DŮVĚRA SPOJUJE.
UNITED IN TRUST.

VÝROČNÍ ZPRÁVA 2006
ANNUAL REPORT 06

Rakousko

Bosna a Hercegovina

Chorvatsko

ČESKÁ REPUBLIKA

Maďarsko

Rumunsko

Slovensko

Slovinsko

Srbsko

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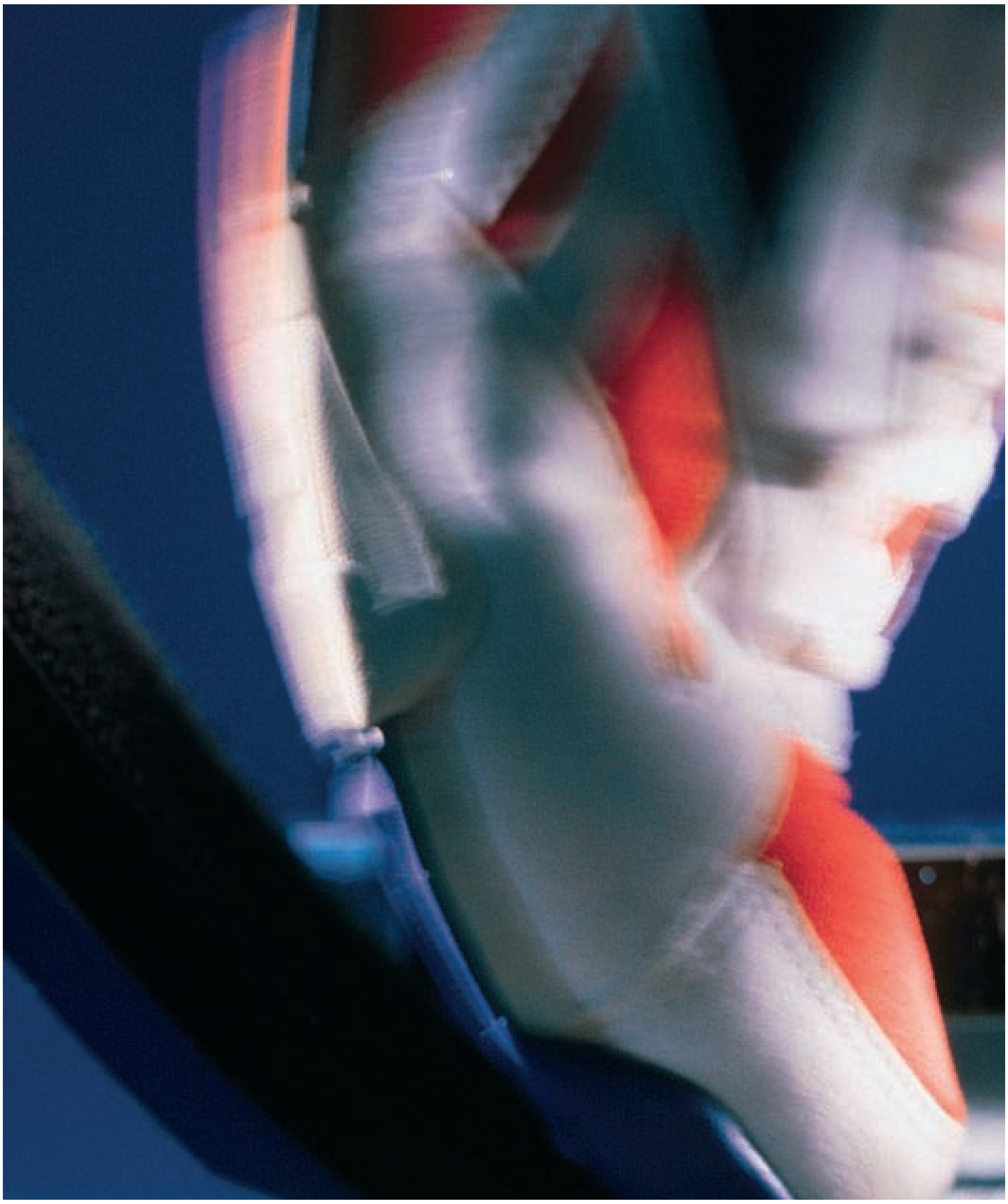
VOLKSBANK
Czech Republic

OBSAH / CONTENT



ANNUAL REPORT 2006

Austria
Bosnia and Herzegovina
Croatia
CZECH REPUBLIC
Hungary
Romania
Serbia
Slovakia
Slovenia

DŮVĚRA SPOJUJE.
UNITED IN TRUST.

06

FOREWORD FROM THE BOARD OF DIRECTORS

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

It is our honour to present you with Volksbank CZ's excellent results for 2006. The past year was a milestone and turning point for the Bank, and it stands among the most successful years since Volksbank launched its operations in the Czech Republic.

In the light of the business results achieved, 2006 was indeed an exceptional year. Not only did the Bank maintain its year-to-year trend of improving its results, it even managed to achieve enormous increases in all business indicators. The fact that 2006 was a successful year is evidenced especially by the significant increase in the total assets, by nearly 28%, up to CZK 25.414 billion as at the end of the year. The outstanding success achieved in the lending area was supported above all by the dynamic acquisition activities, which were marked by 27% growth. The volume of client deposits rose by more than 20% while the volume of securities managed by the Bank grew in excess of 50%. Profit on ordinary activities before tax reached CZK 298 million in the past year, which represents a 77% increase year-on-year.

Volksbank CZ also extended the previous year's good results in real estate financing. In increasing the volume of loan originations by some 120% year-on-year, it once again significantly exceeded the planned objectives. The greatest success was achieved in financing residential projects, where the loan contracts concluded in 2006 represent CZK 3.7 billion and 1,500 residential units.

The excellent result achieved by the International Desk – an increase in profit on ordinary activities by 52% – can be credited to numerous small and medium-sized transactions. These were not only in real estate financing. In 2006, moreover, there was also a very significant inflow of clients from the partners' banks.

In retail banking, also, Volksbank CZ achieved very good results. The number of clients grew by nearly 12% in 2006 and surpassed the 30,000 mark. The volume of retail business activities rose by more than 21%. These results in the retail segment were supported especially by extending the existing external sales channels and strengthening the Bank's main sales channel. The number of Volksbank CZ branches rose from 18 up to 22 by the end of the year.

In adicion to supporting its external sales networks, Volksbank CZ launched a brand new concept, known as VolksbankShops. These are situated at the Bank's points of sale in the premises of the Kaufland shopping centre network. The main objective of these bank outlets is to be present at the very places where people are attending to their day-to-day needs and to offer them comfortable and accessible banking services. To better accommodate clients, the opening hours of VolksbankShops were extended so that these are available every day, including weekends and holidays, from 8 a.m. until 8 p.m. Furthermore, the clients may use ATMs and information terminals

from left:
Tomáš Kořínek, Johann Lurf, Václav Vitha

for printing their account statements during the entirety of the supermarkets' opening hours. This Volksbank policy sends a clear signal that the Bank is focused on meeting clients' needs. From September 2006 through the end of the year, 10 VolksbankShops were launched.

Extending the services offer in the account packages product line, the Bank introduced a new account called "Rybička" (meaning "little fish") that is intended for the very youngest clients. In connection with establishing the VolksbankShops network, new products were launched under the names "Aktiv" account and "Aktiv" consumer loan.

A great many changes were made in the field of retail loan products, bringing clients the advantages of shorter time periods spent in processing loan applications. Endeavouring to provide more transparent pre-contractual information for mortgages, the Bank acceded to the Czech Banking Association's Code of Conduct on Home Loans. Volksbank CZ also became a member of the Banking Client Information Register, which was a significant step that allows the Bank to eliminate client-insolvency risks while also preventing clients from finding themselves in untenable situations.

In 2006, the Bank continued cooperating with Winterthur penzijní fond, a. s. in selling pension insurance, with Českomoravská stavební spořitelna, a. s. in providing building society products, with VICTORIA-VOLKSBANKEN pojišťovna, a. s. in selling insurance products, and with VB Leasing CZ, a. s. in financing transport, office and health care equipment. The Bank also continued its collaboration with the European Investment Bank on refinancing projects for small and medium enterprises. In carrying out its business activities, Volksbank CZ chooses reputable partners who, together with the Bank, will live up to the principle of our motto "United in Trust".

To our valued clients, business partners and shareholders, we thank you for the patronage and support that you have given us in the past year and which has enabled us to achieve these excellent results. We wish you great success in your work throughout the coming year.

Tomáš Kořínek

Johann Lurf

Václav Vitha

KEY FIGURES IN SUMMARY

CZK million	2006	2005
Total assets	25,414	19,877
Liabilities to clients, including deposit certificates	16,842	13,971
Receivables from clients	21,020	16,495
Income on financial transactions before general and specific provisions	908	735
Operating expenses	521	472
Profit on ordinary activities before tax	298	168
Number of employees	561*	453*
Number of points of sale	32	19**

* including employees on maternity leave

** Praha - Václavské náměstí (Na Příkopě) branch closed as at 1st January 2006

INTERNATIONAL NETWORK

Volksbank CZ has been successfully active on the Czech market since 1993. The Bank's main shareholder is Volksbank International AG (a subsidiary of Österreichische Volksbanken-AG).

Österreichische Volksbanken-AG (ÖVAG) was founded in 1922 by commercial lending cooperatives and is majority owned by more than 60 independent Austrian "Volksbanken" (cooperative banks). The Bank is the central institute of one of the most important banking groups in Austria and is an international commercial bank. Already in 1991, ÖVAG was one of the first banks to begin its expansion into the challenging markets of Central and Eastern Europe.

Volksbank International AG (VBI) is located in Vienna, Austria, and the majority of its equity is held by ÖVAG (51%), while the remaining stakes of 24.50% each are held by the German DZ BANK / WGZ-Bank and the French Banque Fédérale des Banques Populaires. VBI directs a successful and expanding network of some 300 branches in nine Central and Eastern European (CEE) countries: Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Ukraine. The total assets reached EUR 6.7 billion in 2006. More than 3,900 employees offer private and corporate clients a wide range of modern banking products and services.

In 2006, Volksbank International AG intensified cooperation with its Austrian, German, French and Italian partners through the "CEE UNLIMITED" programme. With the goal of supporting the referral business, this service broadens the offer for clients of individual partner banks and provides bankers with the know-how needed to initiate and develop business activities in Central and Eastern European countries. The clients – mostly small and medium enterprises – continue to be served by the parent bank. In addition, they can access banking services across the entire CEE network. The cooperation is efficient, professional and – very importantly – conducted in the client's mother tongue.

INTERNATIONAL NETWORK

One of the many services offered within the CEE UNLIMITED programme is the establishment of a “CEE account”. A bilingual contract (in German, English, French or Italian and in the client’s mother tongue) allows for easily establishing the account. Moreover, the client has immediate access to the account without superfluous formalities and delays. This highly specialised cooperation provides clients straightforward access to investment and real estate financing services, as well as to those relating to insurance and leasing.

Because size isn’t everything, we strive for more than just creating an extensive network of banks. Our priority is personal contact with clients, mutual trust and reliability. The most important measures for us are in the professional quality of our services and the long-term relationships that we build with our clients in order to ensure their business success. Thus, our international clients are provided with unrivalled care in their mother tongues at each of our associated international banks through the CEE UNLIMITED programme. That means the clients can feel “at home” even when they are doing business abroad.

Shareholders	Share in %
Volksbank International AG, Vienna	96.07
Banca Popolare di Vicenza S.C.P.A., Vicenza	1.64
EM.RO Popolare S.P.A., Modena	1.64
Niederösterreichische Landesbank-Hypothekenbank AG, St. Pölten	0.65

Shareholders structure by proportion of total share capital as at 31 December 2006.

SUPERVISORY BOARD

CHAIRMAN

Friedhelm BOSCHERT
Chairman of the Supervisory Board
Appointed on: 6 December 2004
Experience: 19 years of banking experience, 12 years of management experience

Membership on other companies' bodies: Volksbank International AG, Austria: Chairman of the Board of Directors; Volksbank BH d.d., Bosnia and Herzegovina: Chairman of the Supervisory Board; VB-Holding AG, Austria: Member of the Supervisory Board, Volksbank-Invest GmbH, Austria: Member of the Supervisory Board; IK Investmentbank AG, Austria: Member of the Supervisory Board

VICE-CHAIRMAN

Engelbert BRAMERDORFER
Vice-Chairman of the Supervisory Board
Appointed on: 30 May 2005
Experience: 9 years of banking experience, 6 years of management experience

Membership on other companies' bodies: Magyarországi Volksbank Zrt., Hungary: Vice-Chairman of the Supervisory Board; Volksbank BH d.d., Bosnia and Herzegovina: Vice-Chairman of the Supervisory Board

SUPERVISORY BOARD MEMBERS

Hans JANESCHITZ
Member of the Supervisory Board
Appointed on: 22 September 1997
Experience: 26 years of banking experience, 20 years of management experience

Membership on other companies' bodies: Volksbank Linz-Mühlviertel registrierte Genossenschaft mit beschränkter Haftung, Austria: Vice-Chairman of the Supervisory Board; VB Factoring Bank AG, Austria: Member of the Supervisory Board; VB Gewerbe- und Handelsbank Kärnten AG, Austria: Member of the Supervisory Board; Ľudová banka, a.s., Slovakia: Member of the Supervisory Board; Magyarországi Volksbank Zrt., Hungary: Member of the Supervisory Board; VB-Holding AG, Austria: Vice-Chairman of the Supervisory Board; Volksbank International AG, Austria: Member of the Supervisory Board; Unternehmensbeteiligungs-Gesellschaft mbH, Austria: Statutory Representative; VB Management Beratung GmbH, Austria: Statutory Representative; Volksbank d.d., Croatia: Member of the Supervisory Board; Volksbank-Ljudska banka d.d., Slovenia: Member of the Supervisory Board; IK Investment Bank, Austria: Member of the Supervisory Board; Volksbank Wien AG, Austria: Member of the Supervisory Board; VBET-Holding GmbH, Austria: Statutory Representative; Bank für Ärzte und Freie Berufe AG, Austria: Member of the Supervisory Board; Investkreditbank AG, Austria: Member of the Supervisory Board

Gabriele UGOLINI
Member of the Supervisory Board
Appointed on: 25 May 2004
Experience: 33 years of banking experience, 21 years of management experience

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

Daniel DUQUESNE
Member of the Supervisory Board
Appointed on: 3 May 1999
Experience: 32 years on banking experience, 32 years of management experience

Membership on other companies' bodies:
Sepel, France: Chairman of the Managing Board; Honorary Consulate of the Czech Republic in Lyon, France: Honorary Consul; Volksbank International AG, Austria: Member of the Supervisory Board

Thorsten PAUL
Member of the Supervisory Board
Appointed on: 6 December 2004
Experience: 14 years of banking experience, 8 years of management experience

Membership on other companies' bodies:
GEF Beteiligungs AG, Austria: Chairman of the Supervisory Board; Venture for Business Beteiligungs AG, Austria: Member of the Supervisory Board; VB Partner-Kapital Beteiligungs AG, Austria: Member of the Supervisory Board; IK Investmentbank AG, Austria: Chairman of the Board of Directors; Invest Equity Beteiligungs AG, Austria: Chairman of the Supervisory Board; Mezzanine Management, Austria: Chairman of the Advisory Board; Athena Wien Beteiligungen AG, Austria: Vice Chairman of the Supervisory Board; Lead Equities Mittelstandsfinanzierung AG, Austria: Member of the Supervisory Board

Renata FILIPOVÁ
Member of the Supervisory Board
Appointed on: 7 September 2004
Experience: 12 years on banking experience, 8 years of management experience

No membership on other companies' bodies.

Jindřich HORNÍČEK
Member of the Supervisory Board
Appointed on: 18 August 2005
Experience: 6 years of banking experience, 0 years of management experience

No membership on other companies' bodies.

Luboš VLČEK
Member of the Supervisory Board
Appointed on: 18 August 2005
Experience: 9 years of banking experience, 14 years of management experience

No membership on other companies' bodies.

BOARD OF DIRECTORS

CHAIRMAN

Johann LURF
Appointed on: 10 December 1996
Experience: 31 years of banking experience,
20 years of management experience

No membership on other companies' bodies.

MEMBERS OF THE BOARD OF DIRECTORS

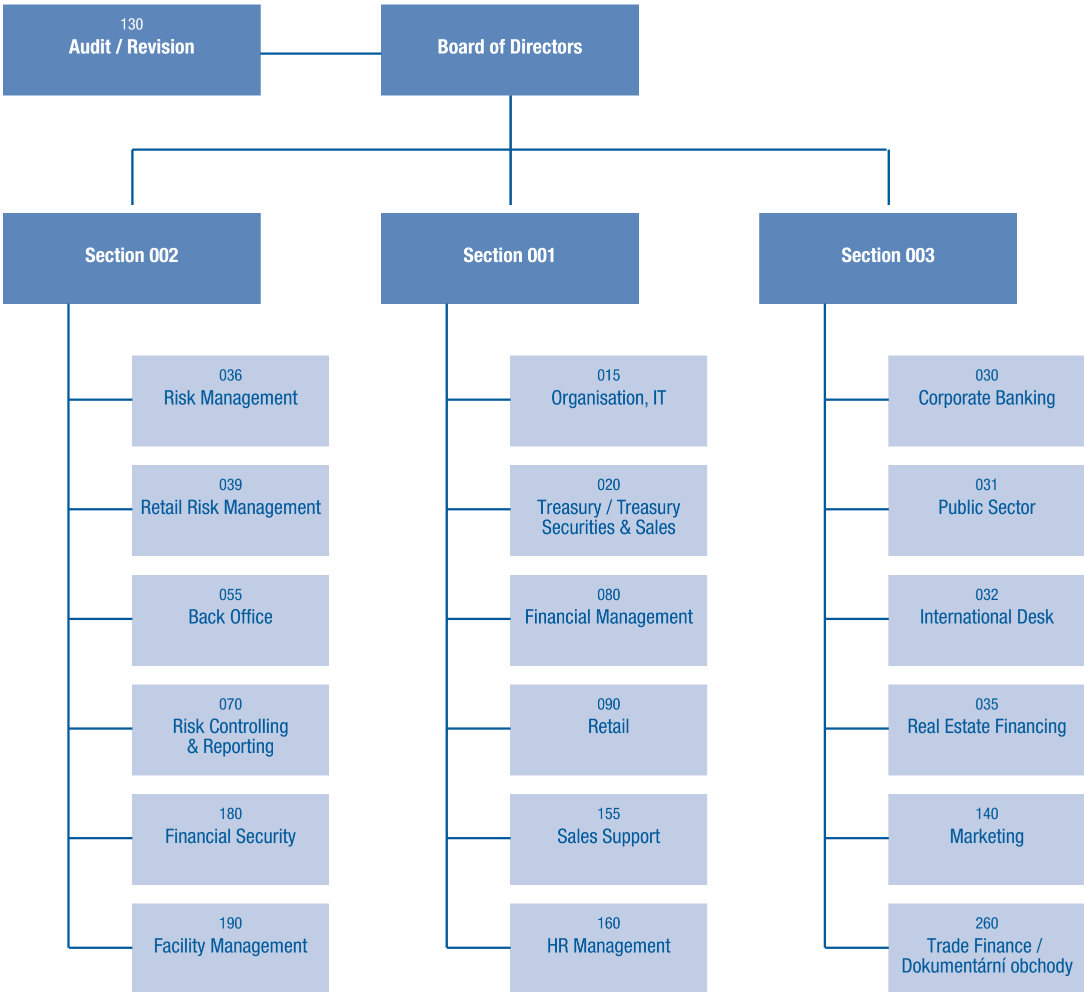
Václav VITHA
Appointed on: 1 March 2002
Experience: 15 years of banking experience,
9 years of management experience

No membership on other companies' bodies.

Tomáš KOŘÍNEK
Appointed on: 30 November 2005
Experience: 14 years of banking experience,
10 years of management experience

No membership on other companies' bodies.

ORGANISATION CHART



GENERAL ECONOMIC BACKGROUND

DEVELOPMENT OF THE CZECH ECONOMY IN 2006

The Czech economy kept up the previous year's strong expansion during 2006 and thus has achieved the two best years in its history. Gross domestic product's growth rate reached 6.1% in 2006. The structure of that growth was particularly gratifying. In addition to exports, both rising household consumption and expanding investments contributed significantly to the growth.

The Czech economy has enjoyed low inflation for the past several years. That was again the case in 2006, when average consumer price inflation was 2.5%. The favourable inflation development permitted the Czech National Bank to maintain its key interest rate below the level of the European Central Bank's rates. The key 14-day repo rate moved in a range between 2.00% and 2.50% during most of the year.

Within the Czech economy's development, room for improvement can be seen in the measure of long-term registered unemployment, which averaged 8.1% in 2006. Although high, this indicator may be regarded as positive in the sense that the unemployment rate in the Czech Republic remains below the average of the EU countries, according to EUROSTAT, the Statistical Office of the European Community. System reforms need to be implemented if the situation on the labour market is to improve greatly in the future.

The economic performance and stability of the Czech Republic were also reflected in the Czech crown's exchange rate development, which continued during 2006 in the upward trend set in previous years. Despite the negative interest rate differential and outflow of dividends, those forces boosting the Czech currency were much stronger. The crown's exchange rate strengthened in 2006 by more than CZK 1.5 to reach CZK/EUR 27.5.

OUTLOOK FOR 2007

Like 2006, one can expect that 2007 will again be a successful year for the Czech economy. Economic growth should stabilise at around 5% while maintaining its present favourable structure. Moreover, the average unemployment rate is anticipated to drop to 7.5%. Inflation is very likely to pick up gradually, and it could be close to 3% by the end of the year. In line with the gradually rising inflation, interest rates are likely to increase in the second half of the year. In comparison to previous years, we can expect that the trend for the Czech crown to strengthen against the euro will slow slightly.

BUSINESS ACTIVITIES

CORPORATE CLIENTS

In accordance with the Bank's business strategy, any vacant positions were filled in all important regional points of sale during 2006. In addition to the traditional points of sale in Prague, Brno and České Budějovice, bankers from Corporate Banking are now available to serve existing and potential clients in Plzeň, Liberec, Hradec Králové, Ostrava, Olomouc, Jihlava and Zlín.

The Bank continued to focus especially on its target client segment of companies with turnover of CZK 30 million to CZK 1 billion. By steadily pursuing this long-term sales strategy, the Bank has come to rank among the most sought-after banks in this segment. One of the main reasons for that standing – but by no means the only one – is that despite rapid growth in the number of clients, the Bank has managed to maintain its flexible and individualised approach. Moreover, certain internal processes were modified so that the bankers may focus fully on their clients. As a result, the efficiency of staff member and the satisfaction of clients have increased.

Furthermore, the Bank has succeeded in deepening the existing business relations while establishing new ones with large and important local and foreign companies – both on the Czech and global markets.

In 2006, Volksbank CZ again participated in several larger loan transactions executed in the form of syndicated loans, and it thus became an important partner for other banks on the interbank market.

A very important area of products and services that the Bank provides to its clients consists of products offered in cooperation with the Trade Finance department. These include, in particular, discounting of receivables, pre-export financing and minimising risks related to trade receivables.

Of course, the aforementioned achievements significantly affected Corporate Banking's results. The volumes of loan transactions expanded by 18% during the year, while the deposits volumes even rose by 23%. Client satisfaction is indicated, too, by the ever-increasing number of the Bank's products they are using.

For the year 2007, the Bank intends to further boost the level of its services, and especially for the target client segment. This means the Bank will accelerate and simplify the credit process, as well as further extend its offering of treasury products, and especially those for minimising currency and interest-rate risks. The highest priority – and one that never changes – will be client satisfaction.

RETAIL BANKING

The year 2006 may be regarded as groundbreaking for retail banking. In addition to achieving excellent business results, Volksbank CZ extended its existing sales channels while introducing a brand new concept. In 2006, the number of the Bank's clients that use retail banking rose by nearly 12% and surpassed the 30,000 mark. The volume of business activities grew by more than 21%.

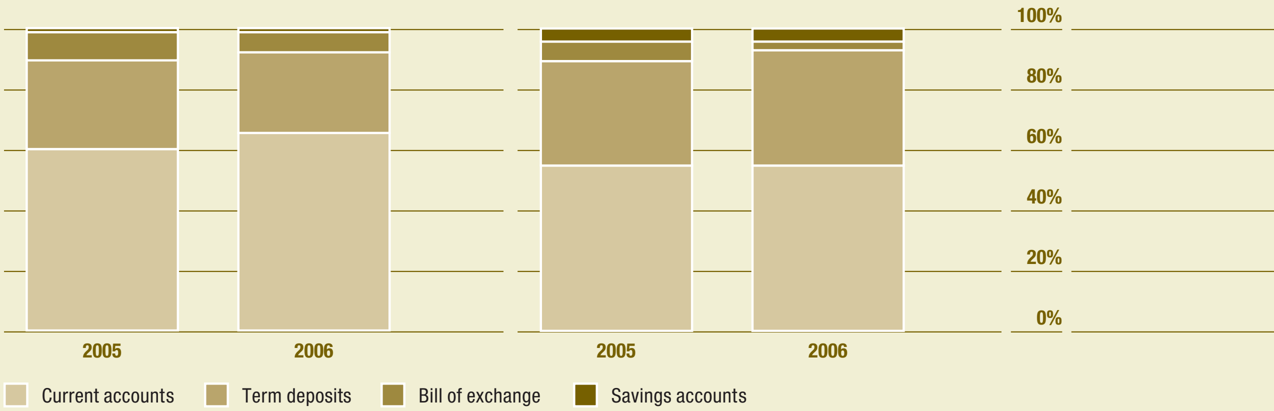
In September 2006, the Bank opened its first point of sale representing the new sales channel concept known as VolksbankShops. These are situated at the Bank's points of sale in the premises of the Kaufland shopping centre network. The main objective of this type of selling outlet is to be present at the very places where people are attending to their day-to-day needs and to offer them comfortable and accessible banking services.

An important innovation was to extend the opening hours of VolksbankShops, which are available to clients every day, including weekends and holidays, from 8 a.m. until 8 p.m. Furthermore, the clients may use ATMs and information terminals for printing their account statements during the entirety of the supermarkets' opening hours. This Volksbank policy sends a clear signal that the Bank is focused on meeting clients' needs. Through the end of the year, 10 VolksbankShops were launched.

In 2006, the Bank's main channel was also enhanced by extending the current number of Volksbank's branches from 18 to 22. Three new points of sale were opened in Prague, bringing the total number of the Bank's branches in the capital city to seven by the end of the year. The branch network was extended, too, in Brno, where a new branch was established in the city centre.

STRUCTURE OF DEPOSITS IN CZK
(2005-10.503 bil. CZK; 2006-12.568 bil. CZK)

STRUCTURE OF DEPOSITS IN FOREIGN CURRENCIES
(2005-2.949 bil. CZK; 2006-2.968 bil. CZK)



BUSINESS ACTIVITIES

The Bank reached out to a wider circle of clients by using well-informed bank advisors for acquisition activities and by initiating cooperation with external networks. In this area, Volksbank CZ chooses reputable partners who, together with the Bank, will uphold the principle of our motto “United in Trust”.

INTERNATIONAL DESK

The International Desk continued its unbroken growth in 2006. By the end of the year, the team had served more than 1,400 Italian, French and Spanish clients operating in various fields. Compared to the previous year, this number had risen by nearly 8%. Last year’s enlargement of the team proved to be a good move that allowed taking advantage of the potential in the Moravian region. Also having a positive impact was internal specialisation that created a separate retail section.

The excellent result achieved by the International Desk – an increase in profit on ordinary activities by 52% – can be credited to numerous small and medium-sized transactions. It was not only in real estate financing. In 2006, moreover, there was also a very significant inflow of clients from the partners’ banks.

REAL ESTATE FINANCING

The Real Estate Financing department extended the previous year’s good results, and it again significantly exceeded the planned objectives by increasing the volume of loan originations by 120% year-on-year.

The greatest success was achieved in financing residential projects, where the loan contracts concluded in 2006 represent CZK 3.7 billion and some 1,500 residential units. Two of the financed projects even were recognised by important awards in their respective categories: The “Kollárova” project in Prague 8 was awarded third prize in the Best of Realty contest and the “Italská” project in Prague 2 took top place in a competition organised by Construction & Investment Journal.

PUBLIC SECTOR

In 2006, the Bank’s loan exposure to the public sector, and particularly to municipalities, diminished slightly due to the final repayment of certain large loans that had been provided to municipalities at the end of the 1990s. This trend was compensated by the Bank’s growing volume of loan transactions with housing cooperatives and apartment owners associations, which rose by more than 80% against the previous year.

Strong demand for financing in the housing cooperatives segment was brought about by the ongoing process of revitalising prefabricated housing estates. Revitalisation is supported by the PANEL programme of state grants, in which Volksbank CZ participates as one of the contracting partner banks. We look for the positive trend in this segment to continue into the coming years.

TRADE FINANCE

The Trade Finance department is a stable contributor to growth of the Bank's active operations. The department cooperates intensively with the regional Corporate Banking departments as well as with the branch network. Both types of collaboration actively contribute to growth in the client portfolio as well as greater cross-selling to the existing clients in the corporate and microsegments.

In the microsegment and for SME enterprises, a modified form of factoring was introduced that emphasises speed and flexibility for financing receivables with smaller nominal values. The solution includes not only financing options but also a certain degree of hedging against the risks of reluctance and inability to pay. The clients responded very positively to this product, as can be seen from the rising business volumes.

Volksbank CZ is an important partner of credit insurance companies and is a driving force in innovating their products. This is confirmed by tailor-made products and contracts that fully meet the requirements of the Bank's clients.

During the year, the department's experts also focused on products that go beyond Trade Finance's traditional offer, particularly in the field of structured financing and syndicated loans. Several transactions were executed in acquisition financing and the Bank also participated in club loans with partner banks.

TREASURY / SECURITIES

In 2006, the Bank also continued to strengthen its position in trading on financial markets. The Bank's priority remained especially trading in local markets. Besides trading on financial markets, the department's principal activity was in managing the Bank's liquidity and its portfolio of money market, foreign currency and capital markets instruments. Volksbank CZ's long-time stable position on the local market allowed it better access to long-term refinancing through the financial market. As in previous years, the Treasury department contributed significantly to the Bank's overall profit.

The year 2006 was a crucial and very successful one for the selling of investment instruments. Through its Treasury experts, the Bank offered products and advice to corporate, retail and institutional investors. By introducing new products, enhancing the quality and comprehensiveness of services, and especially adhering to an individualised approach to corporate clients, the Bank achieved significant growth in the number of its clients and expanded the volumes transacted by the Treasury department.

Due to the long-continuing period of low interest rates, there was increasing demand among clients during 2006 for investment instruments offering higher expected rates of return. The Bank offered the clients a wide spectrum of investment instruments, ranging from equities through a broad array of unit trusts and bonds.

At the end of 2006, in cooperation with experts from Österreichische Volksbanken-AG, the Bank launched the first issue of a guaranteed certificate under the name PX Garant. This product's issue was an important step by the Bank to extend the investment possibilities for existing and new clients.

Volksbank CZ successfully placed its second independent issue of mortgage-backed securities during 2006. The total volume was CZK 500 million and the coupon rate was 4.60%. These securities were subscribed by both institutional investors and private clients and mature in 2011.

PAYMENT SYSTEM

Again during 2006, Volksbank CZ's clients especially increased their use of cashless payments. In the domestic payments area, the overall number of incoming payments rose by 20% and the overall number of outgoing payments by 18% in comparison to the previous year. Among international payments, the number of incoming client payments rose by 7% and the number of outgoing payments grew by 17%.

More and more clients are demanding uninterrupted contact with the Bank and on-line access to their accounts and funds. The electronic banking services were in use on more than 9,400 client installations as at the end of 2006. The clients were interested most of all in the user-friendly Internet Banking, as shown by the 75% year-on-year increase in active client installations. The product's popularity among the clients is also shown by Internet Banking's 78% share in all electronic banking products. The Homebanking application intended particularly for entrepreneurs and companies was extended last year with a new service – the so-called remote signature.

In autumn, the centralisation of all domestic and foreign payments was successfully completed. Now, all transactions are processed at a single workplace in the Bank. In connection with centralising domestic paper payments, the Bank provided clients with a new form that allows for automatic processing of payments.

Since the beginning of 2006, Volksbank CZ offers clients the possibility to submit a single order for regularly recurring foreign payments. These so-called standing orders can save the clients time and money in comparison to using one-off paper payment orders.

A trend in Volksbank CZ is for paper payment orders to be used as little as possible, as is confirmed by electronic payments' 85% share in all domestic and foreign payments.

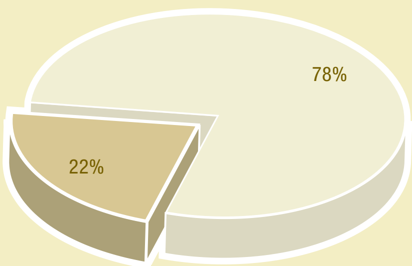
PAYMENT CARDS

The total number of payment cards in issue grew by 40% in 2006 to more than 16,000. The ATM network was extended from 22 to 36 machines during the year. The Bank's ATMs were also installed in all VolksbankShops. Thanks to the cooperation with ČSOB, meanwhile, that bank's network of 650 ATMs is available to Volksbank CZ's clients under very attractive conditions.

As early as the middle of 2006 the Bank began preparing a new product – a credit card – that will extend Volksbank CZ's payment cards offer in the second quarter of 2007.

ELECTRONIC BANKING

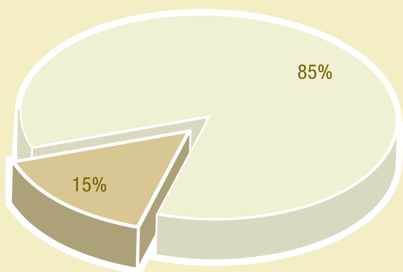
in %



internet banking	78%
homebanking	22%

DOMESTIC AND INTERNATIONAL PAYMENTS

in %



electronic	85%
other	15%

During 2006 the Bank continued to prepare for the transfer to chip technology for payment cards. Currently, chip technology is implemented in all newly issued electronic cards, such as VISA Electron and Maestro. Chip embossed MasterCard and VISA cards will be introduced during 2007. The chip technology provides cardholders with greater security, because data are saved directly to the chip and are amply protected by a high level of encryption. Another advantage of these payment cards is the chip's greater resistance to mechanical damage.

IT / ORGANISATION

With regards to computer technology supporting the Bank's services, 2006 can be looked upon as the year of integrating the information systems. The compatible information technologies allow for sufficiently rapid response to modifications in business processes that are directly connected to changes on the market and the Bank's growth.

Great attention was given to development of the CRM (Customer Relationship Management) system that is becoming a significant information source for all the Bank's departments. All data and documents regarding clients are well-organised and accessible, which provides greater flexibility in meeting client demands.

To support decision-making processes, the Bank decided to implement a new system called business intelligence. Other projects that were accorded high priority included those supporting the credit processes.

Last but not least, the IT department devoted itself to developing the branch network, including both standard branches and smaller offices. In this connection, modern solutions are used that contribute to reducing operational costs and serving the client efficiently.

SALES SUPPORT

The activities of the Sales Support department (formerly Product Development) were devoted to enhancing the quality of products offered by the Bank, as well as to extending the sphere of the Bank‘s potential clients. A great many changes were made in the field of retail loan products, particularly relating to mortgage loans, the American mortgage, consumer loans and overdraft loans. These changes enable the Bank to provide its existing and potential clients with loan products at a higher quality standard, more simply and, above all, in a shorter time. Endeavouring to provide more transparent pre-contractual information for mortgages, the Bank acceded to the Czech Banking Association’s Code of Conduct on Home Loans. Volksbank CZ also became a member of the Banking Client Information Register, which was a significant step that allows the Bank to eliminate client-insolvency risks while also preventing clients from finding themselves in untenable situations.

Adding depth to the services offer in the “packages” product line, the Bank introduced a new account called “Rybička” (meaning “little fish”) intended for its very youngest clients. In connection with establishing the VolksbankShops network, new products were launched under the names “Aktiv” account and “Aktiv” consumer loan.

In 2006, the Bank continued cooperating with Winterthur penzijní fond, a. s. in selling pension insurance, with Českomoravská stavební spořitelna, a. s. in providing building society products, with VICTORIA-VOLKSBANKEN pojišťovna, a. s. in selling insurance products, and with VB Leasing CZ, a. s. in financing transport, office and health care equipment. The Bank also continued its collaboration with the European Investment Bank on refinancing projects for small and medium enterprises.

Volksbank CZ successfully developed its cooperation with external sales networks, providing them with the Extranet portal that contains up-to-date information about products that the Bank offers through this sales channel. By offering its products through the external network, the Bank has managed to get closer to the clients and to present them its banking and financial services. A special loan product was prepared for this channel, which combines Volksbank CZ’s mortgage loan with investment life insurance from Winterthur pojišťovna, a. s.

HUMAN RESOURCES MANAGEMENT

In the area of recruiting and selecting new employees, the past year was an intensive period for the Bank. New positions were created in relation to opening new branches. The total number of the Bank's employees grew by 24% to 561 at the end of 2006. This number especially was influenced by hiring employees for VolksbankShops.

The project for establishing the VolksbankShops sales network required creating a new personnel model. Its main idea is to provide part-time job opportunities for candidates with good potential to succeed in selling retail banking products and services.

Regarding employee education, the Bank concentrated again last year especially on developing the sales skills of bank advisors and the managerial competence of managers. Specific projects included implementing Group-wide standards for training client advisors in the Retail division and a general project to develop the sales skills of advisors in the Corporate Banking division.

From the side of human resource management, the Bank is striving to support the good business results of the sales employees – and therefore of the whole Bank – by transforming the remuneration system. The aim is to connect a significant part of the employees' earnings with their individual performance. A new commission system was implemented in the Retail division during 2006. This was reflected positively in increased sales volumes. In 2007, a similar change will be made in remunerating employees in the Corporate Banking division.

In other areas of human resources work, too, Volksbank CZ strives to create optimal conditions for the employees' good performance. A significant change was made in the methodology for appraising employee performance and organising the evaluation interviews with employees. By formulating the expectations and evaluating the extent to which these are fulfilled, this methodology is becoming an active and mutually accepted tool for human resources management.

MARKETING & COMMUNICATION

The main marketing activities in 2006 focused on supporting the Bank's client-oriented approach.

The first step was to organise an extensive banking questionnaire in order to identify clients' opinions about the services provided by Czech banks. Several thousand people responded to the questionnaire. Afterwards, the Bank presented the results to the general public, and these provided a vital basis for the subsequent communication campaign.

A second advertising campaign continued to build on the results of the questionnaire and focused on the demand for quick processing of client loan applications. Volksbank CZ therefore prepared special conditions for consumer loans for unspecified purposes. This campaign was built around a product called "Bleskový úvěr" (Express Loan), which is a loan with favourable interest and an above-standard application processing period of within 24 hours. Along with this loan, each client automatically received discount coupons from cooperating partners.

Marketing participated actively in implementing the Bank's new VolksbankShops sales channel established in the Kaufland malls. In addition to standard corporate identity support within this channel, the Marketing & Communication department prepared marketing support for a special loan product called "Půjčka Vánočka" (meaning "Christmas Bread Loan"). This product provided clients with funds on very favourable conditions just before Christmas.

For the summer holiday season, the Bank expanded its offer of the Holiday Card, which is an international payment card that can be used abroad under attractive conditions. This product was once again accepted positively.

With the branch network's continuing expansion, the Marketing department actively supported four newly opened branches in Prague and Brno.

RISK MANAGEMENT

The Bank maintains a conservative approach to risk management. This approach results from the applicable legal regulations and risk strategy of the Group. The Bank uses a system of regulatory and internal limits. The limits are set, and adherence to them is regularly monitored.

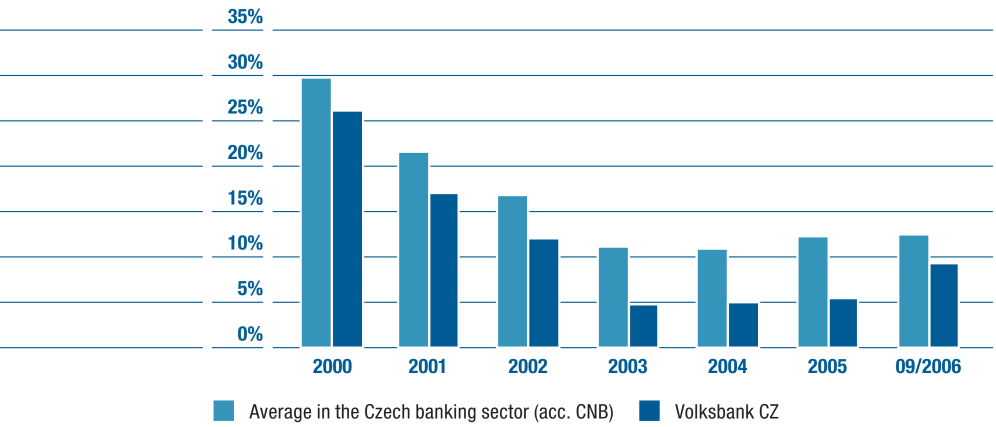
The overriding general principles in the process of risk management are optimisation of the relationship between risk and expected return, an effective internal control system, the proper segregation of duties, identification and analysis of risks, portfolio diversification, and accuracy and completeness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

The Bank's Board of Directors plays a key role in risk management's organisational structure. The Board determines the risk management strategy; approves the Bank's control documentation, including limits and authorised guidelines; and decides upon the most important risk positions. The Asset and Liability Management Committee (ALCO) monitors the balance sheet structure and authorises the relevant risk positions or limits. Departments directly subordinate to the board member responsible for risk management analyse the Bank's risk positions, monitor compliance with established limits, report on the results of their findings, and, as appropriate, approve their own risk positions within the scope of their assigned authorities.

The Bank is prepared to introduce procedures and standards corresponding to a decree being readied at the Czech National Bank on rules for prudent banking activities. The rules contained in the Basel II international accord and related European directives are being implemented in direct cooperation with the parent company.

In light of the Bank's results, the risk management system is considered to be efficient and effective.

CLASSIFIED LOANS



CREDIT RISK MANAGEMENT

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

In assessing an individual client's creditworthiness, the Bank focuses especially upon analysing that client's financial situation, his or her ability to repay the provided loan from cash flow, and the experience with the client to date.

The Bank is preparing the transition to calculating the capital adequacy for credit risk of the investment portfolio based on the internal ratings-based (IRB) approach. The credit quality of each client is assessed using seven internal rating programmes. A client is classified at one of 25 points on the internal rating scale. Each point corresponds to a fixed one-year probability of the client's default. This probability is used as one of the parameters in the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probabilities of client default are correct.

Another criterion for assessing a credit application is the quality of the collateral. The Bank maintains a catalogue of types of collateral, which defines those types that are allowed, the methods for establishing their fair values, the frequency of revaluation, and the responsibilities of the Bank's individual departments.

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

The Bank carries out regular monitoring of the individual exposures in order to track continuously the quality of the loan portfolio. This process increases the probability for timely recognition of future defaults. It also enables client defaults to be identified in time. For such cases, a system is established in the Bank to address problematic loans in a timely manner. This reduces the probability of incurring losses from providing loans.

The Bank is in compliance with all regulatory limits for its loan portfolio exposure.

MARKET RISK MANAGEMENT

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

An important principle of the market risk management system is the timely, accurate and complete recording of all transactions, as well as their proper valuation. For these purposes, the Bank uses the support of the Reuters Kondor+ software.

With regards to currency risk, the Bank manages its risk position by trading on the currency market. The risk position is defined as the difference between the assets and liabilities in the respective currency. It also includes currency derivatives traded with clients. The risk position is monitored daily and compared with the applicable limits.

The Bank's exposure to interest rate risk is defined as the difference between the values of interest-bearing assets and of interest-bearing liabilities. Moreover, the key parameter is the remaining time before the possibility to adjust the interest rates of individual interest exposures in response to changes in market interest rates. The total interest rate exposure is monitored daily using gap analysis. This is done separately for each currency but also on an aggregated basis for all currencies. The sensitivity to changes in market interest rates is measured using the PVBP indicator. Management of the interest rate exposure includes the use of interest rate swaps and issued bonds. As the result of a project across the Volksbank Group, a new application is being implemented that will enable more detailed simulations and stress testing.

Exposure to securities market volatility occurs especially in relation to bond portfolios held. Bond purchases are subject to applicable limits, and these especially emphasise the credit rating of the issuer. The Bank is not exposed to share price risk, because it primarily offers services related to equity trades to clients who are trading for their own accounts.

LIQUIDITY RISK

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

In managing the short-term liquidity position, the Bank includes planned and expected cash flows for five business days in advance. For the purpose of long-term forecasting, a scenario for liquidity risk management is regularly prepared that includes data on the existing as well as planned structure of the balance sheet. This scenario is submitted to the ALCO committee.

A contingency liquidity plan is prepared for the possibility that extraordinary circumstances would threaten the Bank's liquidity position.

OPERATIONAL RISK

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

An Operational Risk Office has been established within the Bank's organisational structure for the area of operational risk management. This unit is responsible for setting up the methodology or framework conditions for operational risk management, as well as for providing support to the specialised units within the operational risk management process.

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

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

The Bank is involved in a Group-wide project for a comprehensive solution to managing and monitoring operational risk in accordance with the Basel Committee rules. The aims are to implement the standard method for operational risk management and to be calculating the capital adequacy for operational risk by the day Basel II is implemented.

FINANCIAL STATEMENTS
ACCORDING TO THE CZECH ACCOUNTING STANDARDS

BALANCE SHEET AS AT 31 DECEMBER 2006

ASSETS

CZK million	Note	31 Dec. 2006	31 Dec. 2005
Cash and cash deposits with central banks	3	666	396
Due from banks	4	3,014	2,388
a) repayable on demand		34	62
b) other receivables		2,980	2,326
Due from customers	5	21,020	16,495
a) repayable on demand		1,615	77
b) other receivables		19,405	16,418
Debt securities	6	320	233
a) issued by government institutions		55	45
b) issued by other entities		265	188
Shares, mutual shares and other equity interests	6	29	26
Long-term intangible fixed assets	7	58	59
Long-term tangible fixed assets	7	217	206
of which: land and buildings for operating activities		141	141
Other assets	8	48	25
Prepayments and accrued income		42	49
TOTAL ASSETS		**25,414**	**19,877**

LIABILITIES

CZK million	Note	31 Dec. 2006	31 Dec. 2005
Due to banks	10	5,163	3,613
a) repayable on demand		148	26
b) other payables		5,015	3,587
Due to customers	11	14,832	12,304
a) repayable on demand		9,937	8,002
b) other payables		4,895	4,302
Liabilities from debt securities	12	2,010	1,667
a) issued debt securities		2,010	1,667
Other liabilities	14	743	736
Accruals and deferred income		66	44
Provisions	9	7	3
of which: other provisions		7	3
Subordinated liabilities	13	278	292
Share capital	15	1,145	819
of which: share capital paid up		1,145	819
Share premium		887	216
Reserve funds and other revenue reserves		26	21
a) statutory reserve funds		26	20
b) other revenue reserves		-	1
Revaluation reserve		5	3
of which: revaluation differences on assets and liabilities		5	3
Retained earnings from previous periods		32	41
Profit for the accounting period		220	118
TOTAL LIABILITIES		**25,414**	**19,877**

OFF-BALANCE SHEET AS AT 31 DECEMBER 2006

OFF-BALANCE SHEET ASSETS

CZK million	Note	31 Dec. 2006	31 Dec. 2005
Commitments and guarantees given	16	7,624	3,904
Receivables from spot transactions		237	30
Receivables from term instruments	25(d)	1,771	391
Receivables written-off		62	6
TOTAL OFF-BALANCE SHEET ASSETS		**9,694**	**4,331**

OFF-BALANCE SHEET LIABILITIES

CZK million	Note	31 Dec. 2006	31 Dec. 2005
Commitments and guarantees received		8,695	12,815
Collateral received and pledges		16,704	13,515
Payables from spot transactions		237	30
Payables from term instruments	25(d)	1,771	391
Assets held under custody and management	16	5,500	3,089
TOTAL OFF-BALANCE SHEET LIABILITIES		**32,907**	**29,840**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

PROFIT AND LOSS ACCOUNT

CZK million	Note	2006	2005
Interest and similar income	17	954	737
of which: interest income from debt securities		10	7
Interest and similar expense	18	(299)	(237)
of which: interest expense on debt securities		(48)	(25)
Fee and commission income	19	179	177
Fee and commission expense	20	(71)	(68)
Gains less losses from financial transactions	21	145	127
Other operating income	22	9	20
Other operating expense		(15)	(17)
Administrative expense	23	(521)	(472)
of which: a) staff costs		(300)	(256)
of which: aa) wages and salaries		(218)	(191)
ab) social and health insurance		(82)	(65)
b) other administrative expenses		(221)	(216)
Depreciation for long-term tangible and intangible fixed assets	7	(59)	(74)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	120	32
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(144)	(57)
Profit on ordinary activities before taxation		298	168
Income tax	24	(78)	(50)
PROFIT FOR THE ACCOUNTING PERIOD AFTER TAXATION		**220**	**118**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

STATEMENT OF CHANGES IN EQUITY

CZK million	Share capital	Share premium	Reserve fund and other revenue reserves	Social fund	Retained earnings	Revaluation reserve	Profit for the period	Total
BALANCE AS AT 1 JANUARY 2005	**750**	**100**	**17**	**2**	**38**	**-**	**62**	**969**
Net profit for the accounting period	-	-	-	-	-	-	118	118
Dividends	-	-	-	-	(54)	-	-	(54)
Transfers to funds	-	-	3	2	(5)	-	-	-
Utilisations of funds	-	-	-	(3)	-	-	-	(3)
Issuance of shares	69	116	-	-	-	-	-	185
Other changes (revaluation reserve for securities in available-for-sale portfolio)*	-	-	-	-	-	3	-	3
Transfer to retained earnings	-	-	-	-	62	-	(62)	-
BALANCE AS AT 31 DECEMBER 2005	**819**	**216**	**20**	**1**	**41**	**3**	**118**	**1,218**
Changes in accounting policies	-	-	-	(1)	(4)	-	-	(5)
Net profit/loss for the accounting period	-	-	-	-	-	-	220	220
Dividends	-	-	-	-	(117)	-	-	(117)
Transfers to funds	-	-	6	-	(6)	-	-	-
Issuance of shares	326	671	-	-	-	-	-	997
Other changes (revaluation reserve for securities in available-for-sale portfolio)*	-	-	-	-	-	2	-	2
Transfer to retained earnings	-	-	-	-	118	-	(118)	-
BALANCE AS AT 31 DECEMBER 2006	**1,145**	**887**	**26**	**-**	**32**	**5**	**220**	**2,315**

* net of deferred tax

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 GENERAL INFORMATION

Volksbank CZ, a.s. (hereinafter referred to as "the Bank") was incorporated on 31 October 1996. The Bank had 32 domestic regional branches in the Czech Republic as at 31 December 2006 (31 December 2005: 19 branches). The ultimate holding company is Österreichische Volksbanken-AG, which is incorporated in Austria.

The Bank's operations primarily consist of:
- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- accepting current and term accounts denominated in Czech and foreign currency;
- 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 and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values.

The financial statements are rounded to millions of Czech Crowns ("CZK million" or "CZK m") unless otherwise stated and are not consolidated.

(b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions except when deferred in equity as exchange gains and losses from securities in the available-for-sale portfolio.

(c) Fair value of securities

The fair value of a security is determined as the market bid price quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the net present value of expected cash flows for equities; or
- the risk adjusted net present value of cash flows for debt securities and notes.

(d) Securities at fair value through profit or loss

Securities at fair value through profit or loss have two subcategories. Securities held for trading, which were acquired for generating profit from short-term fluctuations in prices or from dealers' margins or included in a portfolio in which a pattern of short-term profit taking exists, and securities designated at fair value through profit or loss at inception. Any security that is a financial asset or liability can be designated at fair value through profit or loss at inception except for participation interests that are not publicly traded and the fair value of which cannot be reliably measured and securities issued by the Bank.

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as interest income.

(e) Available-for-sale securities

Available-for-sale securities are neither securities at fair value through profit or loss nor securities held-to-maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are initially recognized at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement. Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognized in the income statement. Foreign exchange differences on equity securities are recognized in the revaluation reserve in equity.

(f) Transfers between portfolios

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- transfers to and from the at fair value through profit or loss portfolio are not allowed; and
- on the sale or transfer of any securities held-to-maturity, the Bank must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed for sales within the last three months before maturity of the security or in the case of a significant deterioration in an issuer's creditworthiness.

(g) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cash flows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on the settlement date.

Securities received in reverse repo agreements that are sold to third parties are recorded at fair value as a trading liability. Trading liabilities with debt and equity securities are included in Liabilities from debt securities and Other liabilities respectively.

(h) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and currency options are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

The Bank does not apply hedge accounting. Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

(i) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective interest method based on the acquisition cost.

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 flows until maturity or the nearest change of interest rate 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 fees paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

Income on non-performing receivables is also accrued and capitalised into the related loan balance except for selected cases of loss loans that are administered individually. Such amounts are considered in estimating the provision for non-performing receivables.

(j) Fee and commission income / Fee and commission expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party 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 an annual basis.

(k) Receivables

Receivables originated by the Bank are stated at nominal value less allowances. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor.

Write-offs of loans and receivables by the Bank are covered by internal regulations. Loan receivables and balances on debit accounts without any cash movements are considered for write-off, any write-off must be approved by Board of Directors or responsible officer within authority limits.

(l) Provisions

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

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income.

Provisions are set aside in the currency in which settlement is expected to be made.

(m) Allowances

The Bank assesses at each balance sheet date whether there is objective evidence that a receivable or group of receivables is impaired.

A receivable or group of receivables is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the receivable (a "loss event") and that loss event has an impact on the estimated future cash flows of the receivable or group of receivables that can be reliably estimated.

Objective evidence that a receivable or group of receivables is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of receivables since the initial recognition of those receivables, although the decrease cannot yet be identified with the individual receivables in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the receivables in the group.

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

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised receivable 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, receivables are grouped on the basis of similar credit risk characteristics.

Future cash flows in a group of receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the receivables in the Bank and historical loss experience for receivables with credit risk characteristics similar to those in the Bank.

Estimates of changes in future cash flows for groups of receivables reflect 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 group 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 receivable is uncollectable, it is written off against the related provision for receivable impairment. Such receivables 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 by adjusting the allowance account against the income statement.

(n) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over their estimated useful lives in years:

Buildings and constructions	30
Administrative buildings	30
Hardware and equipment	4
Furniture and fittings	6
Safes	12
Motor vehicles	4
Software	3

Repair and maintenance expenditures are charged to expense as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

(o) Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). Intangible and tangible fixed assets and inventories 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. Input VAT (except for intangible and tangible fixed assets and inventory) is expensed immediately.

(p) Deferred taxation

A deferred tax liability is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate for the period in which the Bank expects to utilise the asset is used for the deferred taxation calculation.

Deferred tax related to fair value remeasurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity.

(q) Staff costs, pensions and social fund

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

The Bank makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Bank are accounted for directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

(r) Related parties

Related parties are defined in accordance with the Act on Banks as follows:

- board members;
- senior management of the Bank, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Bank's statute ("senior management");
- entities controlling the Bank, their shareholders holding more than 10% of share capital and their senior management;
- relatives (direct family members) of board members, senior management of the Bank and of entities controlling the Bank;
- entities in which board members of the Bank, senior management or entities controlling the Bank hold at least a 10% shareholding;
- shareholders holding more than 10% of the share capital or voting rights of the Bank and entities controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 8, 10, 11, 14, 16, 17, 18, 19, 20 22 and 23.

(s) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

(t) Changes in accounting policies

Since 2006 the allocation to the social fund is recognised in the income statement. The social fund balance as at 31 December 2006 in the amount of CZK 1 million was reclassified from Other revenue reserves in Equity to Liabilities to employees. The Bank recognise the allocation as the personnel expense. The unused fund relating to the accounting period is classified by the Bank as an estimated payable.

Besides the individual allowances for due from customers, in 2006 the Bank also recognised portfolio allowances based on historic experience, whose opening balance as at 1 January 2006 of CZK 4 million was recognized as an adjustment to Retained earnings.

3 CASH AND CASH DEPOSITS WITH CENTRAL BANKS

CZK m	31 December 2006	31 December 2005
Cash on hand	262	201
Obligatory reserves	396	183
Current accounts with central banks	8	12
	666	**396**

Obligatory reserves are mandatory deposits with the CNB and they 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% p.a. as at 31 December 2006 and 31 December 2005 2% p.a.

4 DUE FROM BANKS

CZK m	31 December 2006	31 December 2005
Current accounts with banks	34	62
Term deposits with other banks	2,380	2,299
Receivables from repo transactions	600	-
Other due from banks	-	27
	3,014	**2,388**

The Bank included CZK 532 million due from related parties within receivables due from other banks as at 31 December 2006 (as at 31 December 2005: CZK 202 million).

5 DUE FROM CUSTOMERS

(a) Receivables by type of debtor

CZK m		31 December 2006	31 December 2005
Receivables from companies and individuals		19,343	15,156
Receivables from consumer loans		566	471
Receivables from governmental entities		18	28
Receivables from municipalities		859	986
Other receivables from customers		491	150
		21,277	**16,791**
Allowance	– individual (Note 9)	(226)	(296)
	– portfolio (Note 2(t))	(31)	-
		21,020	**16,495**

(b) Quality of receivables portfolio

In accordance with the definitions issued by the CNB, the receivables due from customers can be analysed as follows:

CZK m		31 December 2006	31 December 2005
Standard		19,725	15,958
Watch		907	286
Impaired	– substandard	362	175
	– doubtful	72	109
	– loss	211	263
		21,277	**16,791**

The current value ascribed to assets received as collateral for receivables from customers can be analysed as follows:

CZK m	31 December 2006	31 December 2005
Cash	2,345	1,852
Securities	176	740
Land and buildings	6,439	5,035
Other assets	676	594
	9,636	8,221
Bank guarantees	1,004	2,781
	10,640	**11,002**

The Bank restructured CZK 85 million of its receivables in 2006 (2005: CZK 33 million). Receivables are considered to be restructured in case the Bank grants relief to clients because it is likely that the Bank would incur losses if acting otherwise. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case that the client has fulfilled all requirements of loan agreements.

(c) Receivables from related parties

Standard receivables from companies and individuals include the following receivables from related parties:

CZK m	31 December 2006	31 December 2005
Members of the Supervisory Board and the Board of Directors	2	2
Management of the Bank	11	9
VB Leasing CZ, spol. s r.o.	400	917
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.

(d) Syndicated loans

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

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

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

Participant	Loan currency	Bank exposure CZK mil.	Contractual share of syndicate manager %
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
Österreichische Volksbanken-AG	EUR	1	1
Österreichische Volksbanken-AG	EUR	1	1
Österreichische Volksbanken-AG	EUR	2	1
Kommunalkredit AG	CZK	3	50
		138	

6 SECURITIES

CZK million	Debt securities at 31 December 2006	2005	Shares, mutual shares and other equity interests 31 December 2006	2005
At fair value through profit or loss	320	233	-	-
Available-for-sale	-	-	29	26
	320	**233**	**29**	**26**

As a result of the low liquidity of many securities on the Czech market and market volatility, realisable prices may differ from the stated fair value.

(a) Securities at fair value through profit or loss

Debt securities

CZK m	31 December 2006	31 December 2005
Main or auxiliary market of recognised stock exchange	232	145
Free market of recognized stock exchanges	88	88
	320	**233**

(b) Securities available-for-sale

Shares, mutual shares and other equity interests

CZK m	31 December 2006	31 December 2005
Unquoted	29	26

7 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

Long term intangible fixed assets

CZK million	Software	Assets in the course of construction and advances provided	Other	Total
At 1 January 2005				
Cost	115	2	6	123
Accumulated amortisation	(82)	-	(5)	(87)
Net book amount	**33**	**2**	**1**	**36**
Year ended 31 December 2005				
Opening net book amount	33	2	1	36
Additions	32	12	-	44
Disposals (cost)	-	(2)	-	(2)
Amortisation charge	(19)	-	-	(19)
Closing net book amount	**46**	**12**	**1**	**59**
At 31 December 2005				
Cost	147	12	6	165
Accumulated amortisation	(101)	-	(5)	(106)
Net book amount	**46**	**12**	**1**	**59**
Year ended 31 December 2006				
Opening net book amount	46	12	1	59
Additions	24	6	-	30
Disposals (cost)	(7)	(12)	(5)	(24)
Amortisation charge	(18)	-	-	(18)
Disposals (accumulated amortisation)	7	-	4	11
Closing net book amount	**52**	**6**	**-**	**58**
At 31 December 2006				
Cost	164	6	1	171
Accumulated amortisation	(112)	-	(1)	(113)
Net book amount	**52**	**6**	**-**	**58**

Long term operating tangible fixed assets

CZK million	Land and buildings	Leasehold improve-ments	Equipment	Other	Assets under the course of consruction and advances provided	Total
At 1 January 2005						
Cost	166	57	227	132	5	587
Accumulated depreciation	(57)	(16)	(170)	(106)	-	(349)
Net book amount	**109**	**41**	**57**	**26**	**5**	**238**
Year ended 31 December 2005						
Opening net book amount	109	41	57	26	5	238
Additions	-	4	14	6	2	26
Disposals (cost)	-	(5)	(18)	(7)	(4)	(34)
Depreciation charge	(7)	(7)	(26)	(14)	-	(54)
Disposals (accumulated depreciations)	-	6	18	6	-	30
Closing net book amount	**102**	**39**	**45**	**17**	**3**	**206**
At 31 December 2005						
Cost	166	56	223	131	3	579
Accumulated depreciation	(64)	(17)	(178)	(114)	-	(373)
Net book amount	**102**	**39**	**45**	**17**	**3**	**206**
Year ended 31 December 2006						
Opening net book amount	102	39	45	17	3	206
Additions	-	13	21	17	4	55
Disposals (cost)	-	(7)	(21)	(8)	(3)	(39)
Depreciation charge	(4)	(8)	(17)	(9)	-	(38)
Disposals (accumulated depreciations)	-	6	19	8	-	33
Closing net book amount	**98**	**43**	**47**	**25**	**4**	**217**
At 31 December 2006						
Cost	166	62	223	140	4	595
Accumulated depreciation	(68)	(19)	(176)	(115)	-	(378)
Net book amount	**98**	**43**	**47**	**25**	**4**	**217**

The value of low value fixed assets not included in the balance sheet as at 31 December 2006 was CZK 9 million (as at 31 December 2005: CZK 7 million). The depreciation charge related to low value fixed assets in 2006 was CZK 3 million (2005: CZK 2 million).

Long term fixed assets held under finance lease contracts
The Bank does not use any material assets under finance lease contract.

Pledged assets
The Bank owns no assets encumbered by lien as at 31 December 2006 and 2005.

8 OTHER ASSETS

CZK million	31 December 2006	31 December 2005
Derivative financial instruments (Note 25(d))	22	-
Deferred tax asset (Note 24)	5	2
Operating advances granted	4	4
Inventories	3	3
Settlement clearance accounts	2	3
Estimated receivables	2	1
Other receivables	10	12
	48	25

Other assets as at 31 December 2006 include CZK 1 million due from related parties (as at 31 December 2005: CZK 1 million).

9 ALLOWANCES, PROVISIONS AND WRITE OFFS

The Bank had the following provisions and allowances for assets at risk:

CZK million	31 December 2006	31 December 2005
OTHER PROVISIONS		
Specific provisions for guarantees (Note 16)	3	3
Other provisions	4	-
	7	3
ALLOWANCES		
Receivables from customers (Note 5)	257	296

The movements in provisions can be analysed as follows:

CZK million	General provisions for receivables	Specific provisions for guarantees	Other provisions	Total provisions
At 1 January 2005	**11**	**1**	**-**	**12**
Additions	-	3	-	3
Release	(11)	(1)	-	(12)
At 31 December 2005	**-**	**3**	**-**	**3**
Additions	-	-	4	4
Release	-	-	-	-
At 31 December 2006	**-**	**3**	**4**	**7**

The movements in allowances can be analysed as follows:

CZK million	Receivables from customers
At 1 January 2005	**277**
Additions	55
Usage	(16)
Release	(20)
At 31 December 2005	**296**
Additions	144
Usage	(63)
Release	(120)
At 31 December 2006	**257**

Write-offs, additions and utilisation of allowances and provisions for loans and guarantees

CZK m	2006	2005
Amounts due from clients written off	(63)	(15)
Additions to provisions and allowances for loans and guarantees	(144)	(58)
Usage of provisions and allowances for loans and guarantees	63	16
	(144)	**(57)**

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

CZK million	Release of allowances, provisions	Additions to provisions	Utilisation of provisions	Write offs	Total
Year ended 31 December 2006					
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	120	-	-	-	120
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	-	(140)	63	(63)	(140)
Additions to and utilisation of other provisions	-	(4)	-	-	(4)
Year ended 31 December 2005					
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	31	-	-	-	31
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	-	(55)	16	(15)	(54)
Release of other provisions	1	-	-	-	1
Additions to and utilisation of other provisions	-	(3)	-	-	(3)

10 DUE TO BANKS

CZK million	31 December 2006	31 December 2005
Due to other banks	5,151	3,605
Liabilities from guarantees and letters of credit	12	8
	5,163	**3,613**

Deposits from related parties

CZK million	31 December 2006	31 December 2005
Related parties	**1,951**	**2,243**

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.

11 DUE TO CUSTOMERS

CZK million	31 December 2006	31 December 2005
Amounts due to governmental entities	26	27
Amounts due to municipalities	1,153	1,054
Amounts due to private customers	13,653	11,223
	14,832	**12,304**
Liabilities repayable on demand	10,206	8,002
Saving accounts for fixed term	13	16
Saving accounts with fixed notice period	160	159
Term accounts for fixed term	4,453	4,127
	14,832	**12,304**

Deposits from related parties

CZK million	31 December 2006	31 December 2005
Members of Board of Directors	-	1
Management of the Bank	7	8
Members of the Supervisory Board	1	1
Other related parties	231	197
	239	**207**

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.

12 LIABILITIES FROM DEBT SECURITIES

CZK million	31 December 2006	31 December 2005
VALUED AT AMORTISED COST		
Mortgage backed securities	1,020	518
Promissory notes and bills of exchange	990	1,149
	2,010	**1,667**

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

Debt securities issued by the Bank include CZK 942 million of securities redeemable within one year as at 31 December 2006 (as at 31 December 2005: CZK 1,134 million).

13 SUBORDINATED LIABILITIES

The Bank received a subordinated liability of EUR 10 million from 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.

14 OTHER LIABILITIES

CZK million	31 December 2006	31 December 2005
Payables from unsettled securities transactions	532	312
Current income tax liability	47	13
Suppliers	35	64
Derivative financial instruments (Note 25(d))	24	8
Estimated payables	10	63
Other liabilities	95	276
	743	**736**

Other liabilities as at 31 December 2006 do not include overdue liabilities for social insurance, contribution to the state employment policy or overdue liabilities for health insurance and do not include any overdue tax liabilities payable to the tax authorities.

Other liabilities as at 31 December 2006 include CZK 5 million of related party transactions (as at 31 December 2005: CZK 74 million).

15 EQUITY AND PROFIT DISTRIBUTION

The annual 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 the share premium of 300% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholder on 19 May 2006. Registration by 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 the 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 Regional Court in Brno regarding share capital came into force on 13 November 2006.

Share capital

CZK million	31 December 2006	31 December 2005	
Voting	881	630	
Non-voting	264	189	
Issued, paid and registered by the Commercial Register	**1,145**	**819**	**131**

Issue of shares – voting

ISIN	Date of issue	Date of registration	Nominal value of share CZK	Number of shares pieces	Nominal value CZK mill
770980001414	23 October 1998	Not reg. security	5,000	100,000	500
770980001414	7 August 2002	Not reg. security	5,000	15,400	77
770980001414	23 November 2005	Not reg. security	5,000	10,555	53
770980001414	31 July 2006	Not reg. security	5,000	21,895	109
770980001414	20 December 2006	Not reg. security	5,000	28,281	142
					881

Issue of shares – not-voting

ISIN	Date of issue	Date of registration	Nominal value of share CZK	Number of shares pieces	Nominal value CZK mill
770980001406	23 October 1998	Not reg. security	5,000	30,000	150
770980001406	7 August 2002	Not reg. security	5,000	4,600	23
770980001406	23 November 2005	Not reg. security	5,000	3,165	16
770980001406	31 July 2006	Not reg. security	5,000	6,565	33
770980001406	20 December 2006	Not reg. security	5,000	8,479	42
					264

Shareholders

Name and registered office	Shareholding %
VOLKSBANK INTERNATIONAL AG, VIENNA	96.86
Banca Popolare di Vicenza S.C.P.A., Vicenza	1.31
EM.RO Popolare S.P.A., Modena	1.31
Niederösterreichische Landesbank-Hypothekenbank AG, St. Pölten	0.52
	100.00

Bank shares are not owned by members of the Board of Directors, Supervisory Board or management of the Bank.

In accordance with the Commercial Code the Bank allocates 5% of its profit for the period to the non-distributable Statutory reserve until the balance of the reserve reaches 20% of share capital.

Profit distribution

The net profit of CZK 118 million for 2005 and CZK 5 million from retained earnings was distributed as follows:

CZK million	2005
Statutory reserve	6
Dividends	117
Distribution of the net profit 2005 and part of retained earnings	**123**

Distribution of the 2006 profit of CZK 220 million was not decided by the date of these financial statements.

16 CONTINGENCIES 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.

Contingent liabilities include:

Guarantees granted on behalf of:

CZK million	31 December 2006	31 December 2005
Intragroup non-banking entities	-	3
External clients	903	750
Total guarantees granted	903	753
Provision for guarantees granted (Note 9)	(3)	(3)
Net amount of guarantees granted	900	750
Commitments given	6,721	3,151
Commitments and guarantees given	**7,624**	**3,904**

Guarantees granted and commitments given to related parties as at 31 December 2006 represent CZK 347 million (as at 31 December 2005: CZK 327 million).

CZK million	31 December 2006	31 December 2005
ASSETS PLACED IN CUSTODY		
Securities	859	679
ASSETS HELD UNDER MANAGEMENT		
Securities	4,641	2,410
Assets held under custody and management	**5,500**	**3,089**

Assets placed in custody are shown at their nominal value and assets under custody at their fair value.

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

Assets held under custody at 31 December 2006 include assets obtained from related parties of CZK 701 million (as at 31 December 2005: CZK 611 million).

Guarantees and collateral received from related parties as at 31 December 2006 represent CZK 18,558 million (as at 31 December 2004: CZK 22,435 million).

Assets purchased under resale agreements (reverse repo transactions)

CZK million	31 December 2006	31 December 2005
Debt securities	**589**	**-**

Receivables from reverse repo transactions are included in Due from banks (Note 4).

17 INTEREST AND SIMILAR INCOME

CZK miilion	2006	2005
Inter-bank transactions	116	79
Receivables from customers and state	828	651
Debt securities	10	7
	954	**737**

Management estimates that approximately CZK 35 million of interest income was recognised on impaired receivables in the year ended 31 December 2006 (2005: CZK 20 million). Interest income from related party transactions of CZK 93 million was included in the Bank's income in 2006 (2005: CZK 122 million).

18 INTEREST AND SIMILAR EXPENSE

CZK million	2006	2005
Inter-bank transactions	124	116
Deposits from customers and state	127	96
Debt securities in issue	48	25
of which: mortgage bonds	23	3
	299	**237**

Interest expense from related party transactions of CZK 75 million was included in the Bank's expenses in 2006 (2005: CZK 91 million).

19 FEE AND COMMISSION INCOME

CZK million	2006	2005
Domestic and foreign payment transfers	138	128
Credit related fees and commissions	6	25
Brokerage income from purchase and sale of securities and derivatives	16	11
Other	19	13
	179	**177**

Commission and fee income in 2006 includes CZK 4 million of fees and commissions from related parties (2005: CZK 4 million).

20 FEE AND COMMISSION EXPENSE

CZK million	2006	2005
Fees for guarantees received	24	27
Other fee expenses	47	41
	71	**68**

Commission and fee expense in 2006 includes CZK 46 million of fees and commissions paid to related parties (2005: CZK 50 million).

21 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

CZK million	2006	2005
Gains less losses from the sale of securities and revaluation	1	-
Gains less losses from foreign currency transactions	152	144
of which: income from foreign payments transactions	120	91
income from cash desk transactions	16	17
Gains less losses from other transactions	(8)	(17)
	145	**127**

22 OTHER OPERATING INCOME

CZK million	2006	2005
Other operating income	**9**	**20**

Other operating income in 2006 includes CZK 1 million of income from related parties (2005: CZK 1 million).

23 ADMINISTRATIVE EXPENSE

CZK million	2006	2005
Staff costs	300	256
Rent and lease charges	56	47
Information system costs	48	17
Advertising costs	35	35
Material consumption	19	15
Audit, tax and legal advisory	7	16
Taxes and fees	2	1
Advisory	1	1
Other administration expenses	53	84
	521	472

Staff costs can be analysed as follows:

CZK million	2006	2005
Emoluments of Board of Directors	10	7
Emoluments of other members of senior management	19	26
Emoluments of Supervisory Board	3	3
Other wages, personal costs and emoluments of employees	186	155
Social costs and health insurance	70	61
Other cost of employees	12	4
	300	256

Staff statistics	2006	2005
Average number of employees	423	406
Number of members of the Board of Directors	3	3
Number of other members of senior management	23	23
Number of members of the Supervisory Board	9	9

Administrative expenses in 2006 include CZK 39 million of expenses paid to related parties (2005: CZK 29 million).

24 TAXATION

CZK million	2006	2005
Profit before taxation	298	168
Non-taxable income	(53)	(38)
Non-deductible expenses	107	50
Net taxable profit	352	180
Current tax charge at 24% (2005: 26%)	84	47
Correction of tax charge of the previous period	(2)	3
Deferred income tax (income)	(4)	-
Income tax expense	**78**	**50**
Net deferred tax asset at 1 January	2	2
Deferred tax income recognised on temporary differences	4	-
Change of the deferred tax on available-for-sale securities recognised in equity	(1)	-
Net deferred tax asset at 31 December	5	2
Deferred income tax liabilities		
Accelerated tax depreciation	(10)	(7)
Other temporary differences	(1)	(1)
	(11)	**(8)**
Deferred income tax assets		
Loan loss allowances	13	7
Other temporary differences	3	3
	16	**10**
Net deferred tax asset (Note 8)	**5**	**2**

25 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.

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 equity and debt securities markets and in currency, interest rate and commodity prices. 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. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts and in the level of risk undertaken.

(b) 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 the 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

31 December 2006

ASSETS

CZK million	Domestic	European union	Other Europe	Other	Total
Cash and balances with central banks	666	-	-	-	666
Due from banks	1,938	1,033	41	2	3,014
Due from customers	20,732	274	6	8	21,020
Securities at fair value through profit or loss	320	-	-	-	320
Securities available-for-sale	29	-	-	-	29
Other assets	365	-	-	-	365
TOTAL ASSETS	**24,050**	**1,307**	**47**	**10**	**25,414**

31 December 2005

ASSETS

CZK million	Domestic	European union	Other Europe	Other	Total
Cash and balances with central banks	396	-	-	-	396
Due from banks	1,397	937	44	10	2,388
Due from customers	16,407	78	6	4	16,495
Securities at fair value through profit or loss	233	-	-	-	233
Securities available-for-sale	26	-	-	-	26
Other assets	339	-	-	-	339
TOTAL ASSETS	**18,798**	**1,015**	**50**	**14**	**19,877**

Business segmentation

31 December 2006

ASSETS

CZK million	Retail banking	Corporate banking	Treasury	Other	Total
Cash and balances with central banks	-	-	666	-	666
Due from banks	-	-	3,014	-	3,014
Due from customers	2,404	18,535	-	81	21,020
Securities at fair value through profit or loss	-	-	320	-	320
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.

31 December 2005

CZK million	Retail banking	Corporate banking	Treasury	Other	Total
Cash and balances with central banks	-	-	396	-	396
Due from banks	-	-	2,388	-	2,388
Due from customers	1,421	15,030	-	44	16,495
Securities at fair value through profit or loss	-	-	233	-	233
Securities available-for-sale	-	-	-	26	26
Other assets	-	-	-	339	339
TOTAL ASSETS	**1,421**	**15,030**	**3,017**	**409**	**19,877**

(c) Market risk

The Bank takes on exposure to market risks which arise from open positions in interest rate, currency and equity products.

The Bank's main tool for the market risk management is a system of limits for individual types of market risks. Observation of the limits is monitored on a regular basis and findings are passed to the particular sale department and to the Board of Directors. Limits are set internally within the Bank, by the parent company or by the Czech National Bank regulations, on the trading portfolio, but also on the whole position of the Bank.

(d) Derivative financial instruments

CZK million	31 December 2006	31 December 2005
Positive fair value of financial derivatives (Note 8)	22	-
Negative fair value of financial derivatives (Note 14)	24	8

CZK million	31 December 2006 Nominal value	Fair value positive	Fair value negative	31 December 2005 Nominal value	Fair value positive	Fair value negative
Interest rate derivatives						
Swaps	39	-	3	241	-	8
Foreign exchange derivatives						
Forwards	1,242	22	18	12	-	-
Options	-	-	-	1	-	-
Swaps	490	-	3	137	-	-
	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 under the specific Czech accounting rules and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income statement.

(e) 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 and equity at carrying amounts, categorised by currency.

31 December 2006

CZK million	CZK	EUR	USD	SKK	Other	Total
ASSETS						
Cash and cash deposits with central banks	604	36	9	6	11	666
Due from banks	2,173	462	334	8	37	3,014
Due from customers	16,811	3 824	298	-	87	21,020
Securities at fair value through profit or loss	320	-	-	-	-	320
Securities available-for-sale	29	-	-	-	-	29
Other assets	349	16	-	-	-	365
	20,286	**4,338**	**641**	**14**	**135**	**25,414**
LIABILITIES AND EQUITY						
Due to banks	3,430	1,470	176	-	87	5,163
Due to customers	11,949	2,380	450	15	38	14,832
Liabilities from debt securities	1,917	11	82	-	-	2,010
Subordinated liabilities	0	278	-	-	-	278
Provisions	7	-	-	-	-	7
Other liabilities	420	373	8	-	8	809
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**	**-**

31 December 2005

CZK million	CZK	EUR	USD	SKK	Other	Total
ASSETS						
Cash and cash deposits with central banks	331	40	9	5	11	396
Due from banks	861	979	507	2	39	2,388
Due from customers	12,502	3,645	235	-	113	16,495
Securities at fair value through profit or loss	233	-	-	-	-	233
Securities available-for-sale	26	-	-	-	-	26
Other assets	314	25	-	-	-	339
	14,267	**4,689**	**751**	**7**	**163**	**19,877**
LIABILITIES AND EQUITY						
Due to banks	1,549	1,728	229	-	107	3,613
Due to customers	9,557	2,284	419	7	37	12,304
Liabilities from debt securities	1,477	97	93	-	-	1,667
Subordinated liabilities	-	292	-	-	-	292
Provisions	3	-	-	-	-	3
Other liabilities	664	114	2	-	-	780
Equity	1,218	-	-	-	-	1,218
	14,468	**4,515**	**743**	**7**	**144**	**19,877**
Net assets/(liabilities)	(201)	174	8	-	19	-
Net off-balance sheet assets/(liabilities)	26	(37)	11	-	-	-
NET OPEN CURRENCY POSITION	**(175)**	**137**	**19**	**-**	**19**	**-**

(f) 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 also 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 for management of 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, repricing or maturity dates. Non-interest bearing financial assets and liabilities are classified with other assets and other liabilities as not specified.

31 December 2006

CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
ASSETS						
Cash and balances with central banks	666	-	-	-	-	666
Due from banks	3,014	-	-	-	-	3,014
Due from customers	17,147	1,303	2,260	310	-	21,020
Debt securities	75	150	34	61	-	320
Other assets	-	-	-	-	394	394
	20,902	**1,453**	**2,294**	**371**	**394**	**25,414**
LIABILITIES AND EQUITY						
Due to banks	4,505	320	135	203	-	5,163
Due to customers	14,447	270	115	-	-	14,832
Liabilities from debt securities	940	40	1,030	-	-	2,010
Subordinated liabilities	-	278	-	-	-	278
Provisions	-	-	-	-	7	7
Other liabilities	-	-	-	-	809	809
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)**	**-**

31 December 2005

CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
ASSETS						
Cash and balances with central banks	396	-	-	-	-	396
Due from banks	2,206	167	-	-	15	2,388
Due from customers	12,385	2,425	1,370	289	26	16,495
Debt securities	-	129	44	60	-	233
Other assets	-	-	-	-	365	365
	14,987	**2,721**	**1,414**	**349**	**406**	**19,877**
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
Liabilities from debt securities	1,615	33	19	-	-	1,667
Subordinated liabilities	-	292	-	-	-	292
Provisions	-	-	-	-	3	3
Other liabilities	-	-	-	-	780	780
Equity	-	-	-	-	1,218	1,218
	15,206	**2,195**	**238**	**216**	**2,022**	**19,877**
Net assets/(liabilities)	(219)	526	1,176	133	(1,616)	-
Net off-balance sheet interest rate position	242	(200)	-	(42)	-	-
NET INTEREST RATE POSITION	**23**	**326**	**1,176**	**91**	**(1,616)**	**-**

(g) 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 at the balance sheet date to the contractual maturity date.

CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
ASSETS						
Cash and balances with central banks	666	-	-	-	-	666
Due from banks	2,973	-	41	-	-	3,014
Due from customers	2,375	3,765	7,134	7,746	-	21,020
Debt securities	1	61	197	61	-	320
Other assets	-	-	-	-	394	394
	6,015	**3,826**	**7,372**	**7,807**	**394**	**25,414**
LIABILITIES AND EQUITY						
Due to banks	2,520	278	1,305	1,060	-	5,163
Due to customers	14,333	265	75	159	-	14,832
Liabilities from debt securities	940	40	1,030	-	-	2,010
Subordinated liabilities	-	3	-	275	-	278
Provisions	-	-	-	-	7	7
Other liabilities	809	-	-	-	-	809
Equity	-	-	-	-	2,315	2,315
	18,602	**586**	**2,410**	**1,494**	**2,322**	**25,414**
Net financial assets/(liabilities)	**(12,587)**	**3,240**	**4,962**	**6,313**	**(1,928)**	**-**

31 December 2005

CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
ASSETS						
Cash and balances with central banks	396	-	-	-	-	396
Due from banks	2,246	98	44	-	-	2,388
Due from customers	2,240	3,169	5,705	4,844	537	16,495
Debt securities	1	1	171	60	-	233
Other assets	-	-	-	-	365	365
	4,883	**3,268**	**5,920**	**4,904**	**902**	**19,877**
LIABILITIES AND EQUITY						
Due to banks	1,520	247	725	1,121	-	3,613
Due to customers	11,864	212	69	159	-	12,304
Liabilities from debt securities	1,097	37	533	-	-	1,667
Subordinated liabilities	-	2	-	290	-	292
Provisions	-	-	-	-	3	3
Other liabilities	555	-	-	-	225	780
Equity	-	-	-	-	1,218	1,218
	15,036	**498**	**1,327**	**1,570**	**1,446**	**19,877**
Net financial assets/(liabilities)	**(10,153)**	**2,770**	**4,593**	**3,334**	**(544)**	**-**

26 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.

These financial statements have been approved for submission to the general meeting of shareholders by the Board of Directors.

Date of preparation of the Financial Statements: 26 February 2007

Signature of the statutory representative		Person responsible for accounting	Person responsible for the financial statements preparation
Johann Lurf	Tomáš Kořínek	Alena Sládková	Libor Holub

QUANTITATIVE INDICES

CZK thousand	2006	2005	2004	2003
Return on average assets (ROAA)	0.97%	0.60%	0.31%	0.52%
Return on own average equity (ROAE)	16.23%	12.10%	7.22%	10.83%
Assets per employee	51,134	43,878	41,793	52,234
Administrative costs per employee	1,048	1,041	1,230	1,201
Net profit per employee	442	261	135	260
CAPITAL STRUCTURE				
Tier 1	1,984,846	1,037,315	868,640	831,274
Paid-up share capital	1,144,700	818,600	750,000	750,000
Paid up share premium	887,200	216,620	100,000	100,000
Legal reserve funds	25,882	21,456	18,618	12,155
Retained earnings from previous years	32,318	40,760	37,957	4,702
Tier 2	274,950	290,050	315,988	22,676
Provisions for general risks	0	0	11,338	22,676
Deductible items	105,254	58,636	36,208	35,583
Intangible assets	58,189	58,636	36,208	35,583
Capital	2,259,796	1,327,365	1,184,629	853,951
CAPITAL REQUIREMENTS				
Capital requirement A	1,597,136	1,054,973	812,270	658,134
Capital requirement B	27,530	15,009	12,549	18,363
Capital requirement relating to credit risk of trading portfolio	22,121	10,315	10,473	11,233
CAPITAL ADEQUACY	**11.13%**	**9.92%**	**11.49%**	**10.10%**

REPORT ON RELATIONS

THE RELATIONSHIP BETWEEN THE CONTROLLED AND CONTROLLING ENTITY

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

ÖVAG, as the indirectly controlling entity of Volksbank CZ, provided bank guarantees in 2006 for loans granted by Volksbank CZ. Volksbank CZ pays fees for those guarantees in amounts that are common within the ÖVAG Group. In 2003, Volksbank CZ concluded the ISMA Global Master Repurchase Agreement with ÖVAG, on the basis of which individual repo transactions are concluded with ÖVAG according to standard terms and conditions. With respect to individual repo and reverse repo transactions, Volksbank CZ paid or received the usual interest within the ÖVAG Group. In 2004, Volksbank CZ concluded a licence agreement with ÖVAG, on the basis of which Volksbank CZ may use ÖVAG trademarks. In October 2004, Volksbank CZ concluded an agreement with the European Bank for Reconstruction and Development (EBRD) and ÖVAG regarding the granting of a subordinated debt to Volksbank CZ. Furthermore, Volksbank CZ concluded with ÖVAG the following types of agreements: agreements on inter-bank deposits, for which Volksbank CZ receives/pays usual market interest; current account agreements based on standard terms and conditions duly reflecting the related party-relationship with ÖVAG, on the basis of which Volksbank CZ pays fees and receives/pays interest; as well as agreements concerning spot and derivative deals concluded under standard terms and conditions. Volksbank CZ also concluded with ÖVAG deposit security agreements on behalf of Volksbank CZ. These agreements were concluded under standard terms and conditions.

In 2005, Volksbank CZ concluded a framework co-operation agreement with the directly controlling entity VBI AG, on the basis of which VBI AG, supported by ÖVAG, provides to Volksbank CZ professional services of an advisory character according to the needs of Volksbank CZ. For the provision of these services, Volksbank CZ pays fees at an market amount. In 2005, Volksbank CZ furthermore concluded a Standby Liquidity Agreement with VBI AG to ensure necessary liquidity for Volksbank CZ.

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

RELATIONSHIP WITH OTHER CONTROLLED ENTITIES

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

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

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

Prague, 27 February 2007

Tomáš Kořínek | Johann Lurf | Václav Vitha

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF VOLKSBANK CZ, A.S.

Report on the Annual Report

We have audited the annual report of VOLKSBANK CZ, a.s. (the "Bank") for consistency with the financial statements for the year ended 31 December 2006 which are included in this Annual Report on pages 106 to 148. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

The accompanying financial statements are not intended to present the assets, liabilities and equity, the results of operation and cash flows, in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Czech Republic. Accordingly the accompanying balance sheet, the related income statement and notes, including the statement of cash flows, are not designed for those who are not informed about Czech accounting principles, procedures and practices.

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

In our opinion, the information included in the annual report of the Bank for the year ended 31 December 2006 is consistent, in all material respects, with the financial statements referred to above.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Bank and its controlling party and between the Bank and the other persons controlled by the same controlling party for the year ended 31 December 2006 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Bank. Our responsibility is to review the accuracy of information included in the Report.

PRICEWATERHOUSECOOPERS

Shareholders of Volksbank CZ, a.s.
Independent auditors' report

Report on review of the Report on Relations (continued)

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Bank personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

The maintenance and integrity of the Bank's website is the responsibility of its Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

25 April 2007

PricewaterhouseCoopers

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Eva Loulová
Auditor, Licence No. 1981

REPORT OF THE SUPERVISORY BOARD

In its two meetings held during the 2006 business year, on 24 April and 5 December 2006, the Supervisory Board reviewed the correctness, appropriateness and economic efficiency of the management of Volksbank CZ. The Supervisory Board further acknowledged the ongoing reports of the Board of Directors and issued resolutions as necessary for the 2006 business year.

At its 21st meeting, held in April 2007, the Supervisory Board approved a resolution acknowledging the report presented by the Board of Directors and approved the financial statements for 2006. These included the balance sheet as at 31 December 2006, as well as the income statement for the year ended 31 December 2006. The Board also reviewed the Report on Relations in accordance with section 66a, paragraph 9 of the Commercial Code.

The closing financial statements for the year ended 31 December 2006 were examined by the audit company PricewaterhouseCoopers Audit, s.r.o. The auditor issued an unqualified opinion.

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

The Supervisory Board would like to thank the Board of Directors and all of the Bank's employees for their excellent cooperation and the efforts that they made throughout 2006.

Dr. Friedhelm Boschert
Chairman of the Supervisory Board

Prague, April 2007

SERVICE

Rakousko

Bosna a Hercegovina

Chorvatsko

ČESKÁ REPUBLIKA

Maďarsko

Rumunsko

Slovensko

Slovinsko

Srbsko

DŮVĚRA SPOJUJE.
UNITED IN TRUST.

06

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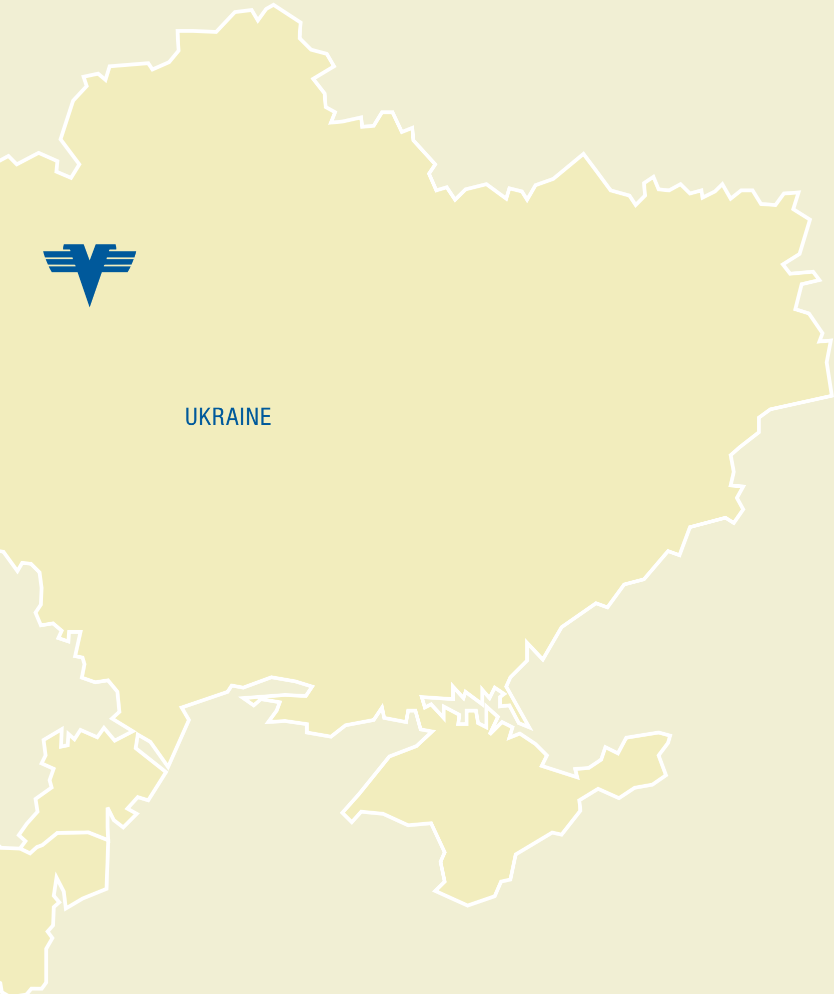

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