances into individual credit quality grades. This process is continuing in close cooperation with the Bank's parent company towards establishing an internal rating system which complies with the regulatory requirements for application of internal rating based approach (IRB) for the calculation of capital requirement for credit risk in the Bank's investment portfolio (Note 32g).

Loans and advances past due but not impaired

Loans and advances from 1 up to 90 days overdue are generally not considered to be impaired by individual impairment provision.

The table below summarises the gross amount of loans and advances to customers past due but not impaired by business segment along with the fair value of related collateral held by the Bank as security.

As at 31 December 2009 (CZKm)	Retail	Corporate	Total loans and advances to customers
Loans and advances past due but not impaired	107	707	814
Fair value of collateral	48	394	442

From the total loans and advances past due but not impaired as at 31 December 2009 were 94% overdue up to 1 month.

As at 31 December 2008 (CZKm)	Retail	Corporate	Total loans and advances to customers
Loans and advances past due but not impaired	194	285	479
Fair value of collateral	55	148	203

From the total loans and advances past due but not impaired as at 31 December 2008 were 91% overdue up to 1 month.

Individually impaired loans and advances

The Bank performs assessment for individual impairment for loans and advances that are above materiality threshold. Individually impaired loans and advances include exposures corresponding to the sub-categories of substandard, doubtful and loss loans and receivables in accordance with regulatory classification. Therefore, they also include loans and advances more than 90 days overdue. Remaining loans and advances from financial activities are considered within collective evaluation of impairment and for calculation of portfolio provision.

The table below summarises gross amount of individually impaired loans and advances to customers by business segment along with the fair value of related collateral held by the Bank as security.

AAs at 31 December 2009 (CZKm)	Retail	Corporate	Total loans and advances to customers
Individually impaired loans and advances	1,206	1,883	3,089
Fair value of collateral	709	1,120	1,829

As at 31 December 2008 (CZKm)	Retail	Corporate	Total loans and advances to customers
Individually impaired loans and advances	905	1,710	2,615
Fair value of collateral	578	1,062	1,640

Classification of individually impaired loans and advances

Individually impaired loans and advances (loans and advances in default) are in accordance with CNB's regulation classified as follows:

- substandard when their full repayment is uncertain or they are overdue for 91 to 180 days,
- doubtful, when their full repayment is highly improbable or they are overdue for 181 to 360 days,
- loss, when the full repayment is impossible or the receivable is overdue for more than 360 days or under bankruptcy proceedings.

Loans and advances renegotiated

Restructuring of loans and advances occurs when the Bank provides relief to the customer due to its adverse financial or legal situation since otherwise it would probably suffer a financial loss. Restructuring mainly includes modification of repayment schedule, reduction of interest, forgiveness of overdue interest and deferral of principal, interest and fees repayment. The Bank renegotiated CZK 467 million of its receivables in 2009 (2008: CZK 242 million).

Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2009, based on Moody's external ratings.

(CZKm)	Financial assets at fair value through profit or loss	Investment securities	Total
Aaa to A3	320	2,545	2,865
Unrated	-	106	106
Total	**320**	**2,651**	**2,971**

Concentration of risks of financial assets with credit risk exposure

Diversification is one of key principles in managing credit risk. The Bank fully adheres to regulatory limits for an exposure to single economically-linked groups of customers. Additionally, the Bank places and monitors limits on the amount of risk accepted in relation to both geographical and industry sectors.

GEOGRAPHICAL SECTORS

As at 31 December 2009 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	1,944	918	2	1	2,865
Loans and advances to customers	37,285	763	17	28	38,093
Financial assets at fair value through profit or loss	75	245	-	-	320
Debt investment securities	2,506	121	6	18	2,651
Other assets	140	11	-	1	152
Total assets	**41,950**	**2,058**	**25**	**48**	**44,081**

As at 31 December 2008 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	3,078	1,462	41	6	4,587
Loans and advances to customers	38,307	687	17	48	39,059
Financial assets at fair value through profit or loss	144	-	-	-	144
Debt investment securities	102	102	-	-	204
Other assets	394	-	-	2	396
Total assets	**42,025**	**2,251**	**58**	**56**	**44,390**

INDUSTRY SECTORS

As at 31 December 2009 (CZKm)	Real estate	Trade and services	Manu-facturing	House-holds	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	2,865	-	-	2,865
Loans and advances to customers	16,241	5,716	5,704	7,206	1,673	1,142	411	38,093
Financial assets at fair value through profit or loss	-	60	-	-	254	6	-	320
Investment securities	101	13	-	-	31	2,506	-	2,651
Other assets	6	1	2	-	142	-	1	152
Total assets	**16,348**	**5,790**	**5,706**	**7,206**	**4,965**	**3,654**	**412**	**44,081**

As at 31 December 2008 (CZKm)	Real estate	Trade and services	Manu-facturing	House-holds	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	4,587	-	-	4,587
Loans and advances to customers	15,771	5,442	4,941	7,141	1,489	679	3,596	39,059
Financial assets at fair value through profit or loss	-	57	-	-	86	1	-	144
Investment securities	102	-	-	-	102	-	-	204
Other assets	-	-	-	-	384	-	12	396
Total assets	**15,873**	**5,499**	**4,941**	**7,141**	**6,648**	**680**	**3,608**	**44,390**

Derivatives

The Bank maintains strict control limits on credit risk from derivative positions, by both amount and term. Credit risk exposure expressed by credit equivalent, which in relation to derivatives is only a small fraction of derivative's notional amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security which is required for credit transactions is obtained for credit risk exposures on these instruments.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each banking counterparty so as to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Payment guarantees and standby letters of credit with characteristics of credit substitutes carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Currency risk

The Bank defines currency risk as a risk of financial loss because of changes in foreign exchange rates.

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank is managing its open foreign exchange position using foreign exchange deals (spots and forwards). Foreign exchange derivatives made on behalf of clients are included in accounting rading portfolio. The Board of Directors sets limits on the level of currency position by currency and in total for all currencies, which are monitored daily.

Sensitivity analysis

The tables below summarise the Bank's exposure to currency risk. It is expressed by the sensitivity analysis showing effect of change in CZK foreign exchange rate against EUR and USD by 15% (appreciation of CZK) and -15% (depreciation of CZK) on the Bank's annual net profit and other movements in equity. In the Bank's management judgment such an annual change in foreign exchange rates may be reasonably possible based on historical development. Included in the table is the respective change in the Bank's annual net profit and other movements in equity from assets and liabilities sensitive to currency risk.

As at 31 December 2009 (CZKm)	15%	-15%
	Annual net profit	
Assets		
Cash and balances with central banks	(9)	9
Loans and advances to banks	(391)	391
Loans and advances to customers	(551)	551
Other assets	(1)	1
Unsettled transactions with currency instruments	(463)	463
	(1,415)	**1 415**
Liabilities		
Deposits from banks	663	(663)
Due to customers	559	(559)
Debt securities in issue	11	(11)
Subordinated debt	40	(40)
Other liabilities	12	(12)
Unsettled transactions with currency instruments	129	(129)
	1,414	**(1,414)**
Total	**(1)**	**1**

Change in CZK foreign exchange rate against EUR and USD does not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2008 (CZKm)	15%	-15% Annual net profit
Assets		
Cash and balances with central banks	(9)	9
Loans and advances to banks	(612)	612
Loans and advances to customers	(608)	608
Other assets	(1)	1
Unsettled transactions with currency instruments	(877)	877
	(2,107)	**2,107**
Liabilities		
Deposits from banks	1,170	(1,170)
Due to customers	479	(479)
Debt securities in issue	17	(17)
Subordinated debt	41	(41)
Other liabilities	30	(30)
Unsettled transactions with currency instruments	374	(374)
	2,111	**(2,111)**
Total	**4**	**(4)**

Change in CZK foreign exchange rate against EUR and USD does not have any effect on the Bank's movements in equity other than annual net profit.

Currency position

The tables below summarise the Bank's exposure to currency risk expressed by open currency position. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

As at 31 December 2009 (CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	3,041	51	12	-	12	3,116
Loans and advances to banks	223	2,572	33	-	37	2,865
Loans and advances to customers	34,327	3,580	95	-	91	38,093
Financial assets at fair value through profit or loss	320	-	-	-	-	320
Investment securities	2,684	-	-	-	-	2,684
Other assets	512	8	-	-	-	520
	41,107	**6,211**	**140**	**-**	**140**	**47,598**
Liabilities and equity						
Deposits from banks	6,831	4,418	2	-	1	11,252
Due to customers	22,144	3,356	372	-	45	25,917
Debt securities in issue	4,180	7	66	-	-	4,253
Provisions	38	5	-	-	-	43
Subordinated debt	-	267	-	-	-	267
Other liabilities	301	73	10	-	4	388
Equity	5,478	-	-	-	-	5,478
	38,972	**8,126**	**450**	**-**	**50**	**47,598**
Net assets/(liabilities and equity)	**2,135**	**(1,915)**	**(310)**	**-**	**90**	**-**
Net assets/(liabilities) from unsettled transactions with currency instruments	**(1,853)**	**1,917**	**313**	**-**	**(89)**	**288**
Net open currency position	**282**	**2**	**3**	**-**	**1**	**288**
Off-balance sheet items						
Financial guarantees	913	194	60	-	-	1,167
Loan commitments and other credit related liabilities	3,040	530	31	-	-	3,601
Currency position from off-balance sheet items	**3,953**	**724**	**91**	**-**	**-**	**4,768**

As at 31 December 2008 (CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	2,731	48	11	6	13	2,809
Loans and advances to banks	456	3,738	341	13	39	4,587
Loans and advances to customers	34 ,904	3,927	125	-	103	39,059
Financial assets at fair value through profit or loss	144	-	-	-	-	144
Investment securities	375	-	-	-	-	375
Other assets	806	4	-	-	-	810
	39,416	**7,717**	**477**	**19**	**155**	**47,784**
Liabilities and equity						
Deposits from banks	6,605	7,686	115	-	3	14,409
Due to customers	20,221	2,740	453	-	44	23,458
Debt securities in issue	3,586	42	69	-	-	3,697
Provisions	20	1	-	-	-	21
Subordinated debt	-	273	-	-	-	273
Other liabilities	444	184	18	-	2	648
Equity	5,278	-	-	-	-	5,278
	36,154	**10,926**	**655**	**-**	**49**	**47,784**
Net assets/(liabilities and equity)	**3,262**	**(3,209)**	**(178)**	**19**	**106**	**-**
Net assets/(liabilities) from unsettled transactions with currency instruments	**(3,017)**	**3,181**	**178**	**-**	**(106)**	**236**
Net open currency position	**245**	**(28)**	**-**	**19**	**-**	**236**
Off-balance sheet items						
Financial guarantees	882	366	60	-	-	1,308
Loan commitments and other credit related liabilities	7,061	718	38	-	-	7,817
Currency position from off-balance sheet items	**7,943**	**1,084**	**98**	**-**	**-**	**9,125**

(d) Interest rate risk

The Bank defines interest rate risk as a risk of financial loss because of changes in market interest rates.

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to the change in the market interest rate is regularly measured via simulated change of the present value of the interest cash flows from individual interest instruments in case of interest rate increase by standardised value of interest rate shock of 200 b.p. Interest rate swaps or other fixed-rate instruments are used to manage interest rate positions.

Sensitivity analysis

The table below summarises the Bank's exposure to interest rate risks. It is expressed by the sensitivity analysis showing effect of change in market interest rates by 100 basis points (b.p.) on the Bank's annual net profit and other movements in equity. Two week repo rate as a key interest rate of the CNB's monetary policy is usually changed several times a year. Having observed this rate's average annual change over the last 5 years, in the Bank's management judgment a mentioned change in annual market interest rates by 100 b.p. may reasonably be possible. Included in the table is respective change in the Bank's annual net profit and other movements in equity from:

- interest-bearing financial assets and liabilities at fair value through profit or loss and interest-bearing available-for-sale financial assets and
- loans and receivables, interest-bearing financial liabilities and held-to-maturity investments carried at amortised cost with contractual, re-pricing or maturity dates not exceeding one year.

As at 31 December 2009 (CZKm)	100 b.p.	- 100 b.p.
	Annual net profit	
Assets		
Cash and balances with central banks	24	(24)
Loans and advances to banks	25	(25)
Loans and advances to customers	255	(255)
Financial assets at fair value through profit and loss	(17)	17
Investment securities	(66)	66
	221	**(221)**
Liabilities		
Deposits from banks	(73)	73
Due to customers	(201)	201
Debt securities in issue	(12)	12
Subordinated debt	(2)	2
	(288)	288
Derivative financial instruments	-	-
Total	**(67)**	**67**

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2008 (CZKm)	100 b.p.	- 100 b.p.
	Annual net profit	
Assets		
Cash and balances with central banks	21	(21)
Loans and advances to banks	40	(40)
Loans and advances to customers	259	(259)
Financial assets at fair value through profit and loss	(3)	3
Investment securities	(4)	4
	313	**(313)**
Liabilities		
Deposits from banks	(99)	99
Due to customers	(192)	192
Debt securities in issue	(9)	9
Subordinated debt	(2)	2
	(302)	**302**
Derivative financial instruments	(2)	2
Total	**9**	**(9)**

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

(e) Liquidity risk

The Bank defines liquidity risk as a risk that it will encounter difficulty in meeting obligations associated with financial liabilities or the risk of loss of ability to finance its assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from settlement of derivatives. Liquidity risk management is based on both the planning of the cash inflows and cash outflows based on the remaining maturity of the assets and liabilities and on the experience from progress analysis from the previous years. The Bank prepares a liquidity plan, which is approved by the Board of Directors together with the business plan and both these plans are closely interconnected.

Cash flows from balance sheet financial instruments

The table below presents the contractual undiscounted cash flows from the Bank's financial liabilities as compared with total financial assets based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2009					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Financial liabilities						
Deposits from banks	3,062	1,568	6,393	981	12,004	11,252
Due to customers	24,257	2,252	800	-	27,309	25,917
Debt securities in issue	1,064	915	1,900	976	4,855	4,253
Subordinated debt	-	268	-	-	268	267
Total financial liabilities						
(remaining contractual maturities)	28,383	5,003	9,093	1,957	44,436	41,689
Total financial assets						
(remaining contractual maturities)	9,325	6,860	14,582	21,833	52,600	46,676
Net financial assets/(liabilities)	**(19,058)**	**1,857**	**5,489**	**19,876**	**8,164**	**4,987**

AAs at 31 December 2008					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Financial liabilities						
Deposits from banks	2,069	4,833	7,644	916	15,462	14,409
Due to customers	23,380	1,150	61	1	24,592	23,458
Debt securities in issue	1,031	188	2,037	952	4,208	3,697
Subordinated debt	-	17	278	-	295	273
Total financial liabilities						
(remaining contractual maturities)	26,480	6,188	10,020	1,869	44,557	41,837
Total financial assets						
(remaining contractual maturities)	10,386	5,183	16,068	24,666	56,303	46,974
Net financial assets/(liabilities)	**(16,094)**	**(1,005)**	**6,048**	**22,797**	**11,746**	**5,137**

Negative net financial liability with remaining maturity within three months is influenced by the fact that Due to customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the „Within 3 months“ column). However, as statistical evidence shows it is unlikely that a majority of those customers will actually withdraw their deposits from the Bank on maturity.

Cash flows from derivative financial instruments

Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial liabilities settled on a net basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2009					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Trading derivatives						
Interest derivatives						
– Interest rate swaps: assets	-	1	3	-	4	79
– Interest rate swaps: liabilities	1	9	32	17	59	617
Equity derivatives						
– Equity options: assets	-	3	8	-	11	250
Net financial assets/(liabilities)	**(1)**	**(5)**	**(21)**	**(17)**	**(44)**	

As at 31 December 2008					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Trading derivatives						
Interest derivatives						
– Interest rate swaps: assets	-	1	1	-	2	50
– Interest rate swaps: liabilities	-	-	1	1	2	184
Net financial assets/(liabilities)	**-**	**1**	**-**	**(1)**	**-**	

Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and foreign exchange options. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial instruments settled on a gross basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2009 (CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total Undiscounted cash flows	Total Carrying amount
Trading derivatives						
Foreign exchange derivatives						
– Outflow	2,708	682	473	-	3,863	3,863
– Inflow	2,740	688	474	-	3,902	3,902

As at 31 December 2008 (CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total Undiscounted cash flows	Total Carrying amount
Trading derivatives						
Foreign exchange derivatives						
– Outflow	4,569	3,009	416	-	7,994	7,994
– Inflow	4,783	3,030	417	-	8,230	8,230

Off-balance sheet items

The table below analyses off-balance sheet items of the Bank exposed to liquidity risk into relevant maturity buckets based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2009 (CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	283	563	294	27	1,167
Loan commitments and other credit related liabilities	3,522	-	79	-	3,601
Capital commitments	23	123	-	-	146
Total	**3,828**	**686**	**373**	**27**	**4,914**

As at 31 December 2008 (CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	384	381	508	35	1,308
Loan commitments and other credit related liabilities	7,123	81	539	74	7,817
Capital commitments	43	71	-	-	114
Total	**7,550**	**533**	**1,047**	**109**	**9,239**

Future minimum lease payments under operating lease commitments are analysed in Note 29 (d).

(f) Operational risk

The Bank defines operational risk as the risk of a financial loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks. In case of breakdown of business processes it also includes reputation risk.

In accordance with CNB measures, the Bank has an internal database of all requisite regulations for operational risk management, including those for the areas of information security, continuity of operations or internal control system. The Bank has also established a system of control mechanisms for those individual processes that are basic elements of operational risk management.

Riskcontrolling department is responsible for setting up the methodology or framework conditions for operational risk management, as well as for providing support to the specialised units within the operational risk management process. Both Information security and Compliance & AML departments also participate on this process in a significant way.

The operational risk management process includes identification and recording, evaluation and valuation, measures and risks minimisation, along with controlling implementation of the designed measures and their effectiveness. The Bank applies the operational risk management process at the levels of both actual events and hypothetical risks.

Every identified event is assessed and considered individually, and the measures to be taken are designed in accordance with the frequency of the event's occurrence, amount of the realised or anticipated loss or profit, as well as its seriousness and cause. The objective is to ensure that the measures taken will effectively minimise or eliminate occurrences of similar events in future.

Operational risk management is performed in a close co-operation with the Bank's parent company The Bank applies standardised method for calculating the capital requirement for operational risk.

(g) Capital management

The capital management process is coordinated within Volksbank Group in close communication with the Bank's shareholders. It is aimed at:

- ensuring of the Bank's long-term stability in relation to existing risks,
- compliance with the supervisory capital requirements (capital adequacy) and
- maintaining a strong capital base to support business expansion

The Bank fulfils the requirement of CNB Decree No. 123/2007 ("the Decree") for ongoing compliance with the capital adequacy limit by daily monitoring of risk-weighted assets. Required regulatory capital adequacy reports are filed with the CNB on a monthly basis. The Bank also informs the parent company on compliance with the regulatory capital requirements with the same frequency.

The methodology for calculation of capital is defined by the Decree. The Bank ensures that the capital level exceeds regulatory capital requirements in coordination with the parent company.

The Bank estimates capital requirements for coverage of individual risks in compliance with the valid regulatory legislation.

Additionally, Bank's internal capital adequacy assessment system ensures that internally determined capital resources exceed internally assessed capital required.

The table below summarises the composition of the Bank's capital and risk-weighted assets. During both years, the Bank complied with the regulatory capital adequacy limit of 8%.

(CZKm)	31.12. 2009	31.12. 2008
Tier 1		
Share capital (net of treasury shares)	2,005	2,005
Share premium account	2,695	2,695
Obligatory reserve funds	70	53
Retained earnings from previous period	498	176
Less: Intangible assets other than goodwill	(120)	(114)
Other deductible items	-	-
Tier 1 capital	**5,148**	**4,815**
Tier 2		
Subordinated debt A	265	269
Tier 2 capital	**265**	**269**
Total capital	**5,413**	**5,084**
Risk-weighted assets		
Credit risk in investment/banking portfolio	32,638	34,290
Credit risk in trading portfolio	-	-
General interest rate risk	-	-
Operational risk	2,380	1,823
Total risk-weighted assets	**35,018**	**36,113**
Capital adequacy	**15.46 %**	**14.08%**

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	31.12.2009		31.12.2008	
(CZKm)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to banks	2,865	2,865	4,587	4,588
Loans and advances to customers thereof:	38,093	35,053	39,059	38,193
Retail	16,251	13,887	15,323	13,877
Corporate	21,842	21,166	23,736	24,316
Financial liabilities				
Deposits from banks	11,252	11,057	14,409	14,744
Due to customers thereof:	25,917	25,857	23,458	23,421
Retail	22,164	22,127	18,075	18,215
Corporate	3,753	3,730	5,383	5,206
Debt securities in issue thereof:	4,253	4,283	3,697	3,720
Retail	1,320	1,323	365	365
Corporate	2,933	2,960	3,332	3,355

The following methods and assumptions were used in estimating fair values of the Bank's financial assets and liabilities:

Loans and advances to banks

The carrying amounts of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current inter-bank market rates. A majority of the loans and advances re-price within relatively short time spans; therefore, it is assumed their carrying amounts approximate their fair values.

Loans and advances to customers

A substantial majority of the loans and advances to customers re-price within relatively short time spans; therefore, it is assumed that their carrying amounts approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates adjusted for appropriate risk premium. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses as at the balance sheet date.

Deposits from banks

The carrying amounts of current account balances are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying amounts approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current inter-bank market rates.

Due to customers

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying amounts. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Mortgage bonds issued are not publicly traded and their fair values are based upon quoted market prices of the debt securities with similar characteristics. The carrying amounts of promissory notes and certificates of deposit approximate their fair values.

Fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. Individual levels are defined in Note 2 (ab).

(CZKm)	Level 1	Level 2	Level 3	Total
As at 31 December 2009				
Financial assets				
Derivative financial instruments	-	76	-	76
Financial assets at fair value through profit or loss	6	314	-	320
Investment securities:				
– Available for sale	2,250	33	-	2,283
Financial liabilities				
Derivative financial instruments	-	45	-	45

In 2009 there were no transfers of financial assets or liabilities between level 1 and 2.

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34 DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 20 April 2009, no dividend was approved in respect of 2008 net profit and the profit was fully retained. The dividend for the year 2009 has not been declared yet.

35 SHAREHOLDERS

The shareholder structure of Volksbank CZ as at 31 December 2009 was as follows:

VOTING SHAREHOLDERS

Name and registered office	Share in %
Volksbank International AG, Vienna	98.50
Banca Popolare di Vicenza, Vicenza	0.75
EM.RO.Popolare S.p.a., Modena	0.75
	100.00

36 RELATED PARTIES

Amounts of the income, expense and assets and liabilities balances regarding related parties were as follows:

AS AT 31 DECEMBER 2009 AND YEAR THEN ENDED

(CZKm)	Note	Ultimate parent	Management	Other related parties	Total
Interest income	3	3	-	60	63
Commission and fee income	4	3	-	10	13
Other operating income	7	-	-	1	1
Interest expense	3	44	-	163	207
Commission and fee expense	4	6	-	15	21
Administrative expenses	6	-	-	39	39
Due from banks	11	86	-	136	222
Loans and advances	12	-	12	1,220	1,232
Securities classified as a financial assets from the beginning at fair value through profit or loss	15	244	-	-	244
Investment securities (available for sale)	16	-	-	33	33
Other assets	20	-	-	2	2
Due to banks	21	906	-	3,188	4,094
Due to customers	22	-	15	343	358
Other liabilities	24	-	-	22	22
Guarantees granted and commitments given	28	-	7	593	600
Guarantees granted and commitments received		1,699	9	91	1,799
Assets under custody		561	13	1,255	1,829

Ultimate parent company is Volksbank AG (VBAG). Parent company Volksbank International AG and companies within Volksbank Group other than parent company are part of Other related parties.

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AS AT 31 DECEMBER 2008 AND YEAR THEN ENDED

(CZKm)	Note	Ultimate parent	Management	Other related parties	Total
Interest income	3	14	1	70	85
Commission and fee income	4	5	-	9	14
Other operating income	7	-	-	1	1
Interest expense	3	78	-	147	225
Commission and fee expense	4	6	-	14	20
Administrative expenses	6	-	-	54	54
Due from banks	11	279	-	55	334
Loans and advances	12	-	17	1,409	1,426
Investment securities (available for sale)	16	-	-	171	171
Other assets	20	-	-	1	1
Due to banks	21	1,247	-	6,613	7,860
Due to customers	22	-	14	192	206
Other liabilities	24	3	-	29	32
Guarantees granted and commitments given	28	-	6	383	389
Guarantees granted and commitments received		3,158	10	39	3,207
Assets under custody		695	9	1,445	2,149

Loans and advances to customers and individuals include the following receivables from related parties: (Note 12).

RECEIVABLES FROM RELATED PARTIES

(CZKm)	31.12.2009	31.12.2008
Imobilia Kik s.r.o.	485	507
Imobilia Omega s.r.o.	261	281
Imobilia Spa s.r.o.	214	226
VB Leasing CZ, spol. s r.o.	99	212
Management of the Bank	10	11
Members of Supervisory Board and Board of Directors	2	6
Other related parties (companies in the group)	161	183
Total receivables from related parties	**1,232**	**1,426**

In the opinion of management, all receivables from related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavourable features.

Due to customers include the following position with related parties:

DEPOSITS FROM RELATED PARTIES

(CZKm)	31.12.2009	31.12.2008
Management of the Bank	8	10
Members of Supervisory Board and Board of Directors	7	4
Other related parties (companies in the group)	343	192
Deposits from related parties	**358**	**206**

Due to banks include the following position with related parties:

DEPOSITS FROM RELATED PARTIES

(CZKm)	31.12.2009	31.12.2008
Volksbank AG	906	1,247
Volksbank International AG	3,176	6,598
Other related parties (banks in the group)	12	15
Deposits from related parties	**4,094**	**7,860**

In the opinion of management, deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal interest rate and liquidity risk or present other unfavourable features (Note 22).

37 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end until the date of preparation of the financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2009.

QUANTITATIVE INDICES

CZK thousand	2009	2008	2007	2006
Return on average assets (ROAA)	0.37%	0.81%	1.06%	0.97%
Return on own average equity (ROAE)	3.68%	7.81%	12.18%	16.23%
Assets per employee	68,487	65,818	57,399	51,134
Administrative costs per employee	1,081	1,018	1,033	1,048
Net profit per employee	266	467	504	442
Capital structure				
Tier 1	5,148,132	4,814,846	3,734,200	1,984,846
Paid-up share capital	2,005,380	2,005,380	1,682,800	1,144,700
Paid up share premium	2,694,628	2,694,628	2,017,210	887,200
Legal reserve funds	69,804	52,863	36,867	25,882
Retained earnings from previous years	498,122	176,253	78,144	32,318
Tier 2	264,650	269,300	266,200	274,950
Provisions for general risks			0	0
Deductible items	(119,801)	(114,278)	(80,822)	(105,254)
Intangible assets	(119,801)	(114,278)	(80,822)	(58,189)
Capital	5,412,782	5,084,146	4,000,400	2,259,796
Capital requirements*				
Capital requirement A				1 597,136
Capital requirement B				27,530
Capital requirement relating to credit risk BASEL I			2,538,576	22,121
Total capital requirement relating to position, currency and commodity risk			8,021	
Total capital requirements relating to credit risk	2,611,068	2,770,444		
Total capital requirements relating to operational risk	190,368	145,829		
Capital adequacy	**15.46%**	**13.95%**	**12.57%**	**11.13%**

* Data are not observed in the next years

REPORT ON RELATIONS

among related entities for the year 2009 in accordance with the provisions of Section 66a of Act No. 513/1991 Coll.

The Board of Directors, as the governing body of the company Volksbank CZ, hereby issues this Report on Relations between the Controlled Entity and the Controlling Entity and on Relations between the Controlled Entity and the Other Entities Controlled by the Same Entity (hereinafter just the “related entities”).

THE RELATIONSHIP BETWEEN THE CONTROLLED AND CONTROLLING ENTITY

The company Volksbank CZ is a part of the international financial group Österreichische Volksbanken-Aktiengesellschaft (VBAG). Volksbank CZ operates in the Czech market as a bank as defined by Act No. 21/1992 Coll., the Banking Act, and it is a controlled entity as defined by the Commercial Code. The controlling entity is VBAG, which controls Volksbank CZ indirectly through Volksbank International AG (VBI AG), which is a directly controlling entity in relation to Volksbank CZ.

VBAG, as the indirectly controlling entity of Volksbank CZ, provided Volksbank CZ bank guarantees for loans, which were a part of the loan portfolio of the bank in the year 2009.. Volksbank CZ pays fees for those guarantees in accordance with usual market terms and conditions. In 2003, Volksbank CZ concluded the ISMA Global Master Repurchase Agreement with VBAG, on the basis of which individual repo transactions are concluded with VBAG according to standard terms and conditions. With respect to individual repo and reverse repo transactions, Volksbank CZ paid or received the common market interest.

In October 2004, Volksbank CZ concluded an agreement with the European Bank for Reconstruction and Development (EBRD) and VBAG regarding the granting of a subordinated debt to Volksbank CZ. Furthermore, Volksbank CZ concluded with VBAG the following types of agreements: agreements on inter-bank deposits, for which Volksbank CZ receives/pays usual market interest; current account agreements based on standard terms and conditions duly reflecting the related party-relationship with VBAG, on the basis of which Volksbank CZ pays fees and receives/pays interest; as well as agreements concerning spot and derivative deals concluded under standard terms and conditions. Volksbank CZ also concluded with VBAG deposit security agreements on behalf of Volksbank CZ. These agreements were concluded under standard terms and conditions.

In 2005, Volksbank CZ concluded a framework co-operation agreement with the directly controlling entity VBI AG, on the basis of which VBI AG, supported by VBAG, provides to Volksbank CZ professional services of an advisory character according to the needs of Volksbank CZ. For the provision of these services, Volksbank CZ pays fees at a market amount. In 2008, Volksbank CZ furthermore concluded loan agreements with VBI AG for refinancing purposes.

Volksbank CZ neither entered into any other legal acts nor took any measures that would be in the interest or upon the instigation of the related entities. No detriment or loss has resulted for Volksbank CZ neither from the business relationships with the aforementioned entities nor from legal transactions undertaken by Volksbank CZ on behalf of affiliated companies or from other measures undertaken by Volksbank CZ on behalf of or at the instigation of affiliated companies.

No detriment or loss has resulted for Volksbank CZ from the business relationships between Volksbank CZ and its controlling entities.

RELATIONSHIP WITH OTHER CONTROLLED ENTITIES

Volksbank CZ also has business relationships with several commercial or financial entities that are likewise controlled indirectly by VBAG or directly by VBI AG. These include in particular banks in Slovakia, Hungary, Croatia, Slovenia, Romania, Bosnia and Herzegovina as well as Serbia that are members of the VBAG-Group. Volksbank CZ maintains standard banking connections and concludes routine banking deals with the aforementioned banks. No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

Volksbank CZ also has business relationships with VB Leasing CZ, spol. s r. o., Immoconsult Leasinggesellschaft m.b.H. Group, Victoria Volksbanken pojišťovna, a.s. and DZ Bank AG. These involve normal banking and credit services. Interest rates on loans provided to the aforementioned companies include the financing costs of such loans and a certain margin. No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

Volksbank CZ also has business relationships with companies ALB EDV-Service G.m.b.H and VB IT-Services G.m.b.H. These companies are directly or indirectly controlled by VBAG or VBI AG and provide the bank with services in IT-area. No detriment or loss has resulted for Volksbank CZ from the business relationships with these entities.

Neither VBAG nor VBI AG required Volksbank CZ to adopt any measure or to enter into any contract that would be to the latter's detriment, as defined by § 66a(14) of the Commercial Code.

Prague, 29 March 2010

AFFIDAVIT

Volksbank CZ, a.s., having its registered office at Na Pankráci 1724/129, Prague 4, Postal Code 140 00, is responsible for the data in its 2009 Annual Report.

The undersigned hereby declare that, in exercising all due care, the data contained in the Annual Report of Volksbank CZ, a.s. for 2009 is accurate and that no substantial facts that could change the meaningfulness of the Annual Report of Volksbank CZ, a.s. were concealed.

Johann Lurf	Gernot Daumann	Frank Guthan	Libor Holub

AUDITOR’S REPORT TO THE SHAREHOLDERS OF VOLKSBANK CZ, A.S.

Financial statements

On the basis of our audit, on 3 March 2010 we issued an auditor’s report on the Bank’s statutory financial statements, which are included in this annual report, and our report was as follows:

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

Management‘s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of Volksbank CZ, a.s. in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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 and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 the 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 controls relevant to the entity‘s 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 entity‘s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 present fairly in all material respects the assets, liabilities and the financial position of Volksbank CZ, a.s. as of 31 December 2009, and its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the E.U.”

Report on relations between related parties

We have also reviewed the factual accuracy of the information disclosed in the report on relations between related parties of Volksbank CZ, a.s. for the year ended 31 December 2009. This report on relations between the related parties is the responsibility of the Bank's management. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with International Standard on Review Engagements and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance that the report on relations is free of material factual misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not conducted an audit of the report on relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information disclosed in the report on relations between related parties of Volksbank CZ, a.s. for the year ended 31 December 2009 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of Bank's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that all also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague, 19 April 2010

KPMG Česká republika Audit

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

Pavel Závitkovský
Partner
Licence number 69

REPORT OF THE SUPERVISORY BOARD

In its two meetings held during the 2009 business year, on 20 April and 25 November 2009, the Supervisory Board reviewed the correctness, appropriateness and economic efficiency of the management of Volksbank CZ. The Supervisory Board further acknowledged the ongoing reports of the Board of Directors and issued resolutions as necessary for the 2009 business year.

At its 27th meeting, held on 20 April 2010, the Supervisory Board approved a resolution acknowledging the report presented by the Board of Directors and approved the financial statements for 2009. These included the balance sheet and off-balance sheet as at 31 December 2009, as well as the income statement for the year ended 31 December 2009. The Supervisory Board approved a proposal for profit distribution as well. The Board also reviewed the Report on Relations in accordance with section 66a, paragraph 9 of the Commercial Code.

The closing financial statements for the year ended 31 December 2009 were examined by the audit company KPMG Česká republika Audit, s.r.o. The auditor issued an unqualified opinion.

On the basis of the report of the Board of Directors, the Supervisory Board states its affirmative appraisal to the general Shareholders' Meeting and recommends that appropriate resolutions be approved.

The Supervisory Board would like to thank the Board of Directors and all of the Bank's employees for their excellent cooperation and the efforts that they made throughout 2009.

Dr. Friedhelm Boschert
Chairman of the Supervisory Board

Prague, April 2010

Service

Volksbank CZ

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