# Consolidated Financial Statements Prepared in Accordance with International Financial Reporting Standards
# 31 December 2010

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# Independent auditor's report

## to the shareholders of TRANSFINANCE a.s.

We have audited the accompanying consolidated financial statements of TRANSFINANCE a.s. ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the consolidated financial statements").

*Board of Directors' Responsibility for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal controls as the Statutory Representative determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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.

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**Shareholders of TRANSFINANCE a.s.**
**Independent auditor's report**

*Auditor's Responsibility (continued)*

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

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

25 March 2011

PricewaterhouseCoopers Audit, s.r.o.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

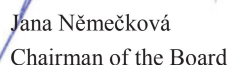
| In thousands of Czech Crowns | Note | 31 December 2010 | 2009 |
|---|---|---|---|
| NON CURRENT ASSETS | | | |
| Intangible assets | 3 | 27 256 | 26 480 |
| Property and equipment | 4 | 2 616 | 3 156 |
| Deferred tax asset | 21 | 26 473 | 211 |
| | | 56 345 | 29 847 |
| CURRENT ASSETS | | | |
| Factoring receivables non-recourse | 5 | 439 024 | 478 416 |
| Financing of factoring receivables | 6 | 1 593 527 | 1 621 960 |
| Prepayments and other assets | 7 | 1 192 | 1 034 |
| Income tax receivable | | 10 524 | 16 527 |
| Cash at bank and on hand | 8 | 3 885 | 13 493 |
| | | 2 048 152 | 2 131 430 |
| **TOTAL ASSETS** | | **2 104 497** | **2 161 277** |
| CURRENT LIABILITIES | | | |
| Factoring payables non-recourse and other payables | 9 | 167 176 | 202 786 |
| Bank borrowings | 10 | 1 673 625 | 1 654 011 |
| Accruals and other provisions | 11 | 11 167 | 10 246 |
| | | 1 851 968 | 1 867 043 |
| EQUITY | | | |
| Share capital | 12 | 112 000 | 112 000 |
| Legal reserve fund | 13 | 18 060 | 17 850 |
| Retained earnings | | 122 469 | 164 384 |
| | | 252 529 | 294 234 |
| **TOTAL LIABILITIES AND EQUITY** | | **2 104 497** | **2 161 277** |

Transfinance

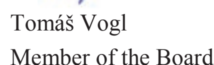
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

| In thousands of Czech Crowns | Note | 2010 | 2009* |
|---|---|---|---|
| Interest revenue | 14 | 62 054 | 83 440 |
| Interest expense | 14 | (26 911) | (42 206) |
| Fee and commission income | 15 | 73 052 | 63 690 |
| Fee and commission expense | 15 | (13 479) | (14 505) |
| Net interest and fee and commission income | | 94 716 | 90 419 |
| Allowance for impairment losses | 18 | (120 052) | (36 816) |
| Net interest income and fee and commission income after impairment charges | | (25 336) | 53 603 |
| Administration expenses | 16 | (18 239) | (18 453) |
| Staff costs | 17 | (20 948) | (21 104) |
| Depreciation and amortization | 3, 4 | (4 265) | (3 808) |
| Other operating income | 19 | 4 553 | 3 607 |
| Other operating expenses | 19 | (2 133) | (604) |
| Gains less losses from financial derivatives | 20 | - | 127 |
| Foreign exchange gains less losses | | 2 499 | (1 764) |
| **(LOSS) / PROFIT BEFORE INCOME TAX** | | (63 869) | 11 604 |
| Income tax credit / (expense) | 21 | 22 164 | (5 980) |
| **(LOSS) / PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **(41 705)** | **5 624** |
| Other comprehensive income for the year, net of tax | | - | - |
| **TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **(41 705)** | **5 624** |

Signed on behalf of the Board on 17 March 2011 in Prague



Jana Němečková
Chairman of the Board



Tomáš Vogl
Member of the Board

*Certain amounts were restated (see Note 2.3)

The notes on pages 7 to 38 form an integral part of the consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In thousands of Czech Crowns | Note | Share capital | Legal reserve fund | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2009** | | **112 000** | **17 331** | **159 279** | **288 610** |
| Total comprehensive income for 2009 | | | | 5 624 | 5 624 |
| Transfer to Legal reserve fund | 13 | - | 519 | (519) | - |
| **Balance as at 31 December 2009** | | **112 000** | **17 850** | **164 384** | **294 234** |
| Total comprehensive loss for 2010 | | - | - | (41 705) | (41 705) |
| Transfer to Legal reserve fund | 13 | - | 210 | (210) | - |
| **Balance as at 31 December 2010** | | **112 000** | **18 060** | **122 469** | **252 529** |

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| In thousands of Czech Crowns | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss) / profit before tax | | (63 869) | 11 604 |
| Adjustments for: | | | |
| Depreciation and amortization | 3, 4 | 4 265 | 3 808 |
| Allowance for impairment and provisions | 18 | 120 052 | 36 816 |
| Interest income | 14 | (62 054) | (83 440) |
| Interest expense | 14 | 26 911 | 42 206 |
| Gain on disposal of property and equipment | 19 | - | (233) |
| Operating profit before working capital changes | | 25 305 | 10 761 |
| Decrease/(Increase) in debtors and other assets | | (58 335) | 629 369 |
| (Decrease)/Increase in creditors and other liabilities | | (29 261) | (157 653) |
| Cash used in / (generated from) operations | | (62 291) | 482 477 |
| Interest income received | 14 | 62 054 | 83 440 |
| Interest expense paid | 14 | (26 239) | (42 206) |
| Income taxes paid | | 1 905 | (14 596) |
| Net cash flows used in / (generated from) operating activities | | (24 571) | 509 115 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property and equipment | | - | 500 |
| Purchase of intangible assets, property and equipment | | (4 651) | (11 652) |
| Net cash used in investing activities | | (4 651) | (11 152) |
| **Cash flows from financing activities** | | | |
| Drawing of short term borrowings | 8, 10 | 708 851 | 283 052 |
| Repayment of short-term borrowings | 10 | (827 501) | (809 431) |
| Net cash used in financing activities | | (118 650) | (526 379) |
| Net decrease in cash and cash equivalents | | (147 872) | (28 416) |
| Cash and cash equivalents at 1 January | 8 | (5 886) | 22 530 |
| **Cash and cash equivalents at 31 December** | **8** | **(153 758)** | **(5 886)** |

The notes on pages 7 to 38 form an integral part of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF CZECH CROWNS)

## 1 CORPORATE INFORMATION

TRANSFINANCE a.s. ("the Company" or "the Parent") is a joint stock company which is incorporated in the Czech Republic and which is the parent company of the Group.

The registered office of the Company is located at Křižíkova 237/36a, Prague 8, Czech Republic.

During the year, the principal activities of the Company were factoring services, mainly the purchase of export debts and domestic debts.

The Company operates in the Czech Republic and employed an average of 32 employees in 2010 (34 in 2009).

The shareholders of the Company are Intermarket Bank AG, Austria (50%) and BRE Bank SA, Poland (50%). The Company's parent company is BRE Bank SA, Warsaw, Poland. In addition BRE Bank SA owns 56.24% of shares of Intermarket Bank AG. The parent company of BRE Bank SA is Commerzbank AG, Germany which is the ultimate controlling party of the Company.

The consolidated financial statements include the following subsidiary:

**2009**

| Subsidiary | Ownership/ Voting, % | Country | Date of incorporation | Industry | Date of acquisition |
|---|---|---|---|---|---|
| Vartimex s.r.o. | 100% | Czech Republic | 30 September 1996 | Trading | 30 September 1996 |

In 2009 this subsidiary entered into liquidation which was finished on 31 October 2009 when the liquidation balance of CZK 40 thousand was paid out to the Company. The subsidiary was deleted from the Commercial Register on 8 March 2010 and after that date the Company had no other subsidiaries.

The consolidated financial statements of the Company and its subsidiary ("the Group") for the year ended 31 December 2010 were authorized for issue by the Company's directors on 17 March 2011.

## 2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on a historical cost basis in accordance with those IFRS standards and IFRIC interpretations issued and effective as at the reporting date of these statements (31 December 2010). The consolidated financial statements are presented in Czech Crowns ('CZK') and all balances are rounded to the nearest thousand ('TCZK') except when otherwise indicated.

**Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board ('IFRS').

**Basis for consolidation**

The Company and its subsidiary maintain their books of account and prepare statements for regulatory purposes in accordance with local accounting principles. The accompanying consolidated financial statements are based on the accounting records of the Company and its subsidiary, together with appropriate adjustments and reclassifications necessary for their fair presentation, in accordance with IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF CZECH CROWNS)

## 2 BASIS OF PREPARATION (continued)

### 2.1 CHANGES IN ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with IFRS.. The following new and amended IFRS and IFRIC interpretations have been considered:

**(a) Standards and interpretations effective in 2010 and adopted by the Group**

***IFRIC 17, Distributions of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable.

***IFRIC 18, Transfers of Assets from Customers*** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

***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 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard 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. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

***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 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or 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, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

## 2 BASIS OF PREPARATION (continued)

### 2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### (a) Standards and interpretations effective in 2010 and adopted by the Group (continued)

***Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).*** The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

***Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

***Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS*** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.

***Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and

## 2 BASIS OF PREPARATION (continued)

### 2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

**(a) Standards and interpretations effective in 2010 and adopted by the Group (continued)**

(iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

Above stated amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

**(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them.

***Amendment to IAS 1, Presentation of Financial Statements***, (issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards)**.** The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. Reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

***IFRS 9, Financial Instruments Part 1: Classification and Measurement.*** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

## 2 BASIS OF PREPARATION (continued)

### 2.1 CHANGES IN ACCOUNTING POLICIES (continued)

#### (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

***Classification of Rights Issues - Amendment to IAS 32*** (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

***Amendment to IAS 24, Related Party Disclosures*** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14*** (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3

## 2 BASIS OF PREPARATION (continued)

### 2.1 CHANGES IN ACCOUNTING POLICIES (continued)

#### (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

***Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1*** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.).*** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

***Recovery of Underlying Assets – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2012)***. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

The above stated new standards and interpretations are not expected to significantly affect the consolidated financial statements.

## 2 BASIS OF PREPARATION (continued)

### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Estimation uncertainty**

The presentation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and their reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates and such differences could be material.

The key assumptions and estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

***Impact of the global economic crisis on the Group***

The financial crisis that started during 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and very high volatility in stock markets. This financial crisis has led to a global economic recession that culminated in 2008 and 2009. In 2010 the global economy has been growing, but some industries are still significantly affected by the economic crisis. Indeed the subsequent development of the industry's economic crisis is proving to be impossible to reliably anticipate and guard against effects thereof.

Management is unable to reliably estimate the impact on the Group's financial position of any further possible deterioration of the industry's economic crisis. Management believes it is taking all the necessary steps to support the sustainability and development of the Group in the current circumstances.

The volume of wholesale financing has significantly fallen. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected the revised estimates of expected future cash flows in its impairment assessments.

***Allowance for impairment of non-recourse factoring receivables and financing of factoring receivables***

The Group regularly reviews its non-recourse factoring receivables and financing of factoring receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties. Management uses estimates based on historical loss experience for an assessment of the overall credit risk for financing of receivables and for the portfolio of non-recourse factoring receivables to assess the amount of potential impairment losses. If there is a high risk of loss such receivable is fully covered by allowance for impairment or, if there is a relevant collateral available, up to the receivable's carrying value amount minus the value of collateral.

If subsequent course of events caused the current management estimate of collateral value to be 10% lower then a further loss of CZK 7 477 thousand would arise (2009: CZK 17 264 thousand).

## 2 BASIS OF PREPARATION (continued)

### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

***Recognition and derecognition of non-recourse factoring receivables and financing of factoring receivables***

'Factoring receivables non-recourse' and 'Financing of factoring receivables' are connected with the factoring activities of the Group. The Group purchases receivables either with the right to return the receivable if they are not paid (recourse factoring) or without such a right (non-recourse factoring).

Purchased non-recourse trade receivables are classified as 'Factoring receivables non-recourse'. They are initially recognised at the fair value of the consideration given and are subsequently carried at amortized cost, after provision for impairment.

Purchased receivables and liabilities resulting from recourse factoring are not recorded on the statement of financial position as the risks and rewards are not transferred to the Group. The Group recognises assets to the extent of factoring financing provided to clients reduced by subsequent repayments resulting from the underlying purchased recourse receivables. Factoring financing for recourse receivables is classified as 'Financing of factoring receivables' and is initially recognised at the fair value and subsequently carried at amortized cost, after provision for impairment.

Non-recourse factoring receivables and financing of factoring receivables are derecognised when the rights to receive cash flows from such a receivable have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership of such a receivable.

As the Group is a member to Factors Chain International, a world-wide chain of factoring companies, part of its foreign factoring business is realised through this Chain. In order to increase collection efficiency and mitigate the risk, part of export receivables (including risk and rewards) is assigned in accordance with a bilateral contracts with the foreign factor. At the moment of assignment to the foreign factor, such a receivable is derecognized by the original exporting factor as the risk and rewards and rights to cash flows of the factored receivable were transferred to the foreign factoring company. A "mirror transaction" to the above mentioned scheme is Import factoring and import receivables are recognised in the consolidated statement of financial position as the risks and rewards and rights to cash flows were transferred to the Import factor.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Subsidiaries***

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to exercise control over their operations, are consolidated. Subsidiaries are consolidated line by line from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Intangible assets***

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses.

The cost of intangible assets is amortized on a straight-line basis over the estimated useful life of the asset. The amortization expense on intangible assets is recognised in the consolidated statement of comprehensive income as ‘Depreciation and amortization’.

The estimated useful lives of the main categories of intangible assets are as follows:

| | |
|---|---|
| Software | 4 - 8 years |

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset is reviewed at least at each reporting date.

***Property and equipment***

Property and equipment is measured on initial recognition at cost. Following initial recognition, property and equitpment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The depreciation expense on property and equipment is recognised in the statement of comprehensive income as ‘Depreciation and amortization’.

The estimated useful life of the main categories of property and equipment are as follows:

| | |
|---|---|
| Leasehold improvements | Lower of 10 years or the life of the lease |
| Equipment | 3 – 6 years |

The asset’s residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

***Financial assets***

The Group classifies its financial assets as receivables or financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The accounting policy below describes the specific accounting of factoring receivables.

Financial assets at fair value through profit or loss are financial derivatives (see Derivative financial instruments accounting policy in Note 2.3).

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Recognition and derecognition of the financial assets and liabilities***

The following rules apply for the recognition of the financial assets and liabilities:

The Group shall recognise a financial asset or a financial liability in its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

The following rules apply for the derecognition of the financial assets and liabilities:

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

***Definition of IFRS classes of financial assets***

The Group's management defines classes of financial instruments while presenting together instruments of the same nature and characteristics, mainly taking into account the risk profile of such instruments. Classes are relevant for Factoring receivables non-recourse and Financing of factoring receivables. These items are divided into Domestic, Export and Import factoring classes.

***Provision for impairment***

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation or significant delay in payments are considered as the main "loss-indicators" that the receivable is impaired. Management treats such receivables individualy according to type of such loss-indicator, type of business and other specific features of the receivable and uses estimates based on historical loss experience to assess the estimated recoverable amount.

The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows 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 statement of comprehensive income within 'Allowance for impairment losses and trade receivables written-off'. When a receivable is uncollectible, i.e. there is no realistic prospect of future recovery and all collaterals have been realised, it is written off against the allowance account for receivables. Such receivable is written off after all the necessary procedures (e.g. filing a lawsuit in order to recover the receivable through demand for payment, filing a distraint or bankruptcy petition, etc.) have been completed and the amount of the loss has been determined.

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 partial collection of the debt, an improvement in the debtor's financial situation, etc.), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

Also non-financial assets are regularly reviewed by the Group to assess impairment. 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.

***Factoring payables non-recourse***

'Factoring payables non-recourse' are represented by liabilities from purchased non-recourse receivables and are recognised at the original invoiced amount of the purchased trade receivables less subsequent repayments provided by the Group. Factoring payables non-recourse are initialy recorded at fair value and subsequently at amortized cost.

***Cash and cash equivalents***

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts drawn with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

***Derivative financial instruments***

In the normal course of business, the Group enters into derivative financial instruments including forwards and swaps. The Group uses derivative financial instruments to secure its currency position, it enters into forward foreign exchange transactions with clients in connection with its business activities and, at the same time, the Group enters into back-to-back forward foreign exchange transactions with the bank to cover the exposure. Such financial instruments are reported as held for trading and are initially recognised and are subsequently measured at fair value. The fair value of derivative financial instruments is determined by using valuation techniques that are based on market conditions existing at the end of each reporting period. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as 'Gains less losses from financial derivatives'. The Group does not apply hedge accounting.

***Foreign currency translation***

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Czech Crowns, which is the companies' functional and Group's presentation currency.

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Czech Crowns using the year-end foreign exchange rates. All exchange differences are recorded in the statement of comprehensive income in the line 'Foreign exchange gains less losses'.

***Share capital***

The share capital of the Company is stated at the amount recorded in the Commercial Register maintained by the Regional Court.

***Legal reserve fund***

Under Czech legislation, in the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax (however, not more than 10% of share capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated a minimum 5% of profit after tax determined under Czech accounting standards until the fund reaches 20% of share capital. These funds can only be used to offset losses.

***Revenue recognition***

Revenue is recognised as earned to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is shown net of value-added tax, returns, rebates and discounts. The Group provides factoring financing for factored recourse and non-recourse receivables to its clients up to an agreed percentage of transferred receivables. The Group earns interest on this financing which is recognised within Interest income using the effective interest method.

The Group also charges commissions for the collection of Factoring receivables non-recourse and Financing of factoring receivables. Fees and commissions are charged to customers to cover the cost of factoring services (including debt collection activities). In addition clients are charged commissions based on the number of documents handled or on frequency of sales ledger adjustments. They are based on the nominal amount of factored receivables and are recognised on a straight-line basis over the expected factoring period. They does not represent a reward for the financing of the client but a reward for services related to the administration and collection of the factored receivables and therefore they are not included in the effective interest rate calculation.

***Taxation and deferred taxation***

The tax expense for the period comprises current and deferred tax. The taxation charge is calculated in accordance with Czech regulations enacted or substantively enacted at the reporting date and is based on the profits reported in the statement of comprehensive income prepared under Czech accounting regulations after adjustments for tax purposes.

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certain items of income and expense are recognised in different periods for tax and financial accounting purposes. Deferred taxes are provided using the liability method whereby deferred tax assets are recognised for deductible temporary differences and deferred tax liabilities are recognised for taxable temporary differences. Temporary differences are the differences arising between the reported amounts of assets and liabilities and their tax bases. The tax effects of these temporary differences are reflected as deferred tax items. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized.

Current tax, to the extent unpaid, is recognised as a liability. If the amount already paid for current income tax exceeds the amount due, the excess is recognised as a current income tax asset.

***Social security and pension schemes***

Contributions are made to the Czech government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary costs. The Group has no further obligation in respect of the social security and pension benefits once the contributions are paid.

***Bank borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowing costs are recognised on a time-proportion basis using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditioned right to defer settlement of the liability for at least 12 months after the reporting date.

***Operating Leases***

Leases of assets, under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised in the statement of comprehensive income in Administrative expenses as an expense on a straight-line basis over the lease term.

***Provisions***

Provisions for legal claims, tax liabilities and other particular business risks are recognised when the Group has a potential legal or other obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount could be reliably estimated. Provisions are not recognised for future operating losses. 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.

## 2 BASIS OF PREPARATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Guarantees***

The Group enters into credit related commitments - financial guarantees, which represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

***Subsequent events***

The effects of events, which occurred between the end of the reporting period and the date of authorisation of the consolidated financial statements for issue, are recognised in the consolidated financial statements when these events provide further evidence of conditions that existed as at the reporting date.

Where significant events occur subsequent to the end of the reporting period but prior to the authorisation of the consolidated financial statements for issue, which are indicative of conditions that arose subsequent to the end of the reporting period, the effects of these events are disclosed, but are not themselves recognised in the consolidated financial statements.

***Reclassification in the consolidated statement of comprehensive income***

In 2010, the Group has reclassified the following amounts in the consolidated statement of comprehensive income in the comparative information for the year ended 31 December 2009 to match the classification applied in 2010:

| TCZK | As reported in 2009 | Restatement | Restated 2009 |
|---|---|---|---|
| Fee and commission expense | - | (14 505) | (14 505) |
| Bank charges and other fees | (3 806) | 3 806 | - |
| Administration expenses | (24 018) | 5 565 | (18 453) |
| Other operating expenses | (5 738) | 5 134 | (604) |

This reclassification was performed in order to present fee and commission expense related to factoring business separately from administration and operating expenses, which improves the presentation of the financial performance of the Group. This reclassification has no impact on the consolidated statement of financial position and therefore the Group does not present the statement of financial position at 1 January 2009.

## 3 INTANGIBLE ASSETS

Intangible assets consist of the following:

| | 2010 | 2009 |
|---|---|---|
| **Cost:** | *Software* | *Software* |
| At 1 January | 47 720 | 36 269 |
| Additions – externally purchased | 3 754 | 11 652 |
| Disposals | (150) | (201) |
| At 31 December | 51 324 | 47 720 |
| **Accumulated amortization:** | | |
| At 1 January | (21 240) | (19 250) |
| Amortization charge for the year | (2 828) | (2 121) |
| Disposals | - | 131 |
| At 31 December | (24 068) | (21 240) |
| **Net book value:** | | |
| At 31 December | 27 256 | 26 480 |

## 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | Leasehold improvements | Equipment | Total |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2009 | 2 172 | 17 961 | 20 133 |
| Disposals | - | (8 117) | (8 117) |
| At 31 December 2009 | 2 172 | 9 844 | 12 016 |
| | | | |
| At 1 January 2010 | 2 172 | 9 844 | 12 016 |
| Additions | - | 897 | 897 |
| At 31 December 2010 | 2 172 | 10 741 | 12 913 |
| | | | |
| **Accumulated depreciation:** | | | |
| At 1 January 2009 | (1 049) | (13 973) | (15 022) |
| Depreciation charge for the year | (400) | (1 555) | (1 955) |
| Disposals | - | 8 117 | 8 117 |
| At 31 December 2009 | (1 449) | (7 411) | (8 860) |
| | | | |
| At 1 January 2010 | (1 449) | (7 411) | (8 860) |
| Depreciation charge for the year | (400) | (1 037) | (1 437) |
| At 31 December 2010 | (1 849) | (8 448) | (10 297) |
| | | | |
| **Net book value:** | | | |
| At 31 December 2009 | 723 | 2 433 | 3 156 |
| | | | |
| At 31 December 2010 | 323 | 2 293 | 2 616 |

The leasehold improvements represent technical improvements to the offices, which are rented (see note 23).

## 5 FACTORING RECEIVABLES NON-RECOURSE

| | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | Gross | Impairment | Net |
| Domestic | 223 682 | - | 223 682 | 282 851 | - | 282 851 |
| Export | 117 476 | (3 439) | 114 037 | 128 000 | (6 705) | 121 295 |
| Import | 101 727 | (422) | 101 305 | 74 692 | (422) | 74 270 |
| | | | | | | |
| Total | 442 885 | (3 861) | 439 024 | 485 543 | (7 127) | 478 416 |

## 5 FACTORING RECEIVABLES NON-RECOURSE (continued)

For terms and conditions relating to related party receivables, refer to Note 22. The movement in impairment losses is shown in Note 18.

Purchased non-recourse trade receivables were either insured or the Group obtained guarantees from other international factoring companies.

Original trade receivables are normally of 30 - 90 day terms.

## 6 FINANCING OF FACTORING RECEIVABLES

| | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | Gross | Impairment | Net |
| Domestic | 1 509 601 | (320 453) | 1 189 148 | 1 510 757 | (229 122) | 1 281 635 |
| Export | 421 520 | (17 141) | 404 379 | 357 466 | (17 141) | 340 325 |
| Total | 1 931 221 | (337 594) | 1 593 527 | 1 868 223 | (246 263) | 1 621 960 |

Factoring financing is interest bearing. As at 31 December 2010, the Group holds promissory notes issued by debtors or other third parties used as collateral for factoring financing in the amount of CZK 101 080 thousand (2009: CZK 125 627 thousand). The movement in impairment losses is shown in Note 18.

## 7 PREPAYMENTS AND OTHER ASSETS

| | 2010 | 2009 |
|---|---|---|
| Prepayments | 1 182 | 1 033 |
| Other receivables | 10 | 1 |
| | 1 192 | 1 034 |

Other receivables and prepayments are non-interest bearing and generally on 30 day terms.

## 8 CASH AND CASH EQUIVALENTS

| | 2010 | 2009 |
|---|---|---|
| Cash on hand | 226 | 354 |
| Cash at bank (Note 24) | 3 659 | 13 139 |
| | 3 885 | 13 493 |
| Overdrafts (Note 10) | (157 643) | (19 379) |
| Cash and cash equivalents for the purposes of the consolidated statement of cash flows | (153 758) | (5 886) |

Cash at bank earns interest at a floating rate based on daily bank deposit rates.

## 9 FACTORING PAYABLES NON-RECOURSE AND OTHER PAYABLES

| | 2010 | 2009 |
|---|---|---|
| **Liabilities from purchased non-recourse receivables** | | |
| Domestic | 112 066 | 148 158 |
| Export | 39 374 | 44 005 |
| Import | 7 919 | 7 044 |
| | 159 359 | 199 207 |
| **Other payables** | | |
| Trade payables | 4 905 | 925 |
| VAT payables | 1 824 | 1 523 |
| Payables to employees and other payables | 1 088 | 1 131 |
| | 7 817 | 3 579 |
| | 167 176 | 202 786 |

For terms and conditions relating to related party receivables, refer to Note 22.

Liabilities for purchased non-recourse receivables are non-interest bearing and are normally settled on 30 - 90 day terms. Other payables are non-interest bearing and are normally settled on 30 day terms.

## 10 BANK BORROWINGS

Bank borrowings mature within one year. Individual borrowings are without security. In 2010, the borrowings bear interest of approximately 1.68 % p.a. (2009: 2.55 % p.a.).

Bank borrowings are drawn mostly using revolving credits up to one month. Additionally, the Group is entitled to use an overdraft facility up to the balance of the unused credit limit. Credit limits with unspecified maturity have no particular date of maturity and there are regular credit risk reviews. The notice period of these credit lines is 3 months. Overdrafts drawn (see Note 8) are included within bank borrowings in the following table:

| Bank: | Type of borrowing: | Credit limit as of 31 December 2010 | Drawn bank borrowings as of 31 December 2010 | Credit limit as of 31 December 2009 | Drawn bank borrowings as of 31 December 2009 |
|---|---|---|---|---|---|
| UniCredit Bank Czech Republic, a.s. | One year credit limit, repayable 31 December 2011 | 50 000 | 15 522 | 1 350 000 | 843 023 |
| Česká exportní banka, a.s. | One year credit limit, repayable 31 March 2011 | 300 000 | 300 000 | 300 000 | 100 000 |
| Komerční banka, a.s. | Credit limit with unspecified maturity | 275 520 | 215 895 | 275 520 | 151 825 |
| COMMERZBANK Aktiengesellschaft, pobočka Praha | Credit limit with unspecified maturity | 900 000 | 703 419 | 900 000 | 557 355 |
| LBBW Bank CZ a.s. | One year credit limit, repayable 31 December 2011 | 123 000 | 93 326 | 405 000 | 462 |
| ING Bank N.V. | Credit limit with unspecified maturity | 500 000 | 82 333 | 500 000 | 1 346 |
| BRE Bank S.A. | One year credit limit, repayable 31 August 2011 | 263 130 | 263 130 | - | - |
| **Total** | | **2 411 650** | **1 673 625** | **3 730 520** | **1 654 011** |

## 10 BANK BORROWINGS (continued)

As of 31 December 2010, the Group had drawn CZK 966 549 thousand of borrowings from related parties (2009: CZK 557 355 thousand), refer to Note 22.

As of 24 March 2011, the Group has prolonged its credit limit with Česká exportní banka, a.s. until 31 March 2012. At the same time, this credit limit has been increased to CZK 400 million.

## 11 ACCRUALS AND OTHER PROVISIONS

| | 2010 | 2009 |
|---|---|---|
| Accrued expenses | 5 409 | 4 743 |
| Deferred income | 3 258 | 3 003 |
| Other provisions | 2 500 | 2 500 |
| | 11 167 | 10 246 |

Accrued expenses are primarily represented by overhead costs that relate to the current accounting period but are payable in the next one. Deferred income is a part of factoring commission income that is to be recognised in the next period.

## 12 SHARE CAPITAL AND MANAGEMENT OF CAPITAL

Share capital consists of 2 000 ordinary bearer shares of CZK 56 000 each; all shares are fully paid up as of 31 December 2010 and 2009.

At the General Meeting of Shareholders it had been approved that there will be no dividends paid out neither from the 2008 nor the 2009 profit.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce cost of capital and to cover risks inherent in the business. As such capital is considered to be the Group's equity. The Group monitors capital on the basis of an internal capital adequacy ratio with the aim to stay above the 8% level. As at 31 December 2010 the ratio was at the value of 13.56 % (15.51% as at 31 December 2009). This ratio is calculated as equity (CZK 252 529 thousand as at 31 December 2010 and CZK 294 234 thousand as at 31 December 2009) divided by the sum of funds in use. Funds in use is calculated as total financing provided to clients (financing of factoring receivables plus factoring receivables non-recourse less factoring payables non-recourse as shown in the statement of financial position). Equity is shareholders' equity as shown in the consolidated statement of financial position. There are no externally imposed capital requirements on the Group.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue shares. No changes were made in the objectives, policies and processes from the previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF CZECH CROWNS)

## 13 LEGAL RESERVE FUND

The Group reached statutory profits under Czech accounting principles CZK 4 192 thousand in 2009 and CZK 10 396 thousand in 2008, out of which allocations to legal reserve fund were made in 2010 and in 2009.

| | 2010 | 2009 |
|---|---|---|
| At 1 January | 17 850 | 17 331 |
| Allocation of profit from prior years | 210 | 519 |
| At 31 December | 18 060 | 17 850 |

## 14 INTEREST INCOME AND EXPENSE

Interest income is derived primarily from the factoring activities of the Group. Interest expense relates to the bank borrowings.

| | 2010 | 2009 |
|---|---|---|
| Factoring receivables non-recourse | 8 423 | 12 254 |
| Financing of factoring receivables | 53 631 | 71 186 |
| Total interest income | 62 054 | 83 440 |
| Interest expense | (26 911) | (42 206) |
| Interest income, net | 35 143 | 41 234 |

In 2010 interest income on impaired assets amounted to CZK 6 993 thousand (2009: CZK 17 065 thousand).

## 15 FEE AND COMMISION INCOME AND EXPENSES

The table below shows a split of fee and commission income according to type of business and related commision expenses.

| **Fee and commission income** | 2010 | 2009 |
|---|---|---|
| Domestic | 43 645 | 38 608 |
| Export | 24 813 | 21 384 |
| Import | 4 594 | 3 698 |
| Total fee and commission income | 73 052 | 63 690 |
| | | |
| **Fee and commission expense** | | |
| Factoring commissions | (3 391) | (5 565) |
| Insurance | (6 315) | (5 134) |
| Bank charges and other fees | (3 773) | (3 806) |
| Total fee and commission expense | (13 479) | (14 505) |
| **Total fee and commission, net** | **59 573** | **49 185** |

## 16 ADMINISTRATION EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Materials and energy consumption | 1 530 | 1 473 |
| Services | 16 709 | 16 980 |
| | 18 239 | 18 453 |

Services include primarily costs for IT and telecommunications, consultancy services, audit and tax advisor services, travel cost, rent expenses and other overhead costs. The Group´s rent expenses in current year amounted to CZK 3 171 thousand (CZK 3 136 thousand in 2009).

## 17 STAFF COSTS

| | 2010 | 2009 |
|---|---|---|
| Salaries and wages | 15 876 | 15 903 |
| Social insurance | 3 022 | 3 004 |
| Health insurance | 1 147 | 1 174 |
| Other social costs | 543 | 536 |
| Remuneration of board members | 360 | 487 |
| | 20 948 | 21 104 |

Included in salaries and wages there is key management remuneration of CZK 3 320 thousand (2009: CZK 3 898 thousand), see Note 22. Members of the Board of Directors are not employees of the Group. The key management is not entitled to any other benefits such as termination benefits or share-based payments.

## 18 ALLOWANCE FOR IMPAIRMENT LOSSES AND TRADE RECEIVABLES WRITTEN-OFF

The movements in allowance for impairment were as follows:

| Factoring receivables non-recourse | 31 December 2009 | Amounts written-off | Charge for the year | 31 December 2010 |
|---|---|---|---|---|
| Domestic | - | - | - | - |
| Export | 6 705 | (3 266) | - | 3 439 |
| Import | 422 | - | - | 422 |
| | 7 127 | (3 266) | - | 3 861 |
| **Financing of factoring receivables** | | | | |
| Domestic | 229 122 | (28 721) | 120 052 | 320 453 |
| Export | 17 141 | - | - | 17 141 |
| Import | - | - | - | - |
| | 246 263 | (28 721) | 120 052 | 337 594 |
| **Total** | **253 390** | **(31 987)** | **120 052** | **341 455** |

## 18 ALLOWANCE FOR IMPAIRMENT LOSSES AND TRADE RECEIVABLES WRITTEN-OFF (continued)

| Factoring receivables non-recourse | 31 December 2008 | Amounts written-off | Charge for the year | 31 December 2009 |
|---|---|---|---|---|
| Domestic | - | - | - | - |
| Export | 6 705 | - | - | 6 705 |
| Import | 422 | - | - | 422 |
| | 7 127 | - | - | 7 127 |
| **Financing of factoring receivables** | | | | |
| Domestic | 237 224 | (44 918) | 36 816 | 229 122 |
| Export | 24 959 | (7 818) | - | 17 141 |
| Import | - | - | - | - |
| | 262 183 | (52 736) | 36 816 | 246 263 |
| **Total** | **269 310** | **(52 736)** | **36 816** | **253 390** |

Allowance for impairment of assets are deducted from the carrying amounts of the related assets (see Notes 5 and 6).

## 19 OTHER OPERATING INCOME AND EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Other income | 4 553 | 3 607 |
| Other taxes and fees | (2 011) | (160) |
| Gain on sale of property and equipment | - | 233 |
| Other expenses | (122) | (677) |
| | (2 420) | (3 003) |

## 20 GAINS LESS LOSSES FROM FINANCIAL DERIVATIVES

| | 2010 | 2009 |
|---|---|---|
| Fair value losses on derivative financial instruments | - | (721) |
| Fair value gains on derivative financial instruments | - | 848 |
| Gains less losses from financial derivatives | - | 127 |

The Group enters into derivative financial instruments to secure its currency position in EUR or USD. Such financial instruments do not meet all the necessary requirements stipulated by IFRS to be classified as hedging derivatives and are therefore reported as held for trading. There were no outstanding deals with derivative financial instruments as at 31 December 2010 and 2009.

## 21 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

| | 2010 | 2009 |
|---|---|---|
| Current income tax charge | (4 098) | (5 424) |
| Adjustment in respect of current income tax of previous years | - | 469 |
| Deferred income tax credit / (expense) | 26 262 | (1 025) |
| Total income tax credit / (charge) | 22 164 | (5 980) |

As at 1 January 2010 there was a change in the corporate income tax rate from 20 % to 19 %. A reconciliation between the tax expense and the accounting profit multiplied by the statutory tax rate for the years ended 31 December 2010 and 2009 is as follows:

| | 2010 | 2009 |
|---|---|---|
| Accounting (loss) / profit before income tax | (63 869) | 11 604 |
| At Czech statutory income tax rate 19% (20% in 2009) | (12 135) | 2 321 |
| Write off of receivables, tax non-deductible impairment provisions | 17 001 | 3 611 |
| Previously unrecognised deferred tax asset | (27 206) | - |
| Other non-deductible expenses | 176 | 48 |
| Taxation charge / (credit) as recognised in the consolidated statement of comprehensive income | (22 164) | 5 980 |
| Effective tax rate | 35% | 52% |

In 2010 and 2009 write offs of receivables in the Group's portfolio can be applied for tax purposes in line with Czech tax legislation only in certain cases and under specified circumstances: e.g. when bankruptcy proceedings had been concluded or rejected by court due to insufficient amount of debtor´s assets; full purchase price of the receivable had been paid up and conditions for creation of loan loss provisions were fulfilled. Significant growth in deferred tax assets reflects a change in Czech tax legislation effective from 1 January 2011. As a result of this change, for certain specific cases the allowances for impairment losses are considered by the Group to be temporary differences that lead to recognition of the deferred tax asset as the management of the Group believe it is probable that they will become tax-deductible in the future and sufficient profits will be available against which these temporary differences can be utilized.

## 21 INCOME TAX EXPENSE (continued)

Deferred taxes as of 31 December 2010 and 2009 relates to the following:

| | 31 December 2008 | Recognised in profit and loss | 31 December 2009 | Recognised in profit and loss | 31 December 2010 |
|---|---|---|---|---|---|
| Difference between revenue recognition for accounting and tax purposes | 1 102 | (1 025) | 77 | (242) | (165) |
| Difference between NBV of non-current assets for accounting and tax purposes | 134 | - | 134 | (702) | (568) |
| Difference due to possible reclassification of impairment losses to tax-deductible | - | - | - | 27 206 | 27 206 |
| Deferred income tax asset and annual movement | 1 236 | (1 025) | 211 | 26 262 | 26 473 |

## 22 RELATED PARTIES

During the year, the Group entered into transactions with related parties in the ordinary course of business. Transactions with related parties are performed on an arm's length basis. Those transactions, along with related balances at 31 December 2010 and 2009 and for the years then ended, are presented in the following tables:

| 2010 | Fee and commission income | Interest costs | Services | Factoring receivables non-recourse | Amounts owed to related parties: Factoring payables non-recourse | Amounts owed to related parties: Bank Borrowings (Note 10) |
|---|---|---|---|---|---|---|
| **Parent/ultimate parent companies:** | | | | | | |
| BRE Bank SA | | 806 | | | | 263 130 |
| Commerzbank AG | - | 12 512 | - | - | - | 703 419 |
| Intermarket Bank | - | 130 | 1 931 | - | - | - |
| **Other companies in the BRE Bank consolidation group:** | | | | | | |
| Magyar Factor | 92 | - | 14 | 136 | 5 753 | |
| Polfactor | 28 | - | 5 | - | 1 775 | - |

## 22 RELATED PARTIES (continued)

| 2009 | Fee and commission income | Interest costs | Services | Factoring receivables non-recourse | Amounts owed to related parties: Factoring payables non-recourse | Amounts owed to related parties: Bank Borrowings (Note 10) |
|---|---|---|---|---|---|---|
| **Parent/ultimate parent companies:** | | | | | | |
| Commerzbank AG | - | 15 128 | - | - | - | 557 355 |
| Intermarket Bank | - | - | 1 885 | 11 | - | - |
| **Other companies in the BRE Bank consolidation group:** | | | | | | |
| Magyar Factor | 50 | - | 4 | - | 1 986 | - |
| Polfactor | 66 | - | 80 | 340 | 1 724 | - |

***Terms and conditions of transactions with related parties***

Outstanding balances of factoring receivables and payables at the year-end are unsecured, interest free and settlement occurs in cash. Balances related to loans received are subject to interest accruing under standard business terms and does not differ from interest rates on borrowings from third parties. Interest rates on BRE Bank SA and Commerzbank AG borrowings are based on EURIBOR and relevant IBOR rates respectively, plus a margin. The rates charged are not significantly different from the average interest rates shown in the Note 10. Borrowings from Commerzbank are provided in CZK, EUR, USD and GBP.

Key management remuneration for 2010 amounted to CZK 3 680 thousand (2009: CZK 4 385 thousand), refer to Note 17, that consist of CZK 360 thousand (2009: CZK 487 thousand) of remuneration of members of Board of Directors and of CZK 3 320 thousand (2009: CZK 3 898 thousand) remuneration for consultancy services of members of Board of Directors.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not made any impairment provision for doubtful debts relating to amounts owed by related parties (2009: nil).

## 23 COMMITMENTS AND CONTINGENCIES

***Capital and operating lease commitments***

The Group had no capital commitments at 31 December 2010 (2009: nil).

All lease contracts are revocable and with a cancellation period of maximum 3 months. Maximum operating lease commitments amout to CZK 789 thousand (2009: 843 thousand).

***Pension commitments***

The Group makes contributions only to the basic state pension scheme. Contributions for state pension benefits are charged to the statement of comprehensive income on an accrual basis.

## 23 COMMITMENTS AND CONTINGENCIES (continued)

***Legal claims***

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints can not have a material adverse effect on the financial condition or the results of future operations of the Group.

***Guarantees***

As of 31 December 2010, the Group had guarantees issued for the benefit of other companies totaling CZK 21 million (2009: CZK 21 million). The Group issues these guarantees as part of the provision of standard factoring services to clients. Guarantees issued are provided on back to back basis and thus are covered by guarantees received in the same amount. Therefore the Group is exposed to maximum potential credit risk of CZK 21 million. This risk is mitigated by guarantees received in the same amount.

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets and liabilities, other than derivatives, comprise bank loans and overdrafts, cash and short-term deposit. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as factoring receivables and factoring payables, which arise directly from its operations.

***Financial instruments by category***

The Group's financial liabilities, presented in the consolidated statement of financial position as bank borrowings, factoring payables non-recourse and other payables, are presented at amortised cost.

The Group's financial assets, presented in statement of financial position as factoring receivables non-recourse, financing of factoring receivables and cash and cash equivalents, are classified as receivables.

The main risks arising from the Group's financial activities are credit risk and liquidity risk. Market risk monitored by the Group is attributable to currency risk and interest rate risk.

The management reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are described in Note 2.3.

The Group has risk management policies and guidelines, which specify the general risk management philosophy and has established processes to monitor and control risks in a timely and accurate manner.

### *Credit risk*

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The table below shows the rating and balance of the major banking counterparties at the reporting date.

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| | 2010 | 2009 | Rating(Moody's) |
|---|---|---|---|
| HSBC Bank plc - pobočka Praha | - | 1 406 | AA2 |
| ING Bank N.V. | 267 | 283 | AA3 |
| UniCredit Bank Czech Republic, a. s. | 342 | 5 706 | A1 |
| Raiffeisenbank, a.s. | 155 | 35 | A2 |
| Komerční banka, a.s. | - | 6 | A1 |
| COMMERZBANK Aktiengesellschaft, pobočka Praha | 2 895 | 5 703 | A2 |
| **Cash at bank (Note 8)** | **3 659** | **13 139** | |

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The Group manages the level of credit risk through standard procedures of debtors financial analysis, setting credit limits, regular reviews, credit committees and other procedures leading to decrease of the accepted level of credit risk. These processes are performed on the level both of each individual borrower and the whole portfolio of debtors. When deciding on acceptance of a new exposure, an analysis of the counterparty´s cash flow and overall financial situation are the key factors. The decision-making is performed independently from the sales department.

The overall aim of the Group´s credit risk policy is to have a detailed overview about the creditworthiness of its counterparties and to have an effective early-warning system that allows the the Group to adopt adequate measures against potential threats in order to minimize potential impairment losses.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial assets is broadly diversified along industry and product, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

Purchased non-recourse trade receivables are acquired under contract terms, which transfer substantially all of the risks and rewards associated with their collection to the Group. The Group manages the credit risk exposure by either obtaining insurance cover or guarantees from other international factoring companies.

***Analysis of financial instruments***

As of 31 December 2010 and 2009, the Group's maximum exposure to credit risk (not taking into account the value of any collateral insurance or other security held), in the event that counterparties fail to perform their obligations in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the statement of financial position (see Notes 5 and 6). Maximum exposure to credit risk arising from guarantees issued is 21 million (see Note 23).

***Credit quality of financial assets by class***

The credit quality of financial assets is managed by the Group using an internal credit rating system. Various collaterals are used as a security for factoring receivables non-recourse and financing of factoring receivables such as promissory notes with personal aval of owner or pledge of real estate. The table below shows credit quality by class of financial assets (at amortised cost before provision for impairment):

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| High grade | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | Factoring receivables non-recourse | Financing of factoring receivables | Total | Factoring receivables non-recourse | Financing of factoring receivables | Total |
| Domestic | 4 360 | 25 517 | 29 877 | 5 056 | 20 165 | 25 221 |
| Export | 1 532 | 8 966 | 10 498 | 1 502 | 5 990 | 7 492 |
| Import | 308 | - | 308 | 240 | - | 240 |
| **Total** | **6 200** | **34 483** | **40 683** | **6 798** | **26 155** | **32 953** |

| Standard grade | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | Factoring receivables non-recourse | Financing of factoring receivables | Total | Factoring receivables non-recourse | Financing of factoring receivables | Total |
| Domestic | 219 322 | 1 125 404 | 1 344 726 | 277 795 | 1 125 643 | 1 403 438 |
| Export | 75 960 | 395 413 | 471 373 | 82 978 | 334 335 | 417 313 |
| Import | 100 997 | - | 100 997 | 74 030 | - | 74 030 |
| **Total** | **396 279** | **1 520 817** | **1 917 096** | **434 803** | **1 459 978** | **1 894 781** |

| Substandard grade | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | Impaired receivables, gross | Fair value of collateral | Impairment | Impaired receivables, gross | Fair value of collateral | Impairment |
| **Factoring receivables non-recourse** | | | | | | |
| Export | 39 984 | 36 545 | (3 439) | 43 520 | 36 815 | (6 705) |
| Import | 422 | - | (422) | 422 | - | (422) |
| | **40 406** | **36 545** | **(3 861)** | **43 942** | **36 815** | **(7 127)** |
| **Financing of factoring receivables** | | | | | | |
| Domestic | 358 680 | 38 227 | (320 453) | 364 949 | 135 827 | (229 122) |
| Export | 17 141 | - | (17 141) | 17 141 | - | (17 141) |
| | **375 821** | **38 227** | **(337 594)** | **382 090** | **135 827** | **(246 263)** |
| **Total** | **416 227** | **74 772** | **(341 455)** | **426 032** | **172 642** | **(253 390)** |

Credit quality is defined as follows:

*High grade* - represents Factoring receivables non-recourse and Financing of factoring receivables towards creditworthy entities with very low probability of default. There are no impairment allowances created for this credit quality grade.

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Standard grade* – represents Factoring receivables non-recourse and Financing of factoring receivables with satisfactory risk level where the credit risk inherent in the portfolio is measured and monitored on a regular basis. The Group applies standard internal credit risk check procedures such as debtor portfolio analysis, financial performance analysis, debtors registry monitoring, etc, in order to have a constant overview about creditworthiness of its counterparties. There are no impairment allowances created for this credit quality grade.

*Substandard grade* - represents Factoring receivables non-recourse and Financing of factoring receivables with high risk that are covered by individually created allowances for impairment (see Note 18). Such receivables are treated individually with special attention and all necessary procedures are applied in order to avoid and / or minimize potential losses. If there is no valuable collateral the receivable is covered by allowance for impairment up the full nominal amount.

There are no financial assets whose terms have been renegotiated.

The Group does not present any analysis of "past due, but not impaired" factoring receivables due to a specific nature of both Factoring receivables non-recourse and Financing of factoring receivables, which are presented in the Statement of financial position. Both items represents rather an extent to which the approved credit limit was withdrawn by any specific client (similar to an overdraft provided by a bank). The drawing of the credit limit must be supported by sufficient number of factored invoices, which are continuosly being replaced by new invoices, without any changes in the withdrawn amount of the credit limit. Therefore, it is impracticable to specify maturity date of both Factoring receivables non-recourse and Financing of factoring receivables as the maturity date is rather attached to the large number of invoices that cover the credit limit withdrawn.

### *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available so that financial liabilities can be settled when they fall due. The Group’s bank borrowings mature in 2011.

The Group reduces the liquidity risk mainly by natural hedging, the maturity structure of monetary assets and liabilities is matched in order to manage the exposure.

The table below analyses financial asset and liabilities into relevant groups based on the remaining period at the reporting date to the contractual maturity date. All financial assets and liabilities fall due within 3 months. The amounts disclosed in the table are the contractual undiscounted cash flows.

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

***Financial assets and liabilities according to remaining contractual maturities***

| 2010 | Up to 3 months | Total |
|---|---|---|
| Cash at bank and on hand | 3 885 | 3 885 |
| Factoring receivables non-recourse | 439 024 | 439 024 |
| Financing of factoring receivables | 1 593 527 | 1 593 527 |
| **Total Financial Assets** | **2 036 436** | **2 036 436** |
| Factoring payables non-recourse and other payables | 167 176 | 167 176 |
| Bank borrowings | 1 673 625 | 1 673 625 |
| Accruals and other provisions | 5 409 | 5 409 |
| Financial guarantees issued | 21 000 | 21 000 |
| **Total Financial liabilities** | **1 867 210** | **1 867 210** |
| **Net Financial assets** | **169 226** | **169 226** |

| 2009 | Up to 3 months | Total |
|---|---|---|
| Cash at bank and on hand | 13 493 | 13 493 |
| Factoring receivables non-recourse | 478 416 | 478 416 |
| Financing of factoring receivables | 1 621 960 | 1 621 960 |
| **Total Financial Assets** | **2 113 869** | **2 113 869** |
| Factoring payables non-recourse and other payables | 202 786 | 202 786 |
| Bank borrowings | 1 654 011 | 1 654 011 |
| Accruals and other provisions | 4 743 | 4 743 |
| Financial guarantees issued | 21 000 | 21 000 |
| **Total Financial liabilities** | **1 882 540** | **1 882 540** |
| **Net Financial assets** | **231 329** | **231 329** |

***Market risk: foreign currency risk and interest rate risk***

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR. The Group's interest rate risk arises from short-term borrowings.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. The Group's borrowings carry variable interest rates and thus there is no significant concentration of interest rate risk.

As of 31 December 2010, the monetary assets of the Group are denominated 53% in CZK, 41% in EUR, 5% in USD and 1% in other currencies. As of 31 December 2010, the monetary liabilities of the Group are denominated 45% in CZK, 48% in EUR, 6% in USD and 1% in other currencies.

As of 31 December 2009, the monetary assets of the Group are denominated 60% in CZK, 35% in EUR, 3% in USD and 2% in other currencies. As of 31 December 2009, the monetary liabilities of the Group are denominated 53% in CZK, 41% in EUR, 3% in USD and 3% in other currencies.

## 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group manages its interest rate risk and currency risk mainly by natural hedging. The currency and interest rate structure of monetary assets and liabilities is matched in order to manage the exposure.

In 2009 the Group entered into derivative transactions, including principally currency swaps and forward currency contracts. The purpose of these transactions was to manage the currency risks arising from the Group's operations and its sources of financing.

Open positions in foreign currencies are monitored on a day-to-day basis and adjusted accordingly in order to secure an efficient structure of the currency portfolio and avoid potential losses due to changes in foreign currency exchange rates.

All monetary assets and liabilities of the Group mature within one year. Due to the short-term nature of monetary assets, interest rates of those assets are repriced based on the development of interest rates on monetary liabilities. There is no significant sensitivity to changes in interest rates as both the interest rates charged to clients and interest costs on the Group´s bank borrowings consist of a base rate (LIBOR/PRIBOR) plus margin and potential movements in interest rates are therefore offset.

In case of a movement in interest rates by 0.25 % upwards in 2010 there would be a positive effect on profit before income tax and equity of CZK 1 291 thousand (CZK 1 139 thousand in 2009). In case of opposite movement by 0.25 % there would be a negative effect in the same amount.

***Impact of changes in foreign currency exchange rate (EUR, USD)***

The table below indicates the currencies to which the Company had significant exposure at 31 December 2010 and 2009 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement in the currency rate against CZK that had been stated based on the historical volatility of foreign currency rates. As a neutral value the exchange rate from end of December was taken. A negative amount in the table reflects a potential net reduction in the profit before tax, while a positive amount would result in a net potential increase in profit and equity.

2010

| Currency | Change in exchange rate in % | Effect on profit before tax and equity 2010 |
|---|---|---|
| EUR | ± 10% | ± 496 |
| USD | ± 10% | ± 36 |

2009

| Currency | Change in exchange rate in % | Effect on profit before tax and equity 2009 |
|---|---|---|
| EUR | ± 10% | ± 409 |
| USD | ± 10% | ± 373 |

As illustrated by the above sensitivity analysis, potential strengthening of the Czech Crown against the major currencies would have a negative impact on the Group’s result. In case of the opposite movement in the foreign currency exchange rate there will be an equal positive influence on the Group’s result.

## 25 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Due to the short-term nature of financial assets and liabilities, the carrying amounts of all classes of financial assets and financial liabilities, as presented in the consolidated statement of financial position, approximate their fair values.

## 26 EVENTS AFTER THE REPORTING DATE

Except for the prolongation of the credit limit with Česká exportní banka, a.s. as of 24 March 2011 (see Note 10), no other events have occurred after the end of the reporting period that would have a material impact on the financial statements as at 31 December 2010.

Transfinance