VOLKSBANK CZ, a.s.

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

FOR THE YEAR ENDED 31 DECEMBER 2006

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF VOLKSBANK CZ, a. s.

We have audited the accompanying financial statements of Volksbank CZ, a.s. (the "Bank"), which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies (the "financial statements"). Details of the Bank are disclosed in note 1 to these financial statements.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Auditors' 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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

19 April 2007

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.

Volksbank CZ, a.s.
Residence: Lazarská 8, 120 00 Praha 2
Identification number: 25083325
Legal form: joint-stock company
Primary business: banking
Date of preparation: 16 April 2007

Statement of income for the year ended 31 December 2006

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

in CZK million

	Note	**Year ended 31 December 2006**	**Year ended 31 December 2005**
Interest and similar income		954	743
Interest expense and similar charges		(299)	(237)
Net interest income	4	**655**	**506**
Fee and commission income		314	279
Fee and commission expense		(71)	(68)
Net fee and commission income	5	**243**	**211**
Net trading income	6	9	19
Impairment charge for credit losses	14	(63)	(17)
Provisions	26	(3)	3
Administrative expenses	7	(580)	(548)
Other operating income	8	9	14
Other operating expenses	9	(15)	(17)
Operating profit		**255**	**171**
Profit before income tax		255	171
Income tax expense	10	(78)	(50)
Profit for the year		**177**	**121**

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

These financial statements were approved for issue by the Board of Directors on 16 April 2007 and signed on its behalf by:

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

Balance sheet as at 31 December 2006

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

in CZK million

	Note	As at 31 December	
		2006	**2005**
ASSETS			
Cash and balances with central banks	11	666	396
Loans and advances to banks	12	3,014	2,388
Loans and advances to customers	13,14	21,020	16,532
Derivative financial instruments	15	22	-
Financial assets designated at fair value	16	320	233
Investment securities:			
– Available for sale	17	29	26
Intangible assets	18	58	59
Property, plant and equipment	19	217	206
Deferred income tax assets	20	5	3
Other assets	21	63	72
Total assets		**25,414**	**19,915**
LIABILITIES			
Deposits from banks	22	5,163	3,613
Due to customers	23	14,832	12,304
Derivative financial instruments	15	24	8
Debt securities in issue	24	2,010	1,667
Other liabilities	25	737	757
Provisions	26	8	5
Current income tax liabilities		47	13
Subordinated debt	27	278	292
Total liabilities		**23,099**	**18,659**
EQUITY			
Share capital	28	1,145	819
Share premium account	28	887	216
Statutory reserve		26	20
Cumulative gains not recognised in the income statement		5	3
Retained earnings		252	198
Total equity		**2,315**	**1,256**
Total equity and liabilities		**25,414**	**19,915**

Statement of changes in equity for the year ended 31 December 2006
Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million

	Note	Share capital	Share premium account	Statutory reserve	Cumulative gains not recognised in the income statement	Retained earnings	Total Equity
As at 1 January 2005		**750**	**100**	**17**	**-**	**134**	**1,001**
Net change in available-for-sale investments, net of tax		-	-	-	3	-	3
Net income recognised directly in equity		**-**	**-**	**-**	**3**	**-**	**3**
Net profit		-	-	-	-	121	121
Total recognised income for 2005		**-**	**-**	**-**	**3**	**121**	**124**
Transfer to statutory reserve		-	-	3	-	(3)	-
Dividend relating to 2004						(54)	(54)
Equity issue		69	116	-	-	-	185
As at 31 December 2005		**819**	**216**	**20**	**3**	**198**	**1 256**
As at 1 January 2006		819	216	20	3	198	1 256
Net change in available-for-sale investments, net of tax		-	-	-	2	-	2
Net income recognised directly in equity		**-**	**-**	**-**	**2**	**-**	**2**
Net profit		-	-	-	-	177	177
Total recognised income for 2006		**-**	**-**	**-**	**2**	**177**	**179**
Transfer to statutory reserve		-	-	6	-	(6)	0
Dividend relating to 2005						(117)	(117)
Equity emission		326	671	-	-	-	997
As at 31 December 2006		**1,145**	**887**	**26**	**5**	**252**	**2,315**

Statement of cash flow for the year ended 31 December 2006

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

in CZK million

Item	Note	2006	2005
Cash flow from / (used in) operating activities			
Profit before income tax		**255**	**171**
Adjustment for:			
Impairment losses on loans and advances			
Provisions		1	(3)
Depreciation of property and equipment		54	70
(Increase)/ decrease in operating assets:			
Due from banks, non-demand		55	(363)
Financial assets at fair value through profit or loss		(108)	21
Loans and advances		(4,486)	(2 100)
Other assets		2	16
Prepayments and accrued income		7	18
Increase / (decrease) in operating liabilities			
Due to banks, term		842	(476)
Financial liabilities at fair value through profit and loss		16	1
Due to customers		2,528	1 045
Promissory notes and certificates of deposits		(159)	(143)
Other liabilities		(41)	135
Accruals and deferred income		22	18
Net cash flow used in operating activities before income tax		**(1,012)**	**(1,590)**
Net income tax paid		(49)	(36)
Net cash flow used in operating activities		**(1,061)**	**(1,626)**
Cash flow from / (used in) investing activities			
Purchase of property and equipment		(70)	(64)
Disposal of property and equipment		6	3
Net cash flow used in investing activities		**(64)**	**(61)**
Cash flow from / (used in) financing activities			
Issue of bonds		502	519
Issue of shares		997	185
Decrease in borrowings		(14)	(12)
Dividends paid	35	(117)	(54)
Net cash flow from financing activities		**1,368**	**638**
Net increase / decrease in cash and cash equivalents		**243**	**(1,049)**
Cash and cash equivalents at the beginning of the year	31	1,235	2,284
Net increase / decrease in cash and cash equivalents		**243**	**(1,049)**
Cash and cash equivalents at the end of the year	31	1,478	1,235

1 GENERAL INFORMATION

VOLKSBANK CZ, a.s. (hereinafter referred to as “the Bank”) was incorporated on 31 October 1996. The Bank had 33 domestic regional branches in the Czech Republic as at 31 December 2006 (as at 31 December 2005: 19 branches) and employs over 423 people.

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

The Bank’s operations primarily consist of the following:

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

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity, statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”) and are covered by IFRS 1, First-time Adoption of IFRS (Note 3). These are the first financial statements prepared in accordance with IFRS. The policies set out below have been consistently applied to all the years presented.

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

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

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

2 ACCOUNTING POLICIES (continued)

(c) Foreign currencies translation

Functional and presentation currency

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

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

Transactions and balances

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

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

(d) Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;

- certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss;

2 ACCOUNTING POLICIES (continued)

(d) Financial assets (continued)

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

- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss; and

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are measured at amortised cost.

Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

2 ACCOUNTING POLICIES (continued)

(d) Financial assets (continued)

Available-for-sale financial assets (continued)

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

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

(e) Offsetting financial instruments

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

(f) Derivative financial instruments and hedge accounting

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

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

The Bank does not apply hedge accounting.

2 ACCOUNTING POLICIES (continued)

(g) Recognition of deferred day one profit and loss

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

The Bank has entered into transactions, some of which will mature after more than 10 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

(h) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

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

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

2 ACCOUNTING POLICIES (continued)

(i) Fee and commission income and fee expense

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

(j) Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

(k) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(l) Impairment of financial assets

Assets carried at amortised costs

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

(l) Impairment of financial assets (continued)

Assets carried at amortised costs (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage or sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2 ACCOUNTING POLICIES (continued)

(l) Impairment of financial assets (continued)

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

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

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

Assets classified as available for sale

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

(m) Intangible assets

Computer software

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

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

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

(n) Property, premises and equipment

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other operating expenses in the income statement.

2 ACCOUNTING POLICIES (continued)

(o) Impairment of non-financial assets

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

(p) Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

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

(q) Cash and cash equivalents

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

(r) Provisions

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

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

(s) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

2 ACCOUNTING POLICIES (continued)

(s) Financial guarantee contracts (continued)

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

(t) Staff costs, pensions and social fund

Staff costs

Staff costs are included in Administrative expense and they also include board emoluments.

Pensions

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

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

Social fund

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

(u) Taxation and deferred income tax

Income tax

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

Deferred tax

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

2 ACCOUNTING POLICIES (continued)

(u) Taxation and deferred income tax (continued)

Deferred tax (continued)

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

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

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

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

(v) Value added tax

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

(w) Borrowings

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

(x) Share capital and reserves

Share issue costs

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

Dividends on shares

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

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

2 ACCOUNTING POLICIES (continued)

(x) Share capital (continued)

Statutory reserve

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

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

(y) Fiduciary activities

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

(z) IFRS / IAS accounting and reporting developments

The Bank has chosen not to early adopt the following standards, amendments or interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.
- IFRS 8 Operating segments (effective from 1 January 2009), management is still assessing the impact.
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006 that is from 1 January 2007).
- IFRIC 9, Reassessment of embedded derivatives (effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).
- IFRIC 10, Interim financial reporting and impairment, Scope of IAS 34 (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).
- IFRIC 11, Group and Treasury share transactions (effective for periods beginning on or after 1 March 2007, that is from 1 January 2008).
- IFRIC 12, Service Concession Arrangements (effective for periods beginning on or after 1 January 2008).
- IAS 23 Revised (effective from 1 January 2009), Borrowing costs.

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

2 ACCOUNTING POLICIES (continued)

(aa) Critical accounting estimates and judgments

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

Impairment losses on loans and advances

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated CZK 16 million higher or CZK 16 million lower.

Impairment of available-for-sale equity investments

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

Fair value of derivatives

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

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

3 TRANSITION TO IFRS

The Bank's financial statements for the year ended 31 December 2006 are the first full set of annual financial statements prepared in accordance with IFRS as adopted by the European Union. The Bank's IFRS adoption date according to IFRS 1 is 1 January 2006 and its transition date is 1 January 2005.

The following reconciliations provide a quantification of the effect of the transition to IFRS:

Reconciliation of equity as at 1 January 2005 and 31 December 2005

(CZKm)	1 January 2005	31 December 2005
Total equity under local GAAP	969	1,218
Restatement of charge of allowances and provisions for credit losses	21	38
Restatement of general bank provisions	12	-
Recognition of contribution and reclassification of employee social fund from equity to other liabilities	(2)	(1)
Deferred tax adjustments	1	1
Total equity under IFRS	1,001	1,256

Reconciliation of net profit for the year ended 31 December 2005

(CZKm)	2005
Net profit under local GAAP	118
Restatement of charge of allowances and provisions for credit losses	16
Recognition of contribution to employee fund	(1)
Restatement of general bank provisions	(12)
Deferred tax adjustments	-
Net profit under IFRS	121

4 NET INTEREST INCOME

Interest and interest similar income

(CZKm)	2006	2005
Loans and advances	828	658
Due from banks	110	73
Financial assets at fair value through profit or loss	10	7
Mandatory minimum reserves with central banks	6	5
	954	743

Interest income from loans and advances

(CZKm)	2006	2005
Receivables from companies and individuals including consumer loans	772	602
Receivables from municipalities	42	48
Receivables from governmental bodies	2	2
Other receivables from customers	12	6
	828	658

4 NET INTEREST INCOME (continued)

Interest and interest similar expense

(CZKm)	2006	2005
Due to customers	127	96
Due to banks	124	116
Debt securities in issue	48	25
	299	237

Management estimates that approximately CZK 35 million of interest income was recognised on impaired receivables in 2006 (2005: CZK 20 million).

5 NET FEE AND COMMISSION INCOME

(CZKm)	2006	2005
Fee and commission income	314	279
Fee and commission expense	(71)	(68)
	243	211

Fee and commission income

(CZK m)	2006	2005
Domestic and foreign transfer	273	230
Brokerage income from purchase and sale of securities and derivatives	16	11
Credit related fees and commissions	6	25
Other	19	13
	314	279

6 NET TRADING INCOME

Net trading income, as reported in the statement of income, does not include net interest recognised on interest-earning and interest-bearing trading positions. Net trading income and trading related net interest income are set out in the table below to provide comprehensive presentation of the Bank's trading income.

(CZKm)	2006	2005
Net interest income – FVPL securities (Note 4)	10	7
Net trading income – as reported	9	19
	19	26
Fixed-income securities and money market	10	7
Net foreign exchange gains	9	24
Interest rate contracts	-	(5)
	19	26

Net foreign exchange gains include results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations. Included in Net trading income of CZK 19 million (2005: CZK 26 million) is change in fair value of CZK 9 million (2005: CZK 19 million) estimated using a valuation technique.

7 ADMINISTRATIVE EXPENSE

(CZKm)	2006	2005
Personnel expenses	300	256
Depreciation of property and equipment and amortisation of intangible assets	59	74
Other general administrative expenses	221	218
	580	548

Personnel expenses

(CZKm)	2006	2005
Salaries and bonuses of Board members	10	7
Salaries and bonuses of senior management	19	26
Salaries and bonuses of Supervisory Board members	3	3
Salaries and bonuses of the employees	186	155
Social security costs	70	61
Other personnel costs	12	4
	300	256

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

Management bonus scheme

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

Retirement benefits

The Bank provides its employees with a voluntary defined contribution retirement scheme. Participating employees can contribute some percentage of their salaries to the Winterthur Pension fund. The Bank contributes up to CZK 1,000 a month according to the level of the employee contribution. Total Bank expense for the retirement scheme in 2006 was CZK 0.5 million (2005: CZK nil).

Other general administrative expenses

(CZKm)	2006	2005
Rent and leasing	56	46
Information technology	48	43
Marketing and public relations	35	39
Material consumption	19	17
Audit, tax, legal consultancy	7	16
Tax and fees	2	1
Other	54	56
	221	218

8 OTHER OPERATING INCOME

(CZKm)	2006	2005
Rental income	1	1
Other	8	13
	9	14

Other operating income in 2005 includes release of an estimated payable connected to litigation.

9 OTHER OPERATING EXPENSES

(CZKm)	2006	2005
Deposit insurance	14	12
Other	1	5
	15	17

10 INCOME TAX EXPENSE

(CZKm)	2006	2005
Current tax expense	82	50
Deferred tax income relating to the origination and reversal of temporary differences (Note 20)	(4)	-
	78	50

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

(CZKm)	2006	2005
Profit before taxation	255	171
Applicable rates	24%	26%
Taxation at applicable tax rates	61	45
Tax effect of non-taxable income	(13)	(10)
Tax effect of non-deductible expenses	26	13
Other	4	2
	78	50

The weighted average applicable tax rate was 30.59% (2005: 29.24%). The increase was caused by the increase of tax non-deductible items as the portfolio provision is treated as tax non-deductible.

11 CASH AND BALANCES WITH CENTRAL BANKS

	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest rate
Mandatory minimum reserves with central banks	396		183	
Cash on hand	262		201	
Balances with central banks	8		12	
	666	2.45%	396	1.87%

Mandatory minimum reserves with the Czech National Bank (“CNB”) are not available for use in the Bank’s day-to-day operations. These deposits bear interest at the CZK repo rate, which was 2.5% as at 31 December 2006 (31 December 2005 2.0%).

12 LOANS AND ADVANCES TO BANKS

Analysed by product and bank domicile	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest rate
Current accounts				
Domestic	6		3	
Foreign	28		59	
Term placements				
Domestic	1,332		1,393	
Foreign	1,048		906	
Loans				
Domestic	600		-	
Foreign	-		25	
Other receivables				
Domestic	-		-	
Foreign	-		2	
	3,014	3.00%	2,388	2.74%
Allowances for credit losses	-	-	-	-
Net due from banks	3,014		2,388	

13 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest rate
Analysed by category of borrower				
Receivables from companies and individuals	19,342		15,157	
Consumer loans	566		471	
Receivables from municipalities and governmental bodies	831		937	
Other receivables from customers	538		226	
Gross loans and advances	21,277	4.68%	16,791	4.00%
Allowance for credit losses (Note: 14)	(257)		(259)	
Net loans and advances	**21,020**		**16,532**	
Quality of receivables portfolio				
Standard	19,725		15,958	
Watch	907		286	
Impaired: - substandard	362		175	
- doubtful	72		109	
- loss	211		263	
	21,277		16,791	

13 LOANS AND ADVANCES TO CUSTOMERS (continued)

Syndicated loans

As at 31 December 2006, the Bank led syndicate loans, which can be analysed as follows:

Syndicate member	Loan currency	Bank exposure	Contractual share of syndicate manager
		CZKm	%
Česká spořitelna, a.s.	EUR	10	80
Weinviertler Volksbank RegGenmBH	EUR	10	50
Živnostenská banka, a.s.	CZK	174	50
Oesterreichische Volksbanken AG	EUR	1	1
Oesterreichische Volksbanken AG	EUR	2	1
Kommunalkredit AG	CZK	2	50
		199	

As at 31 December 2005, the Bank led syndicate loans, which can be analysed as follows:

Syndicate member	Loan currency	Bank exposure	Contractual share of syndicate manager
		CZKm	%
Niederoesterreichische Landesbank – Hypotekenbank AG	CZK	25	50
Česká spořitelna, a.s.	EUR	21	80
Weinviertler Volksbank RegGenmBH	EUR	2	50
Weinviertler Volksbank RegGenmBH	EUR	12	50
Živnostenská banka, a.s.	CZK	71	50
Oesterreichische Volksbanken AG	EUR	1	1
Oesterreichische Volksbanken AG	EUR	1	1
Oesterreichische Volksbanken AG	EUR	2	1
Kommunalkredit AG	CZK	3	50
		138	

14 IMPAIRMENT CHARGE FOR CREDIT LOSSES

The movement in allowances can be analysed as follows:

(CZKm)	Receivables from customers
As at 1 January 2005	257
Additions	55
Usage	(15)
Release	(38)
As at 31 December 2005	259
Additions	142
Usage	(65)
Release	(79)
As at 31 December 2006	257

Bad debts are written off against established specific allowances or directly expensed in the case that management asserts their recoverability as being remote.

15 DERIVATIVE FINANCIAL INSTRUMENTS

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

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2006 and 31 December 2005 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

Derivative financial instruments

Trading agreements

	31.12.2006			31.12.2005		
(CZKm)	Contract/ notional	Fair value positive	Fair value negative	Contract/ notional	Fair value positive	Fair value negative
Interest rate contracts						
Swaps	39	-	3	241	-	8
	39	-	3	241	-	8
Foreign exchange derivatives						
Swaps	490	-	3	137	-	-
Forwards	1,242	22	18	12	-	-
Options	-	-	-	1	-	-
	1,732	22	21	150	-	-
Total	1,771	22	24	391	-	8

Fair value gains less losses of trading derivatives are recognised in the income statement.

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

16 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest rate
Debt securities	320	4,47%	233	3,82%

17 INVESTMENT SECURITIES - AVAILABLE FOR SALE

The Bank held a 9.72% share of Viktoria pojišťovna a.s. at a value of CZK 29 million (31 December 2005: CZK 26 million). The Bank does not exert significant influence in Viktoria pojišťovna a.s.

18 INTANGIBLE ASSETS

(CZKm)	Software	Development in progress	Other	Total
Costs				
As at 1 January 2005	115	2	6	123
Additions	32	12	-	44
Disposal	-	(2)	-	(2)
As at 31 December 2005	147	12	6	165
Additions	24	6		30
Disposal	(7)	(12)	(5)	(24)
As at 31 December 2006	164	6	1	171
Accumulated amortisation				
As at 1 January 2005	(82)	-	(5)	(87)
Amortisation charge	(19)	-		(19)
As at 31 December 2005	(101)	-	(5)	(106)
Amortisation charge	(11)	-	4	(7)
As at 31 December 2006	(112)	-	(1)	(113)
Net book value				
As at 1 January 2005	33	2	1	36
As at 31 December 2005	46	12	1	59
As at 31 December 2006	52	6	0	58

19 PROPERTY, PLANT AND EQUIPMENT

(CZKm)	Land and buildings	Leasehold improvement	Equipment	Other	Construction in progress	Total
Costs						
As at 1 January 2005	166	57	227	132	5	587
Additions	-	4	14	6	2	26
Disposal	-	(5)	(18)	(7)	(4)	(34)
As at 31 December 2005	166	56	223	131	3	579
Additions		13	21	17	4	55
Disposal		(7)	(21)	(8)	(3)	(39)
As at 31 December 2006	166	62	223	140	4	595
Accumulated depreciation						
As at 1 January 2005	(57)	(16)	(170)	(106)	-	(349)
Depreciation charge	(7)	(1)	(8)	(8)	-	(24)
As at 31 December 2005	(64)	(17)	(178)	(114)	-	(373)
Depreciation charge	(4)	(2)	2	(1)	-	(5)
As at 31 December 2006	(68)	(19)	(176)	(115)	-	(378)
Net book value						
As at 1 January 2005	109	41	57	26	5	238
As at 31 December 2005	102	39	45	17	3	206
As at 31 December 2006	98	43	47	25	4	217

20 DEFERRED INCOME TAX ASSETS

Deferred income taxes are calculated on all temporary differences under the liability method using the 24% income tax rate enacted for 2006 onward (26% for 2005).

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

(CZKm)	2006	2005
As at 1 January	3	2
Income statement (debit) / credit (Note: 10)	3	1
Available-for-sale securities		
Fair value re-measurement	(1)	-
As at 31 December	5	3

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

(CZKm)	31.12.2006	31.12.2005
Provision for credit risk	13	8
Available-for-sale securities	(1)	-
Depreciation of the fixed assets	(10)	(7)
Other temporary differences	3	2
	5	3

20 DEFERRED INCOME TAX ASSETS (CONTINUED)

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

(CZKm)	2006	2005
Allowances for credit losses	5	-
Depreciation of fixed assets	(3)	2
Other temporary differences	-	(1)
	2	1

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

21 OTHER ASSETS

(CZKm)	31.12.2006	31.12.2005
Prepayments and accrued income	42	49
Other debtors, net of provisions	16	15
Items in the course of collection	3	3
Anticipated receivables	2	1
Other	-	4
	63	72

22 DEPOSITS FROM BANKS

	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest
Analysed by product and bank domicile:				
Current accounts				
domestic	9		9	
foreign	139		17	
Term deposits				
domestic	1,657		646	
foreign	88		110	
Borrowings				
domestic	602		-	
foreign	2,656		2,823	
Other				
foreign	12		8	
	5,163	2,93%	3,613	2,49%

23 DUE TO CUSTOMERS

	31.12.2006		31.12.2005	
(CZKm)	Amount	Interest rate	Amount	Interest rate
Analysed by product:				
Current accounts	10,205		8,000	
Term deposits	4,453		4,127	
Savings accounts with notice period	161		161	
Savings accounts	13		16	
	14,832	1,02%	12,304	0,73%
Analysed by customer type:				
Private companies	7,536		6,505	
Individual - households	4,283		3,254	
Individual - entrepreneurs	1,508		1,216	
Government bodies	1,179		1,081	
Non-profit institutions	245		162	
Insurance companies and pension funds	51		62	
Other financial institutions	30		24	
	14,832		12,304	

The Bank has not given any collateral for its liabilities.

24 DEBT SECURITIES IN ISSUE

	Issue date	Currency	Maturity date	Effective interest rate %	31.12.2006 CZKm	31.12.2005 CZKm
Issued mortgage bonds						
Mortgage bond emission 3.70/10	18.10.2005	CZK	18.10.2010	2.748	514	518
Mortgage bond emission 4.60/11	27.6.2006	CZK	27.6.2011	3.579	506	-
					1,020	518
Promissory notes and certificates of deposits						
Promissory notes and certificates of deposits short-term					942	1,134
Promissory notes and certificates of deposits long-term					48	15
				2.345	990	1,149
					2,010	1,667

The Bank issued mortgage bonds in the nominal amount of CZK 500 million in 2006. These bonds were issued at 104.64% of nominal amount.

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

25 OTHER LIABILITIES

(CZKm)	31.12.2006	31.12.2005
Payments in transit	384	209
Other clearing accounts	151	103
Other creditors	109	108
Accruals and deferred income	66	44
Payables to Deposit insurance fund	14	12
Anticipated payables	8	36
VAT and other tax payables	4	9
Other	1	1
Auxiliary credit accounts	-	233
Payables to employees	-	1
Items in the course of transmission	-	1
	737	757

26 PROVISIONS

(CZKm)	Provisions for guarantees	Other operating provisions	Total provisions
As at 1 January 2005	1	7	8
Additions	3	-	3
Release	(1)	(5)	(6)
As at 31 December 2005	3	2	5
Additions	-	3	3
As at 31 December 2006	3	5	8

Other operating provisions cover also possible losses regarding legal proceedings. The provision of CZK 3 million as at 31 December 2006 (31 December 2005: CZK nil) for litigation is not discounted to its net present value, as the timing of its utilisation could not be predicted with sufficient certainty.

27 SUBORDINATED DEBT

The Bank received a subordinated liability of EUR 10 million from the European Bank for Reconstruction and Development on 24 December 2004, which is payable in one instalment on 26 January 2015. This debt bears 6M EURIBOR interest of 3.604% plus a margin of 0.8% p.a. until the fifth year from the date of the agreement and 1.50% p.a. in the subsequent years (effective margin of 1.182%) which is payable semi-annually. The effective interest rate was 4.811% p.a. as at 31 December 2006 (31 December 2005: 3.375% p.a.). This liability is subordinated to all other liabilities of the Bank and forms a part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy.

28 SHARE CAPITAL AND TREASURY SHARES

The General meeting held on 24 April 2006 decided on an increase of share capital by CZK 142 million to CZK 961 million. Increase of the share capital was performed by subscription of the 21,895 ordinary shares and 6,565 non-voting shares; both of nominal value CZK 5,000. Share capital was subscribed with share premium of 300% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholders on 19 May 2006. Registration by the Regional Court in Brno regarding share capital came into force on 1 June 2006.

The extraordinary general meeting held on 9 October 2006 decided on an increase of share capital by CZK 184 million to CZK 1,145 million. Increase of the share capital was performed by subscription of the 28,281 ordinary shares and 8,479 non-voting shares; both of nominal value CZK 5,000. Share capital was subscribed with share premium of 310% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholder on 20 October 2006. Registration by the Regional Court in Brno regarding share capital came into force on 13 November 2006.

Share capital

(CZKm)	31.12.2006	31.12.2005
Voting shares	881	630
Non-voting shares	264	189
Issued, paid and registered by the Commercial register	1,145	819

Issues of shares

ISIN	Date of issue	Nominal value of share	Number of shares	Nominal value
		CZK		CZK m
770980001406	23.10.1998	5,000	30,000	150
770980001414	23.10.1998	5,000	100,000	500
770980001406	7.8.2002	5,000	4,600	23
770980001414	7.8.2002	5,000	15,400	77
770980001406	23.11.2005	5,000	3,165	16
770980001414	23.11.2005	5,000	10,555	53
770980001406	31.7.2006	5,000	6,565	33
770980001414	31.7.2006	5,000	21,895	109
770980001414	20.12.2006	5,000	28,281	142
770980001406	20.12.2006	5,000	8,479	42
				1,145

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

29 CONTINGENT LIABILITIES AND COMMITMENTS

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

29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Contingent liabilities include:

(CZKm)	31.12.2006 Contract amount	31.12.2005 Contract amount
Credit commitments		
Un-drawn formal standby facilities, credit lines	765	671
Documentary credits	138	82
	903	753
Provision for guarantees (Note 26)	(3)	(3)
Net amount of credit commitments	900	750
Commitments given	6,721	3 151

30 OTHER CONTINGENT LIABILITIES

(a) Litigation

Other than litigation for which provisions have already been raised (Note: 26), the Bank is not involved in any other litigation with material impact on its position.

(b) Taxation

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

Czech tax authorities are authorised to perform tax inspection for three years retrospectively. Last tax inspection was in 2003.

(c) Assets under management and custody

(CZKm)	31.12.2006	31.12.2005
Assets placed under custody	859	679

Asset placed in custody are shown at their nominal value.

(CZKm)	31.12.2006	31.12.2005
Assets held under custody	4,641	2,410

Assets held under custody are shown at their fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2006 and 31 December 2005.

30 OTHER CONTINGENT LIABILITIES (continued)

(d) Operating lease commitments

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

(CZKm)	31.12.2006	31.12.2005
Not later than 1 year	47	36
Later than 1 year and not later than 5 years	159	90
Later than 5 years	78	16

31 CASH AND CASH EQUIVALENTS

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

(CZKm)	31.12.2006	31.12.2005	1.1.2005
Cash and balances with central banks	666	396	341
Due from banks due up to 3 months	2,638	1,957	3,509
Due to banks due up to 3 months	(1,826)	(1,118)	(1,566)
	1,478	1,235	2,284

32 SEGMENT REPORTING

The Bank's primary segment reporting is by customer segment.

Segment reporting information by customer segments for 2006

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	220	372	82	(19)	655
Non-interest income	120	170	(29)	(9)	252
Segment expenses	(245)	(103)	(17)	(221)	(586)
Segment result	95	439	36	(249)	321
Impairment charge to credit losses and provisions	28	(19)	-	(75)	(66)
Operating profit	123	420	36	(324)	255
Income tax (expense)/ benefit	(29)	(101)	(9)	61	(78)
Profit for the year	94	319	27	(263)	177
Assets	3,890	16,686	4,752	86	25,414
Liabilities	8,747	6,988	8,633	1,046	25,414
Capital expenditure	3	40	1	41	85
Depreciation	23	3	1	32	59

32 SEGMENT REPORTING (continued)

Segment reporting information by customer segments for 2005

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	241	228	79	(42)	506
Non-interest income	180	88	9	(47)	230
Segment expenses	(228)	(82)	(17)	(224)	(551)
Segment result	193	234	71	(313)	185
Impairment charge to credit losses and provisions	10	(44)	-	20	(14)
Operating profit	203	190	71	(293)	171
Income tax (expense)/ benefit	(53)	(49)	(19)	71	(50)
Profit for the year	150	141	52	(222)	121
Assets	4,137	11,543	4,217	18	19,915
Liabilities	8,914	4,149	6,746	106	19,915
Capital expenditure	2	16	2	40	60
Depreciation	28	4	2	40	74

Definitions of customer segments:

Retail/ SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 30 million.

Corporate: Companies with turnover greater than CZK 30 million and non-banking institutions in the financial sector.

Treasury: Asset and liability management, Dealing.

Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank operates only in the Czech Republic; therefore, there is no secondary segment reporting.

33 FINANCIAL RISKS

(a) Strategy in using financial instruments

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

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

33 FINANCIAL RISKS (continued)

(a) Strategy in using financial instruments (continued)

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

(b) Currency risk

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

The table below summarises the Bank's exposure to currency risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2006

(CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	604	36	9	6	11	666
Loans and advances to banks	2,173	462	334	8	37	3,014
Loans and advances to customers	16,811	3 824	298	-	87	21,020
Financial assets designated at fair value through profit or loss	320	-	-	-	-	320
Investment securities - available-for-sale	29	-	-	-	-	29
Other assets	349	16	-	-	-	365
	20,286	4,338	641	14	135	25,414
Liabilities and equity						
Deposits from banks	3,430	1,470	176	-	87	5,163
Due to customers	11,949	2,380	450	15	38	14,832
Debt securities in issue	1,917	11	82	-	-	2,010
Subordinated liabilities	-	278	-	-	-	278
Provisions	8	-	-	-	-	8
Other liabilities	419	373	8	-	8	808
Equity	2,315	-	-	-	-	2,315
	20,038	4,512	716	15	133	25,414
Net assets/(liabilities)	**248**	**(174)**	**(75)**	**(1)**	**2**	**-**
Net off-balance sheet assets/(liabilities)	**(283)**	**207**	**75**	**-**	**1**	**-**
Net open currency position	**(35)**	**33**	**-**	**(1)**	**3**	**-**

33 FINANCIAL RISKS (continued)

(b) Currency risk (continued)

As at 31 December 2005 (CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	331	40	9	5	11	396
Loans and advances to banks	861	979	507	2	39	2,388
Loans and advances to customers	12,539	3,645	235	-	113	16,532
Financial assets designated at fair value through profit and loss	233	-	-	-	-	233
Investment securities – available-for-sale	26	-	-	-	-	26
Other assets	315	25	-	-	-	340
	14,305	4,689	751	7	163	19,915
Liabilities and equity						
Deposits from banks	1,549	1,728	229	-	107	3,613
Due to customers	9,557	2,284	419	7	37	12,304
Debt securities in issue	1,477	97	93	-	-	1,667
Derivative financial instruments	8	-	-	-	-	8
Other liabilities, including tax liabilities	654	406	2	-	-	1,062
Provisions	5	-	-	-	-	5
Equity	1,256	-	-	-	-	1,256
	14,506	4,515	743	7	144	19,915
Net assets/(liabilities)	**(201)**	**174**	**8**	**-**	**19**	**-**
Net off-balance sheet assets/(liabilities)	**26**	**(37)**	**11**	**-**	**-**	**-**
Net open currency position	**(175)**	**137**	**19**	**-**	**19**	**-**

(c) Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to the change in the market interest rate is measured via change of the present value of the interest cash flows in case of interest rate change, as set by the Board of Directors. Interest rate swaps are used to manage interest rate positions.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's interest-bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual, re-pricing or maturity dates. Non-interest bearing financial assets and liabilities are classified with other assets and other liabilities as not specified.

33 FINANCIAL RISKS (continued)

(c) Interest rate risk (continued)

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with central banks	666	-	-	-	-	666
Loans and advances to banks	3,014	-	-	-	-	3,014
Loans and advances to customers	17,147	1,303	2,260	310	-	21,020
Financial assets designated at fair value through profit and loss	75	150	34	61	-	320
Other assets	-	-	-	-	394	394
	20,902	1,453	2,294	371	394	25,414
Liabilities and equity						
Deposits from banks	4,505	320	135	203	-	5,163
Due to customers	14,447	270	115	-	-	14,832
Debt securities in issue	940	40	1,030	-	-	2,010
Subordinated liabilities	-	278	-	-	-	278
Provisions	-	-	-	-	8	8
Other liabilities	-	-	-	-	808	808
Equity	-	-	-	-	2,315	2,315
	19,892	908	1,280	203	3,131	25,414
Net assets/(liabilities)	**1,010**	**545**	**1,014**	**168**	**(2,737)**	**-**
Net off-balance sheet interest rate position	**39**	**(3)**	**(12)**	**(24)**	**-**	**-**
Net interest rate position	**1,049**	**542**	**1,002**	**144**	**(2,737)**	**-**

As at 31 December 2005

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with central banks	396	-	-	-	-	396
Loans and advances to banks	2,206	167	-	-	15	2,388
Loans and advances to customers	12,422	2,425	1,370	289	26	16,532
Financial assets designated at fair value through profit and loss	-	129	44	60	-	233
Other assets	-	-	-	-	366	366
	15,024	2,721	1,414	349	407	19,915
Liabilities and equity						
Due to banks	1,573	1,653	152	216	19	3,613
Due to customers	12,018	217	67	-	2	12,304
Debt securities in issue	1,615	33	19	-	-	1,667
Derivative financial instruments	-	-	-	-	8	8
Other liabilities, including tax liabilities	-	292	-	-	770	1,062
Provisions	-	-	-	-	5	5
Equity	-	-	-	-	1,256	1,256
	15,206	2,195	238	216	2,060	19,915
Net assets/(liabilities)	**(182)**	**526**	**1,176**	**133**	**(1,653)**	**-**
Net off-balance sheet interest rate position	**242**	**(200)**	**-**	**(42)**	**-**	**-**
Net open interest position	**60**	**326**	**1,176**	**91**	**(1,653)**	**-**

33 FINANCIAL RISKS (continued)

(d) Credit risk

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to the decrease of the accepted level of credit risk. This process is performed on the level of each individual borrower and the whole loan portfolio. The Bank places and monitors limits on the amount of risk accepted in relation to geographical and business segments.

Geographical segmentation

As at 31 December 2006

(CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Cash and balances with central banks	666	-	-	-	666
Loans and advances to banks	1,938	1,033	41	2	3,014
Loans and advances to customers	20,732	274	6	8	21,020
Financial assets designated at fair value through profit and loss	320	-	-	-	320
Investment securities – available-for-sale	29	-	-	-	29
Other assets	365	-	-	-	365
	24,050	1,307	47	10	25,414

As at 31 December 2005

(CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Cash and balances with central banks	396	-	-	-	396
Loans and advances to banks	1,397	937	44	10	2,388
Loans and advances to customers	16,444	78	6	4	16,532
Financial assets designated at fair value through profit and loss	233	-	-	-	233
Investment securities – available-for-sale	26	-	-	-	26
Other assets	340	-	-	-	340
	18,836	1,015	50	14	19,915

Business segmentation

As at 31 December 2006

(CZKm)	Retail banking	Corporate banking	Treasury	Other	Total
Assets					
Cash and balances with central banks	-	-	666	-	666
Loans and advances to banks	-	-	3,014	-	3,014
Loans and advances to customers	2,404	18,535	-	81	21,020
Financial assets designated at fair value through profit and loss	-	-	320	-	320
Investment securities – available-for-sale	-	-	29	-	29
Other assets	-	-	22	343	365
Total assets	2,404	18,535	4,051	424	25,414

Corporate banking includes loans granted to municipalities and developers.

33 FINANCIAL RISKS (continued)

(d) Credit risk (continued)

Business segmentation (continued)

As at 31 December 2005

(CZKm)	Retail banking	Corporate banking	Treasury	Other	Total
Assets					
Cash and balances with central banks	-	-	396	-	396
Loans and advances to banks	-	-	2,388	-	2,388
Loans and advances to customers	1,421	15,030	-	81	16,532
Financial assets designated at fair value through profit and loss	-	-	233	-	233
Investment securities – available-for-sale	-	-	-	26	26
Other assets	-	-	-	340	340
Total assets	1,421	15,030	3,017	447	19,915

Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

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

Credit-related commitments

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

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

33 FINANCIAL RISKS (continued)

(e) Liquidity risk

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

The table below analyses assets, liabilities and equity of the Bank into relevant maturity bands based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with central banks	666	-	-	-	-	666
Loans and advances to banks	2,973	-	41	-	-	3,014
Loans and advances to customers	2,375	3,765	7,134	7,746	-	21,020
Financial assets designated at fair value through profit and loss	1	61	197	61	-	320
Other assets	-	-	-	-	394	394
	6,015	3,826	7,372	7,807	394	25,414
Liabilities and equity						
Deposits from banks	2,520	278	1,305	1,060	-	5,163
Due to customers	14,333	265	75	159	-	14,832
Debt securities in issue	940	40	1,030	-	-	2,010
Subordinated debt	-	3	-	275	-	278
Provisions	-	-	-	-	8	8
Other liabilities, including tax liabilities	808	-	-	-	-	808
Equity	-	-	-	-	2,315	2,315
	18,601	586	2,410	1,494	2,323	25,414
Net financial assets/(liabilities)	**(12,586)**	**3,240**	**4,962**	**6,313**	**(1,929)**	-

Negative net financial liability with remaining maturity within three months is covered by received commitments from mother company, Oesterreichische Volksbanken AG (Note 37).

33 FINANCIAL RISKS (continued)

(e) Liquidity risk (continued)

As at 31 December 2005

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with central banks	396	-	-	-	-	396
Loans and advances to banks	2,246	98	44	-	-	2,388
Loans and advances to customers	2,277	3,169	5,705	4,844	537	16,532
Financial assets designated at fair value through profit and loss	1	1	171	60	-	233
Other assets	-	-	-	-	366	366
	4,920	3,268	5,920	4,904	903	19,915
Liabilities and equity						
Deposits from banks	1,520	247	725	1,121	-	3,613
Due to customers	11,864	212	69	159	-	12,304
Debt securities in issue	1,097	37	533	-	-	1,667
Derivative financial instruments	-	-	-	-	8	8
Other liabilities, including tax liabilities	555	2	-	290	215	1,062
Provisions	-	-	-	-	5	5
Equity	-	-	-	-	1,256	1,256
	15,036	498	1,327	1,570	1,484	19,915
Net financial assets/(liabilities)	**(10,116)**	**2,770**	**4,593**	**3,334**	**(581)**	-

Although Due to customers is strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the "Within 3 months" column), statistical evidence shows it is unlikely a majority of those customers will actually withdraw their deposits from the Bank on maturity.

Negative net financial liability with remaining maturity within three months is covered by received commitments from the parent company, Oesterreichische Volksbanken AG.

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Fair value of financial assets and liabilities

	31.12.2006		31.12.2005	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	3,014	3,013	2,388	2,383
Loans and advances to customers	21,020	21,721	16,532	17,231
Financial liabilities				
Deposits from banks	5,163	5,127	3,613	3,570
Due to customers	14,832	14,701	12,304	12,184
Debt securities in issue	2,010	2,007	1,667	1,663

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

Loans and advances to banks

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

Loans and advances to customers

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

Deposits from banks

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

Due to customers

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

Debt securities in issue

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

35 DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 24 April 2006, a dividend of CZK 700 per ordinary share and CZK 750 per non-voting share was approved in respect of 2005 net profit. This dividend represented a total amount of CZK 116.5 million. The declared dividend for the year 2006 is CZK 163 million and will be ratified at the Annual General Meeting in April 2007, but after issuance of the financial statements.

36 SHAREHOLDERS

The shareholder structure of Volksbank CZ as at 31 December 2006 was as follows:

Voting shareholders Name and registered office	Share in %
Volksbank International AG, Vienna	96.86
Banca Popolare di Vicenza, Vicenza	1.31
EM.RO.Popolare S.p.a., Modena	1.31
Niederoesterreichische Landesbank-Hypothekenbank, St. Pölten	0.52
	100.00

37 RELATED PARTIES

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

As at 31 December 2006 and year then ended (CZKm)	Note	Parent Company	Management	Other related Parties	Total
Interest income	4	12	-	81	93
Commission and fee income	5	-	-	4	4
Other operating income	8	-	-	1	1
Interest expense	4	74	-	1	75
Commission and fee expense	5	14	-	32	46
Administrative expenses	7	-	-	39	39
Due from banks	12	152	-	380	532
Loans and advances	13	-	13	1,986	1,999
Other assets	21	-	-	1	1
Due to banks	22	1,943	-	8	1,951
Due to customers	23	-	8	231	239
Other liabilities	25	-	-	5	5
Guarantees granted and commitments given	29	-	2	345	347
Guarantees granted and commitments received		18,344	5	209	18,558
Assets under custody		-	12	689	701

Other related parties represent companies within Volksbank Group with exception of parent Company.

37 RELATED PARTIES (continued)

As at 31 December 2005 and year then ended (CZKm)	Note	Parent Company	Management	Other related parties	Total
Interest income	4	11	-	111	122
Commission and fee income	5	-	-	4	4
Other operating income	8	-	-	1	1
Interest expense	4	76	-	15	91
Commission and fee expense	5	18	-	32	50
Administrative expenses	7	-	-	29	29
Due from banks	12	105	-	97	202
Loans and advances	13	-	11	2,643	2,654
Other assets	21	-	1	-	1
Due to banks	22	2,234	-	9	2,243
Due to customers	23	-	10	197	207
Other liabilities	25	3	-	71	74
Guarantees granted and commitments given	29	-	1	326	327
Guarantees granted and commitments received		22,422	-	13	22,435
Assets under custody		-	10	601	611

Loans and advances from companies and individuals include the following receivables from related parties: (Note 13).

Receivables from related parties (CZKm)	31.12.2006	31.12.2005
VB Leasing, s.r.o.	400	917
Management of the Bank	11	9
Members of Supervisory Board and Board of Directors	2	2
Other related parties (companies in the group)	1,586	1,726
Total receivables from related parties	1,999	2,654

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

Due to customers include the following position with related parties:

Deposits from related parties (CZKm)	31.12.2006	31.12.2005
Management of the Bank	7	8
Members of Supervisory Board and Board of Directors	1	2
Other related parties (companies in the group)	231	197
Deposits from related parties	239	207

37 RELATED PARTIES (continued)

In the opinion of management, deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal interest rate and liquidity risk or present other unfavourable features (Note 23).

38 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end until the date of preparation of the financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2006.