Annual Report 2005

HVB Bank

Member of UniCredit Group

ANNUAL REPORT 2005

(IFRS AUDITED, NON-CONSOLIDATED)

HVB Bank Czech Republic a.s.	2005	2004
	In CZK millions	In CZK millions
Operating performance		
Net interest income	2,730	2,316
Net fee and commission income	2,060	1,947
Profit from ordinary activities before tax	2,349	2,301
Net profit for the year	1,856	1,672
Key indicators		
Return on equity after taxes	12.8%	13.2%
Return on assets after taxes	1.2%	1.2%
Cost-income ratio	50.9%	50.3%
Balance sheet figures		
Total assets	165,387	142,644
Loans and receivables from customers	93,883	84,946
Deposits from customers	96,034	87,546
Issued capital	5,125	5,125
Other regulatory indicators compliant with regulations of the CNB		
Tier 1	12,897	10,966
Total capital	13,394	11,902
Risk weighted assets (banking portfolio)	115,750	100,606
Capital adequacy ratio	10.9%	10.3%
Employees at year end	1,081	1,258
Branch offices	24	24

STATEMENT OF THE MANAGING BOARD

Statement of the Managing Board

Dear clients and business partners,

The Managing Board of HVB Bank Czech Republic a.s. ("HVB Bank") is pleased to present the Bank's Annual Report for 2005.

MACROECONOMIC ENVIRONMENT IN 2005

In 2005, the Czech economy posted the strongest growth in its history – 6%. This figure was due primarily to the facts that exporters could take advantage of a further recovery of demand in Europe and that significant capacities in manufacturing – particularly in the automobile industry – had been put into operation. The previously long-standing foreign trade deficit thus turned into a surplus of CZK 40 billion. The positive economic trends also resulted in a 6–7% appreciation in the Czech crown relative to major world currencies. That, in turn, helped to moderate inflation pressures that stemmed from growing global prices of crude oil and natural gas. In reaction to the declining inflation, the Czech National Bank reduced progressively its repo rate to 1.75%, moving the rates slightly upwards for the first time only in October. The accommodative monetary policy, along with increased activity among manufacturing companies and a continuing boom in housing construction, led to growth in client borrowings with banks of more than 20% year on year.

The fact that the demand for labour grew only very moderately can be regarded as the major weakness of the otherwise strong Czech economy. The economic growth, therefore, did not help much to remedy the problem of high unemployment, due to substantial hiring of foreign workers. Growth in the economy was also characterised by a structural imbalance, as it was largely driven by the performance of a limited number of large corporations in a few sectors of the economy. In the fiscal area, growing tax collections led political leaders to a decision to increase future transfers into the social area by tens of billions of crowns yearly, which creates a risk for the long-term stability of public finances.

SUBSTANTIAL GROWTH IN HVB BANK'S PROFIT

HVB Bank recorded substantial improvement in its results for 2005 compared to the previous year. Net profit after taxes grew by 25.3% to CZK 1,856 million (2004: CZK 1,672 million). Pre-tax profit rose from CZK 2,301 million (2004) to CZK 2,349 million in 2005 (+2%).

HVB Bank's net interest income grew to CZK 2,730 million in 2005, which represents 18% growth compared with the previous year (2004: CZK 2,316 million). Net fee and commission income also showed a positive trend, rising by 6% to CZK 2,060 million (2004: CZK 1,947 million).

As at 31 December 2005, HVB Bank's balance sheet totalled CZK 165,387 million, which represents an increase of 16% over 2004's year-end figure of CZK 142,644 million.

On the assets side, receivables from banks were up by 77% and totalled CZK 35,440 million compared to the 2004 year-end figure of CZK 20,007 million. Financial assets for trading rose by 10% to CZK 3,789 million. Receivables from customers grew by 11% to a total of CZK 93,883 million (2004: 84,946 million). Financial investments declined by 14% to CZK 28,180 (2004: CZK 32,606 million).

On the liabilities and owner's equity side, amounts due to banks rose by 17% to CZK 28,271 million (2004: CZK 24,095 million). Amounts due to clients grew by 10% to CZK 96,034 million (2004: CZK 87,546 million). Payables from debt securities increased by 57% to CZK 18,987 million (2004: CZK 12,109 million).

CORPORATE CLIENTS

The year 2005 was again a very successful one for the Corporate Clients Division. As in the past, we continued to grow operating income and profit contributions from across all of our business areas. Overall, the Division managed to increase its operating income by 10%, average loans volume by 10.7%, and average deposits volume by 3.5%. The Corporate Division exceeded its targets in all business areas.

In the area of corporate banking, we continue to focus on providing our clients with complex, tailor-made services. We are more and more tapping into the potential of cross-border client groups, for whom we are a unique partner, given our exceptionally strong presence in CEE countries. We also succeeded in expanding our services to Czech-owned companies. Last year, we also increased business mediation involving other banks within HVB Group, building on both the entry of foreign firms into the Czech Republic and the expansion of Czech companies abroad. In this regard, we were the most active bank of our Group within CEE.

In order to build foundations for one of the future growth opportunities, we successfully launched new businesses aimed at increasing our penetration of small and medium-sized companies. This was supported by a substantial marketing campaign.

We maintained our leading position in the area of trade and export finance, where we support the business of our clients across the globe. A substantial increase was achieved in the documentary payments area, especially with regard to letters of credit and guarantees. Our subsidiary company HVB Factoring s.r.o. successfully completed its first business year by doing a total of CZK 1.3 billion in factoring transactions.

Last year, we also strengthened our market position in commercial real estate finance, as we participated in a number of the year's major real estate transactions. In addition, we were successful in residential financing, which we had launched in 2004, and we acquired the financing of several major residential projects. The financing of these major residential projects proved to be a good strategic decision, as it helped us also to expand the scope of our services in commercial real estate financing.

In corporate finance, we maintained our leading position in the area of structured finance with a clear focus on acquisition finance. We arranged three major financings involving financial investors. One of these, the acquisition finance for the takeover of United Energy by J&T Group, received the award for the "Best Domestic M&A Deal" by the magazine Finance New Europe.

PRIVATE AND BUSINESS CLIENTS

The year 2005 was once again very successful for HVB Bank in the segment of private and business clients. We did particularly well in acquiring new customers, as we set a new record in the Bank's history for a one-year increase in the number of new clients.

The Private and Business Clients Division successfully implemented an important project focused on strategic orientation, as a result of which the Bank primarily specialises in the most promising segment made up of affluent private clients and small businesses, and, with respect to products, is especially oriented to credit cards, mortgage loans, and investment securities. The strategy also involves consolidating sales channels, with emphases on co-operation with strategic partners, organisational integration of both the mobile and branch distribution networks, and, last but not least, on increasing the efficiency of sales channels. Internal processes have seen substantial changes that will lead to considerable cost-savings. The great accomplishments of this project put the Division in a good starting position for the upcoming integration process.

A number of new products were introduced to the market during 2005, including BUSINESS Konto Export and BUSINESS Loans (intended for business clients), as well as co-branded credit cards issued in co-operation with Generali Pojišťovna a.s. and the partners of the Renome loyalty programme (that associates the companies Baťa, Blažek, Droxi drogerie, Fokus optik, Reserved, and Klenoty Aurum). We further developed our successful bond program wherein the Bank issues structured bonds that stand among the best guaranteed products on the market.

We continued our successful expansion in the business clients segment (where the number of clients increased by 13%), which we believe to be extraordinarily promising and dynamically developing. The number of clients also grew well in the segments of private clients (+7%) and credit card holders (+13%), as did the volume of new mortgage loans (+23%). At 14%, the year-on-year increase in income of the Private and Business Clients Division is an excellent result.

We continued to develop services for all client segments and further improved the quality of our active approach in addressing their needs.

TREASURY

The International Markets Division has long been an important source of the Bank's profits, and that was reconfirmed by its 2005 results.

Operating in a highly competitive market environment characterised by client demands that are continuously more comprehensive, the Division succeeded in strengthening its position again in 2005. This can be credited to an innovative approach and a strategy focused on satisfying individual client needs. The broad services offer, which already included FX, cash-management, bond, securities markets and custody (including performing the function of depository bank) services, was broadened with such additional products as commodity instruments and repo transactions on stock markets, as well as deepened in the area of interest derivatives.

The work of managing the Bank's balance sheet further contributed to the Division's success. Using state-of-the-art methods and in close co-operation with the client business, it was possible both to use the Bank's sources efficiently and to provide for its refinancing needs (for example, through mortgage bonds and structured bonds), investment activities and market risks management.

CREDIT RISK MANAGEMENT

In 2005, the Bank continued its strategy of cautious credit risk management. Despite the overall growth of the Bank's credit exposure, its credit portfolio can be regarded as retaining a high quality as measured by the creditworthiness structure of the loan receivables. The net creation of loan loss provisions and adjustments in 2005 remained significantly below expectations, and that had a positive impact on HVB Bank's overall profitability for the year.

By streamlining the lending process, the Credit Risk Management Division supported the business divisions in achieving their acquisition goals, and particularly in the segment of small and medium-sized enterprises. New rating and scoring tools for quantifying credit risk were implemented in 2005 and the existing ones were adjusted. Throughout 2005, the Bank was also intensely preparing to implement the new regulatory concept for calculating capital requirements under Basel II.

BANK'S FUTURE

In the second half of 2005, HVB Group merged with the Italian UniCredit Group. In 2007, therefore, integration of HVB Bank and Živnobanka is planned. The merger of the two banks will create the fourth-largest Czech bank, with total assets of more than CZK 200 billion (EUR 7.4 billion) and having approximately 66 branches and more than 180,000 customers. The new bank will be a part of the largest banking group in Central and Eastern Europe, UniCredit Group.

ACKNOWLEDGEMENT OF STAFF

The Supervisory Board and Managing Board would like to thank all the staff of HVB Bank Czech Republic a.s. for their exceptional dedication in meeting the established goals. The results for 2005 confirm that we are on the right track and that it is necessary to continue building a congenial and motivating work environment in which we can all work well together.

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board

The Supervisory Board of HVB Bank Czech Republic a.s. was regularly informed of the progress of the Bank's business during the 2005 business year through meetings and discussions with the Managing Board, and it has performed all of its tasks as set forth by Czech law and the Bank's Articles of Association.

The financial statements as at 31 December 2005 and the Annual Report, which are hereby presented, have been examined by the Supervisory Board and deemed to be correct. The financial statements and the Annual Report were audited by the Bank's auditor, KPMG Česká republika Audit, spol. s r.o.

The Supervisory Board endorses the findings of the auditor's report on the 2005 financial statements.

The Supervisory Board would like to thank the members of the Managing Board and all the staff of HVB Bank Czech Republic a.s. who have contributed to the results achieved by the Bank in its 2005 business year.

DDr. Regina Prehofer

NON-CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

INCOME STATEMENT			
		2005	2004
	Note	MCZK	MCZK
Interest income and similar income	5	5,067	4,676
Interest expense and similar expenses	5	(2,337)	(2,360)
Net interest income		**2,730**	**2,316**
Dividends income	6	230	90
Fee and commission income	7	2,360	2,208
Fee and commission expense	7	(300)	(261)
Net fee and commission income		**2,060**	**1,947**
Gains/losses from trading	8	89	109
Gains/losses from financial investments	11	59	229
Other operating income	10	140	46
General administrative expenses	9	(2,569)	(2,284)
Impairment of loans and receivables	16	(158)	118
Other operating expenses	10	(232)	(270)
Profit before tax		**2,349**	**2,301**
Current income tax	27	(649)	(631)
Deferred income tax	27	156	2
Net profit for the year		**1,856**	**1,672**

BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	2005 MCZK	2004 MCZK
ASSETS			
Cash in hand and balances with central banks	12	2,171	550
Financial assets held for trading	13	3,789	3,434
Loans and receivables from banks	14	35,440	20,007
Loans and receivables from customers	15	93,883	84,946
Financial investments	16	28,180	32,606
Property, plant and equipment	17	265	334
Intangible assets	18	178	183
Deferred tax asset	27	183	27
Other assets	19	1,298	557
Total assets		**165,387**	**142,644**
LIABILITIES			
Deposits from banks	21	28,271	24,095
Deposits from customers	22	96,034	87,546
Debt securities issued	23	18,987	12,109
Financial liabilities held for trading	24	3,070	2,641
Provisions	25	441	468
Deferred tax liability	27	37	-
Other liabilities	26	2,731	1,970
Subordinated liabilities	28	679	713
Total liabilities		**150,250**	**129,542**
SHAREHOLDER’S EQUITY			
Issued capital	29	5,125	5,125
Share premium	29	1,997	1,997
Reserve funds	31	1,840	1,747
Reserves from revaluation of financial instruments		86	(93)
Retained earnings	31	6,089	4,326
Total shareholder’s equity		**15,137**	**13,102**
Total liabilities and shareholder’s equity		**165,387**	**142,644**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

STATEMENT OF CHANGES IN EQUITY

MCZK	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of heading instruments	Reserves from revaluation of available-for-sale securities	Retained earnings	Equity
Balance at 1 January 2004 according to CAS	**5,125**	**1,997**	**649**	**1,051**	**-**	**-**	**3,368**	**12,190**
Impact of the IFRS adoption				(38)	(57)	(53)	371	223
Balance at 1 January 2004	**5,125**	**1,997**	**649**	**1,013**	**(57)**	**(53)**	**3,739**	**12,413**
Change in revaluation of available-for-sale securities						324		
Change in fair value of derivatives in cash flow hedging					(307)			
Unrealized gains/losses booked into equity					**(307)**	**324**		**17**
Transfer to statutory reserve fund			85				(85)	-
Dividends paid							(1,000)	(1,000)
Net profit/loss for the year							1,672	1,672
Balance at 31 December 2004	**5,125**	**1,997**	**734**	**1,013**	**(364)**	**271**	**4,326**	**13,102**
Change in revaluation of available-for-sale securities						155		
Change in fair value of derivatives in cash flow hedging					24			
Unrealized gains/losses booked into equity					24	155		179
Transfer to statutory reserve fund			93				(93)	-
Net profit/loss for the year							1,856	1,856
Balance at 31 December 2005	**5,125**	**1,997**	**827**	**1,013**	**(340)**	**426**	**6,089**	**15,137**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

CASH FLOW STATEMENT		
	2005	2004
	MCZK	MCZK
Net profit for the year	**1,856**	**1,672**
Adjustments for non-cash items		
Impairment of loans and receivables	158	(118)
Impairment of participation interests	(16)	17
Impairment of other assets	8	-
Creation and release of other provisions	73	96
Depreciation of property, plant and equipment and intangible fixed assets	207	241
Impairment of intangible fixed assets	86	-
Changes in accruals	149	(99)
Deferred tax	156	2
Operating profit before change in operating assets and liabilities	***2,677***	***1,811***
Financial assets held for trading	(384)	3,825
Loans and receivables from banks	(15,432)	351
Loans and receivables from customers	(9,015)	(3,517)
Other assets	(786)	(56)
Deposits from banks	4,310	153
Deposits from customers	8,503	6,675
Financial liabilities held for trading	429	266
Other liabilities	706	526
Net cash flows from operating activities	**(8,992)**	**10,034**
Change in financial investments	4,422	(11,351)
Proceeds from sale of property, plant and equipment and intangible fixed assets	38	3
Acquisition of property, plant and equipment and intangible fixed assets	(543)	(427)
Acquisition of subsidiary	-	(70)
Net cash flows from investing activities	**3,917**	**(11,845)**
Dividends paid	-	(1,000)
Debt securities issued	6,730	2,873
Repaid subordinated liabilities	(34)	(443)
Net cash flows from financing activities	**6,696**	**1,430**
Cash and cash equivalents at 1 January	**550**	**931**
Net cash flows from operating activities	(8,992)	10,034
Net cash flows from investing activities	3,917	(11,845)
Net cash flows from financing activities	6,696	1,430
Cash and cash equivalents at 31 December	**2,171**	**550**
Income tax paid	(679)	(712)
Interest received	5,163	4,776
Interest paid	(2,283)	(2,560)
Dividends received	230	90

Notes to the Financial Statements

1. BACKGROUND

On 1 October 2001, Bank Austria Creditanstalt Czech Republic, a.s. merged with HypoVereinsbank CZ a.s., resulting in the termination of Bank Austria Creditanstalt Czech Republic, a.s., without liquidation. The name of the combined entity was changed to HVB Bank Czech Republic a.s. All rights and liabilities of the terminated Bank Austria Creditanstalt Czech Republic, a.s. were assigned to HVB Bank Czech Republic a.s. The change of name to HVB Bank Czech Republic a.s. (the "Bank"), the change in the registered capital and other changes connected with the merger were recorded on 1 October 2001 in the Companies Register of the District Court of Prague under reference number B 3608. The sole shareholder of the Bank is Bank Austria Creditanstalt Aktiengesellschaft, Vienna.

Registered office of the Bank:
Nám. Republiky 3a, č.p. 2090
110 00 Prague 1

The Bank is a provider of retail, commercial and investment banking services in Czech and foreign currency, mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follow:

- receiving deposits from the public;
- granting loans;
- investing in securities on its own behalf
- system of payments and clearing;
- issuing payment products, e.g. payment cards, traveller's cheques;
- granting guarantees;
- opening letters of credit (export financing);
- administration of cash collection;
- trading on its own behalf or on behalf of clients:
  1. with foreign exchange currency products,
  2. with forward and option contracts, including foreign currency and interest rate contracts, and
  3. with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing clients' securities, including portfolio management;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information; and
- rent of safe-deposit boxes.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

For the Bank as an accounting unit, which is an issuer of securities on the regulated securities markets of member states of the European Union, it is mandatory to maintain its accounting and prepare its financial statements in accordance with IFRS as adopted by the EU, with effect from 1 January 2005. Restatements made in connection with the accounting transition to IFRS are recognized and described in Note 4.

All presented amounts are in millions of CZK (MCZK), unless stated otherwise. Numbers in brackets represents negative amounts.

These are the non-consolidated financial statements. The Bank also prepares consolidated financial statements, which form part of the Bank's Annual Report for 2005.

The financial statements have been prepared based on the fair value principle including financial derivatives, financial assets and liabilities measured at the fair value through profit and loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(d), part (iv). Recognized assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value. Other financial assets and liabilities and non-financial assets and liabilities are valued at amortized cost or historical cost.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are not stated at fair value, are translated at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement as "Net trading income".

(b) Financial instruments

(i) Classification

Financial assets and financial liabilities at fair value through profit and loss include instruments classified as held for trading and instruments designated by the Bank as at fair value through profit and loss upon initial recognition.

Trading instruments are those held by the Bank principally for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated hedging instruments, and liabilities from short sales of financial instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

Other financial assets designated by the Bank upon initial recognition as at fair value through profit and loss are included within "Financial investments".

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the markets. Loans and receivables are mainly those created by the Bank providing money to a debtor other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and customers and unquoted bonds purchased upon primary issue.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are presented as "Financial investments".

Available-for-sale assets are financial assets that are not classified as financial assets recognized at fair value through profit and loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are presented as "Financial investments".

(ii) Recognition

Financial assets at fair value through profit and loss are recognized on the date the Bank commits to purchase the assets. From this date, any gains or losses arising from changes in the fair values of the assets are recognized in the Bank's income statement.

The Bank recognizes available-for-sale assets on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair values of the assets are recognized in equity under "Reserves from revaluation of available-for-sale securities".

Held-to-maturity assets are recognized on the day the Bank commits to purchase the assets.

The Bank initially recognizes loans and receivables on the date they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at fair value, including (in the case of financial assets not at fair value through profit and loss) transaction costs.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit and loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date. The fair value of unquoted equity instruments is determined as the share in the issuer's equity.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Bank would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognized directly in the income statement as "Gains/losses from trading".

Gains and losses arising from a change in the fair value of other financial assets and liabilities at fair value through profit and loss are recognized directly in the income statement as "Gains/losses from financial investments".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement as "Gains/losses from financial investments".

Interest income from available-for-sale debt securities is recognized in profit and loss as "Interest income". Accounting of impairment of available-for-sale assets is described in Note 3 (g).

Gains and losses arising from financial assets and liabilities carried at amortized cost are recognized in the income statement when the financial asset or liability is derecognized or impaired (see Note 3(g)) and through the amortization process.

(vi) Derecognition

A financial asset is derecognized when the Bank loses the contractual rights to the cash flow from an asset or the Bank transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is settled.

Available-for-sale assets and assets recognized at fair value through profit and loss that are sold are derecognized and the corresponding receivables from the buyer are recognized as at the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the maturity date or on the day they are transferred to another portfolio.

(c) Participation interest

Controlling interest means participation interest, where the Bank de facto or legally executes direct or indirect controlling interest on governance or operation of the company (which means that the Bank is able to participate in financial and operational governance of the company and to gain benefits from these activities). This participation interest results from the Bank's share in the registered capital or from contract or statutes regardless of the total amount of the ownership interest.

Substantial interest means participation interest, where the Bank de facto or legally executes direct or indirect substantial interest on governance or operation of the company (which means that the Bank is able to participate in the financial and operational governance of the company but without executing controlling interest). This participation interest results from the Bank's share in the registered capital (more than 20%) or from contract or statutes regardless of the total amount of ownership interest.

Controlling and substantial interests are valued at acquisition price less provisions because of temporary value decrease of these participation interests individually for each participation interest.

Participation interests are shown within "Financial investments".

(d) Derivatives

(i) Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognizing fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- the hedge is in line with the Bank's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its life,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period, and
- in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of recognized assets and liabilities or unrecognized commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on remeasurement of the interest-bearing hedged item and hedging derivative are recognized in the income statement in "Interest income/Interest expense".

If the derivative hedges the exposure to the variability of cash flows related to recognized assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognized in equity in "Reserves from revaluation of hedging instruments". The ineffective part of the hedge is recognized in the income statement.

If the hedging of expected transactions results in the recognition of a financial asset or financial liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement in the same period during which the hedged item affects the net profit or loss and are included in the same line as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in equity remains in equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is recognized in the income statement immediately.

(ii) Embedded derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative must be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognized in the balance sheet.

(e) Borrowing and lending of securities

Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.

As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Bank recognizes a liability to either banks or customers.

Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized.

As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Bank recognizes loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security.

Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations, are recognized on an accrual basis over the period of the transactions and are included in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(g) Impairment

The Bank assesses at each balance sheet date whether there is any indication of impairment of assets. If any such indication exists, the asset's recoverable amount is estimated and the impairment of the asset is recognized in the income statement.

(i) Loans and receivables and held-to-maturity assets

Loans and receivables and held-to-maturity assets are presented net, i.e. considering impairment losses for uncollectibility.

Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets to reduce the carrying amount of these assets to their recoverable amounts. The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument's original effective interest rate.

Collective impairment losses of portfolios of standard loans, for which no indication of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit ratings of the underlying customers and late payments of interest or penalties. Historical loss experience is the basis for calculating expected loss, which is adjusted by the loss confirmation period that is the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition only of those losses that had occurred in the portfolio as at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, then the loan is written off directly and the loss is recognized in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognized in the income statement under "Other operating income".

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the recognition of the impairment of the asset, then the impairment loss is reversed through the income statement in "Impairment of loans and receivables".

(ii) Financial assets available-for-sale

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognized directly in equity, the cumulative loss is transferred to the income statement and recognized in "Gains/losses from financial investments". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent of the impairment. Any additional impairment loss is recognized in the income statement. Impairment losses recognized in profit and loss arising from investment in equity instruments classified as available-for-sale are not reversed through profit and loss.

(h) Property, plant and equipment and intangible fixed assets

Property, plant and equipment and intangible assets are assets that are held for the purpose of providing banking services and the useful lives of which are more than one year.

Property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method to reduce the cost of assets to their residual values over their estimated useful lives as follows:

- Software 4 years
- Buildings 33 years
- Other 4 – 20 years

Leaseholds improvements are depreciated on a straight-line basis over the lease term or their remaining useful lives, whichever is the shorter.

Low value fixed assets with acquisition prices lower than CZK 40,000 and useful lives more than 1 year are depreciated over 2 years.

(i) Provisions

A provision represents a probable outflow of an uncertain amount in an uncertain period of time.

Provisions are recognized when:

- there is an obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%), and
- the amount of the obligation can be reliably estimated.

(j) Interest income and expense

Interest income and expenses are recognized in the income statement in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued linearly on a daily basis. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(k) Fee and commission income

Fee and commission income and expense represents fees and commissions received/paid by the Bank for providing financial services other than those related to the origination of financial assets or liabilities. These form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including cash management and payment services, intermediary services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided.

(l) Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared.

(m) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the next period. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(n) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments.

The Bank's primary segment reporting relates to its business segments, which correspond to the Bank's various operations – retail banking, corporate banking, investment banking and other.

As regards geographical segments, the Bank operates principally in the Czech Republic and in other member states of the EU.

Retail banking – includes providing loans, mortgages, payment services (including payment cards for consumers), term and saving deposits.

Corporate banking – includes providing loans, credit commitments and guarantees to corporate clients, cash management, account maintenance, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies with corporate clients, government institutions etc.

Investment banking – includes such capital market activities as underwriting of investments for clients, investment advisory, mergers and acquisition advisory.

Other – banking activities that are not included in retail, corporate or investment banking.

(o) Impact of standards that are not yet effective

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force but are already approved and will have an impact in the future on the Bank's financial statements.

IFRS 7 Financial instruments: Disclosures – this standard will require increased disclosure in respect of the Bank's financial instruments. It supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and is applicable to all entities that prepare financial statements in accordance with IFRS. The extended disclosure relates mainly to the area of risk management procedures and other qualitative information.

Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* – as a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Bank's capital and its structure.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – the amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Bank believes that this amendment should not have a significant impact on its classification of financial instruments, as the Bank should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

The Bank's management considers the impact of other standards that are already effective but were not used in preparing the current financial statements to be immaterial.

4. IMPACT OF FIRST TIME ADOPTION OF IFRS

As a result of the transition from Czech accounting standards ("CAS") to IFRS on 1 January 2004, the Bank booked adjustments to enable presentation of the differences between CAS and IFRS in the financial statements. The booked adjustments mainly relate to changes in the accounting methods and the different presentation of selected items in the financial statements. Changes in the accounting methods mainly affected creation of the loan loss provisions and revaluation of available-for-sale financial instruments. Changes in presentation were required mainly in the area of financial investments. The changes are described in detail below:

I. Impact of the changes on assets, liabilities and equity as at 1 January 2004:

The table shows the impact of the accounting differences on the Bank's assets as at 1 January 2004:

MCZK	Note	CAS 31.12.2003	Impact of transition to IFRS	IFRS 1.1.2004
ASSETS				
Cash in hand and balances with central banks		931	-	931
Financial assets held for trading	(a)	8,979	(1,714)	7,265
Loans and receivables from banks	(b)	20,171	169	20,340
Loans and receivables from customers	(c)	81,273	(76)	81,197
Financial investments	(d)	18,077	3,018	21,095
Property, plant and equipment		418	-	418
Intangible fixed assets		143	-	143
Deferred tax asset		24	9	33
Other assets	(e)	2,183	(1,531)	652
TOTAL		**132,199**	**(125)**	**132,074**

(a) "Financial assets held for trading" – the main change is represented by reclassification of the positive fair value of derivatives held for trading of MCZK 1,577 from "Other assets". On the other hand, securities of MCZK 3,371 were transferred to "Financial investments". Under IFRS, these securities are classified into the portfolio of securities valued at fair value through profit and loss.

(b) The only difference in this item involves trading bills of exchange issued by other banks, which were presented in "Financial investments" under CAS.

(c) The main difference in the balance of "Loans and receivables from customers" is due to the difference in the amount of impairment losses from loans and receivables. The Bank's total impairment losses from loans and receivables amounted to MCZK 956 under CAS and CNB Regulation No. 9, but based on IFRS methodology the impairment losses totalled MCZK 1,252 (including "incurred" losses at portfolio level of MCZK 461). Furthermore, the Bank transferred non-listed bills of exchange to "Loans and receivables from customers" (included in "Financial investments" under CAS).

(d) "Financial investments" – the difference is due to the classification of securities valued at fair value through profit and loss (see Note (a)) and the exclusion of bills of exchange (see Notes (b) and (c)).

(e) The main change in "Other assets" represents transfer of the fair value of trading financial derivatives in the amount of MCZK 1,577 to "Financial assets held for trading" (see Note (a)).

The table shows the impact of the accounting differences on the Bank's liabilities and equity as at 1 January 2004:

MCZK	Note	CAS 31.12.2003	Impact of transition to IFRS	IFRS 1.1.2004
LIABILITIES AND EQUITY				
Deposits from banks		23,872	-	23,872
Deposits from customers	(f)	70,902	9,967	80,869
Debt securities issued	(g)	16,097	(6,926)	9,171
Financial liabilities held for trading	(h)	-	2,375	2,375
Provisions	(i)	934	(506)	428
Deferred tax liability		-	9	9
Other liabilities	(j)	7,048	(5,267)	1,781
Subordinated liabilities		1,156	-	1,156
Total liabilities		**120,009**	**(348)**	**119,661**
Issued capital		5,125	-	5,125
Share premium		1,997	-	1,997
Reserve funds		1,662	-	1,662
Reserves from revaluation of financial instruments	(k)	-	(110)	(110)
Retained earnings	(l)	3,406	333	3,739
Total equity		**12,190**	**223**	**12,413**
TOTAL		**132,199**	**(125)**	**132,074**

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(f) "Deposits from customers" increased mainly due to the transfer of depository notes in the amount of MCZK 6,954 from "Debt securities issued" and the inclusion of selected settlement accounts in the amount of MCZK 2,984 in "Other liabilities". Depository notes are presented in "Due to clients" under IFRS because their substance is the substitution of client's deposits.

(g) The difference is mainly due to the exclusion of depository notes in the amount of MCZK 6,954 (see Note (f)). Furthermore, liabilities from short sales of securities of MCZK 697 were transferred to "Financial liabilities held for trading" (see Note (h)). Conversely, accruals of premium arising from issued debt securities were transferred from "Other liabilities".

(h) "Financial liabilities held for trading" comprises the negative fair value of derivatives held for trading of MCZK 1,678, transferred from "Other liabilities", and also liabilities from short sales of securities of MCZK 697 (see Note (g)).

(i) Due to the different approach to provisioning under CAS and IFRS, the IFRS financial statements do not include the general provision for banking risks of MCZK 718. Under IFRS, the general provision is replaced by impairment losses on the portfolio of standard loans presented within "Loans and receivables from customers" (see Note (c)) and the provision for credit risk arising from selected off-balance sheet items of MCZK 212.

(j) "Other liabilities" is influenced mainly by the changes described above: transfer of the settlement account of MCZK 2,984 (see Note (f)), transfer of the negative fair values of derivatives held for trading of MCZK 1,678 (see Note (h)) and other minor reclassifications.

(k) The IFRS balance of MCZK (110) consists of the Reserve from revaluation of available-for-sale securities MCZK (53) and the reserve from revaluation of hedging instruments of MCZK (57). Under CAS, available-for-sale securities were revalued through profit and loss and cash-flow hedging derivatives were considered as trading derivatives.

(l) The change in "Retained earnings" is due to the differences described in Notes (c), (i) and (k):

	Note	MCZK
Retained earnings – CAS 31. 12. 2003		**3,406**
Impairment losses of loans and receivables and provision for off-balance sheet items	(c), (i)	218
Revaluation of cash flow hedging derivatives	(k)	57
Revaluation of available-for-sale securities	(k)	53
Other		5
Retained earnings – IFRS 1.1.2004		**3,739**

II. Impact of the changes on assets, liabilities and equity as at 31 December 2004:

The table shows the impact of the accounting differences on the Bank's assets as at 31 December 2004:

MCZK	Note	CAS 31.12.2004	Impact of transition to IFRS	IFRS 1.1.2005
ASSETS				
Cash in hand and balances with central banks		543	7	550
Financial assets held for trading	(a)	4,835	(1,401)	3,434
Loans and receivables from banks	(b)	19,967	40	20,007
Loans and receivables from customers	(c)	85,053	(107)	84,946
Financial investments	(d)	29,253	3,353	32,606
Property, plant and equipment		334	-	334
Intangible fixed assets		183	-	183
Deferred tax asset		27	-	27
Other assets	(e)	2,637	(2,080)	557
TOTAL ASSETS		**142,832**	**(188)**	**142,644**

(a) "Financial assets held for trading" – the main change is represented by reclassification of the positive fair value of derivatives held for trading of MCZK 2,143 from "Other assets". However, this item does not include securities in the amount of MCZK 3,544, which are presented within "Financial investments". The securities consist of debt securities and certificates, which under IFRS are classified as securities revalued at fair value through profit and loss.

(b) Bills of exchange issued by other banks in the amount of MCZK 40 were transferred from "Financial investments" to "Loans and receivables from banks". These bills of exchange are not listed and meet the criteria to be recognized as receivables.

(c) Under IFRS, the Bank reported impairment losses of MCZK 409 from the portfolio of homogeneous loans and receivables, which are not reported under CAS. Impairment losses from individual loans and receivables were simultaneously reduced, especially for non-performing loans. The total difference was MCZK 178 due to the different classification of loans according to CNB Regulation No. 9 and the different valuation of collateral connected with non-performing loans. Under CAS specific collateral was not taken into consideration, whereas under IFRS this could be considered in the analysis of estimated future cash flow. Further changes concern bills of exchange in the amount of MCZK 89, reported as "Financial investments" under CAS and selected accounts for credit cards settlement and purchased receivables transferred from "Other assets".

(d) "Financial investments" – main changes are the inclusion of securities revalued at fair value through profit and loss (see Note (a)) and the exclusion of non-listed bills of exchange (see Notes (b) and (c)).

(e) Included in "Other assets" are the balances of other accounts receivable, which were offset against "Other liabilities" under CAS. This increased the IFRS balance by MCZK 105. Another change is the transfer of the fair value of trading financial derivatives in the amount of MCZK 2,143 (see Note (a)) and accounts for payment cards settlement (see Note (c)).

The table shows the impact of the accounting differences on the Bank’s liabilities and equity as at 31 December 2004:

	Note	CAS 31.12.2004	Impact of transition to IFRS	IFRS 1.1.2005
LIABILITIES AND EQUITY				
Deposits from banks		24,095	-	24,095
Deposits from customers	(f)	70,318	17,228	87,546
Debt securities issued	(g)	27,777	(15,668)	12,109
Financial liabilities held for trading	(h)	-	2,641	2,641
Provisions	(i)	793	(325)	468
Deferred tax liability		-	-	-
Other liabilities	(j)	6,083	(4,113)	1,970
Subordinated liabilities		713	-	713
Total liabilities		**129,779**	**(237)**	**129,542**
Issued capital		5,125	-	5,125
Share premium		1,997	-	1,997
Reserve funds		1,747	-	1,747
Reserve from revaluation of financial instruments	(k)	-	(93)	(93)
Retained earnings	(l)	4,184	142	4,326
Total equity		**13,053**	**49**	**13,102**
TOTAL		**142,832**	**(188)**	**142,644**

(f) "Deposits from customers" increased mainly due to the reclassification of depository notes of MCZK 14,895 from "Debt securities issued" and settlement accounts of MCZK 2,333 from "Other liabilities". Depository notes are presented in "Due to clients" under IFRS as their substance is the substitution of client's deposits.

(g) The main change is the exclusion of depository notes (see Note (f)) and liabilities from short sales of securities (see Note (h)).

(h) "Financial liabilities held for trading" has changed due to the reclassification of the negative fair values of derivatives held for trading of MCZK 1,861 from "Other assets" and the reclassification of liabilities from short sales of securities of MCZK 780 from "Debt securities issued".

(i) Due to the different approach to provisioning under CAS and IFRS, the IFRS financial statements do not include the general provision for banking risks of MCZK 598. Under IFRS, the general provision is replaced by impairment losses on the portfolio of standard loans presented within "Loans and receivables from customers" (see Note (c)) and the provision for credit risk arising from selected off-balance sheet items of MCZK 273.

(j) Changes in "Other liabilities" are described above.

(k) The IFRS balance of MCZK (93) under "Reserve from revaluation of financial instruments" consists of the "Reserve from revaluation of available-for-sale securities" of MCZK 271 and the "Reserve from revaluation of hedging derivatives" of MCZK (364). Under CAS, available-for-sale securities were revalued through profit and loss and cash flow hedging derivatives were considered as trading derivatives.

(l) Summary of impact of the transition to IFRS on "Retained earnings":

	Note	MCZK
Retained earnings – CAS 31. 12. 2004		**4,184**
Differences from previous years	I. (l)	333
Differences in income statement 2004	III.	(194)
Rounding		3
Retained earnings – IFRS 1.1.2005		**4,326**

III. Impact of changes on income statement as at 31 December 2004:

MCZK	Note	CAS 2004	Impact of transition to IFRS	IFRS 2004
INCOME STATEMENT				
Interest income and similar income	(a)	5,078	(402)	4,676
Interest expense and similar expenses	(b)	(2,617)	257	(2,360)
Net interest and similar income		**2,461**	**(145)**	**2,316**
Dividends income		90	-	90
Fee and commission income	(c)	1,255	953	2,208
Fee and commission expense		(245)	(16)	(261)
Net fee and commission income		**1,010**	**937**	**1,947**
Net gain from financial operations	(d)	1,229	(1,229)	-
Gains/losses from trading	(e)	-	109	109
Gains/losses from financial investments	(f)	-	229	229
Other operating income		40	6	46
General administrative expenses	(g)	(2,317)	33	(2,284)
Impairment of loans and receivables	(h)	189	(71)	118
Other operating expenses	(i)	(192)	(78)	(270)
Profit before tax		**2,510**	**(209)**	**2,301**
Current income tax	(j)	(646)	(15)	(631)
Deferred income tax		2	-	2
Net profit for the year		**1,866**	**(194)**	**1,672**

(a) "Interest income and similar income" changed due to:

- Effects of fair value hedge are reported differently under IFRS, as they are not included in "Interest expenses" but in "Interest income". Furthermore, the revaluation of hedged available-for-sale securities was adjusted. Due to these effects, the sum decreased by MCZK (214).
- Interest expenses from cash flow hedging derivatives in the amount of MCZK (140) were transferred from "Net gain from financial operations".
- "Interest income from securities held for trading" was transferred to "Gains/losses from trading" and "Interest income from securities revalued at fair value through profit and loss" was transferred from "Gains/losses from trading". The total effect of these transfers is MCZK (48).

(b) The item "Interest expense and similar charges" is affected mainly by the inclusion of MCZK 172 in relation to fair value hedge accounting (see above) and the transfer of MCZK 85 to "Net gain from financial operations" in relation to available-for-sale securities hedged in fair value hedges.

(c) Foreign currency commissions from documentary payments and currency exchange transactions increased "Fee and commission income" by MCZK 946 under IFRS. These items were reported in "Gains/losses from trading" under CAS.

(d) "Net gain from financial operations" was allocated to separate lines of the income statement as described above. One of the most significant changes is that, under IFRS, the revaluation of available-for-sale securities and cash-flow hedging derivatives is included within equity rather than in profit and loss under CAS. The net effect of this change is MCZK (17). The last change reflects the different calculation of the change in the fair value of hedged available-for-sale securities under CAS and its impact on the profit before tax was MCZK (67).

(e) Gains and losses from financial instruments held for trading were transferred from "Net gain from financial operations" to a separate line.

(f) Gains and losses from financial investments were transferred from "Net gain from financial operations" to a separate line.

(g) The Bank transferred selected items in the amount of MCZK 33 from "General administrative expenses" to "Other operating expenses". These consisted mainly of services paid for employees.

(h) The main change in "Impairment of loans and receivables" is the lower release of provisions under IFRS of MCZK (113). Under IFRS, the Bank also reported in 2004 a release of the provision for selected off-balance sheet instruments which was MCZK (12) lower. At the same time, the income from written off receivables of MCZK 6 was transferred to "Other operating income".

(i) The item "Other operating expenses" is influenced by creation of the provision for selected off-balance sheet items in the amount of MCZK (61), and further by the inclusion of services transferred from "General administrative expenses" of MCZK (33) and the reclassification of the fee for interbank services of MCZK 16 to "Fee and commission expenses".

(j) The change in "Current income tax" was due to the more accurate calculation of income tax totalling MCZK 15.

The impact of the transition to IFRS on the profit and loss without reclassification is as follows:

	Note	MCZK
Net profit for the year – CAS 2004		**1,866**
Impairment losses from loans and receivables	(h)	(125)
Revaluation of cash flow hedge derivatives	(e)	307
Revaluation of available-for-sale securities	(e)	(324)
Revaluation of available-for-sale securities hedged against risk of changes in fair value	(e)	(67)
Correction of income tax expenses	(j)	15
Net profit for the year – IFRS 2004		**1,672**

5. NET INTEREST AND SIMILAR INCOME

MCZK	2005	2004
Interest income and similar income:		
Balances with the central bank	304	274
Loans and receivables from banks	498	437
Loans and receivables from customers	3,278	2,987
Financial investments	966	969
Net income from fair value hedging of loans and deposits	21	9
Interest income and similar income	**5,067**	**4,676**
Interest expense and similar charges:		
Deposits from banks	(919)	(953)
Deposits from customers	(833)	(923)
Debt securities issued	(556)	(437)
Subordinated liabilities	(17)	(28)
Net loss from fair value hedging of debt securities issued	(12)	(19)
Interest expense and similar charges	**(2,337)**	**(2,360)**

6. DIVIDENDS INCOME

MCZK	2005	2004
Dividends income		
From subsidiaries	39	90
From participation certificates	191	-
Total	**230**	**90**

7. NET FEE AND COMMISSION INCOME

MCZK	2005	2004
Fee and commission income from		
Securities transactions	75	44
Management, administration, deposit and custody services	99	89
Loans	230	238
Payment services	620	576
FX transaction	947	935
Payment cards	352	284
Other	37	42
Fee and commission income	**2,360**	**2,208**
Fee and commission expense from		
Securities transactions	(2)	(4)
Management, administration, deposit and custody services	(29)	(23)
Loans	(69)	(54)
Payment services	(15)	(31)
Payment cards	(185)	(133)
Other	-	(16)
Fee and commission expenses	**(300)**	**(261)**
Total	**2,060**	**1,947**

Net fee and commission income from payment services includes FX commissions from flat and documentary payments and from cash transactions and currency exchange transactions with customers of the Bank. The FX commission represents the difference between the buy/sell FX rate set by the Bank and the official CNB FX rate, which is required by the Accounting Act when revaluating transactions denominated in foreign currency. FX commission is included in "Net fee and commission income", as this income represents significant continuous income from payment transactions and currency exchange transactions with customers of the Bank.

8. GAINS/LOSSES FROM TRADING

MCZK	2005	2004
Net realized and unrealized gain/loss from securities held for trading	40	(27)
Net realized and unrealized gain/loss from derivatives held for trading	(71)	12
Net realized and unrealized gain/loss from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	120	124
Total gain from trading	**89**	**109**

9. GENERAL ADMINISTRATIVE EXPENSES

MCZK	2005	2004
Personnel expenses		
Wages and salaries paid to employees	884	722
Social and health insurance	306	255
	1,190	**977**
Including wages and salaries paid to:		
Members of the Board of Directors	24	13
Other executives	74	65
	98	78
Other administrative expenses		
Rent and building maintenance	356	361
Information technologies	232	206
Promotion and marketing	195	214
Materials	88	90
Expense for audit, legal and tax advisory	68	70
Services	137	117
Other	10	8
	1,086	**1,066**
Depreciation of property, plant and equipment	112	152
Depreciation of intangible fixed assets	95	89
Impairment loss from tangible and intangible assets	86	-
Total general administrative expenses	2,569	2,284

Social and health insurance includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 9 (2004: MCZK 6).

Information about bonuses tied to equity is included in Note 30.

The average number of employees of the Bank (including HVB Group expatriates) was as follows:

	2005	2004
Employees	1,209	1,215
Members of the Board of Directors	4	5
Members of the Supervisory Board	9	9
Other executives	30	27

10. OTHER OPERATING INCOME AND EXPENSES

MCZK	2005	2004
Income from ceded and written-off receivables	14	15
Income from rent	9	12
Release of other provisions	70	5
Release of impairment of other assets	2	-
Release of reserves for off-balance sheet items	23	-
Other	22	14
Total other operating income	**140**	**46**
Deposits and transactions insurance	(57)	(131)
Creation of other provisions	(55)	(40)
Impairment of other assets	(9)	-
Creation of reserves for off-balance sheet items	(71)	(61)
Other expenses for employees	(31)	(29)
Other	(9)	(9)
Total other operating expenses	**(232)**	**(270)**

11. GAINS/LOSSES FROM FINANCIAL INVESTMENTS

MCZK	2005	2004
Net gain/loss from available-for-sale and held-to-maturity securities	29	6
Net gain/loss from hedging against risk of changes in fair value of available-for-sale securities	(3)	(6)
Net gain/loss from securities at fair value through profit and loss	17	246
Impairment of participation interest	16	(17)
Total gain from financial investments	**59**	**229**

The decrease in the net gain from financial investments measured at the fair value through profit and loss was caused by dividend payment in 2005 included in "Dividend income".

12. CASH IN HAND AND BALANCES WITH CENTRAL BANK

MCZK	31.12.2005	31.12.2004
Cash in hand	469	459
Obligatory minimum reserves	1,699	52
Other balances at central banks	3	39
Total	**2,171**	**550**

The obligatory minimum reserves represent deposits made in accordance with CNB regulations and which are not available for ordinary operations. CNB provides interest on these mandatory deposits based on the official CNB two week repo rate.

Cash in hand and balances with central banks are defined as cash and cash equivalent for the purpose of the cash flow statement.

13. FINANCIAL ASSETS HELD FOR TRADING

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return held for trading	1,002	1,283
Shares and other securities with a variable rate of return held for trading	3	8
Fair value of financial derivatives held for trading	2,784	2,143
Total	**3,789**	**3,434**

(a) Analysis of bonds and other securities with a fixed rate of return held for trading

MCZK	31.12.2005	31.12.2004
Issued by financial institutions	-	25
Issued by government sector	1,002	1,258
Total	**1,002**	**1,283**

All bonds held for trading are listed on public markets.

(b) Analysis of shares and other securities with a variable rate of return held for trading

MCZK	31.12.2005	31.12.2004
Issued by financial institutions	3	6
Issued by non-financial institutions	-	2
Total	**3**	**8**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31.12.2005	31.12.2004
Interest rate contracts	1,670	1,367
Currency contracts	306	507
Equity contracts	808	269
Total	**2,784**	**2,143**

For the Bank's business strategy related to financial assets held for trading see Note 35.

14. LOANS AND RECEIVABLES FROM BANKS

(a) Analysis of loans and receivables from banks by type

MCZK	31.12.2005	31.12.2004
Current accounts at other banks	276	229
Loans and receivables from banks	28,460	14,001
Term deposits	6,704	5,777
Total loans and receivables from banks	**35,440**	**20,007**
Impairment losses of loans and receivables from banks	-	-
Net loans and receivables from banks	**35,440**	**20,007**

(b) Subordinated loans and receivables from banks

The Bank provided a subordinated loan to another bank in 2004 in the amount of TEUR 7,500. The loan totalled MCZK 218 as at 31 December 2005 (31 December 2004: MCZK 229) . The loan is for a term of 10 years. The interest period is to be set within the range of one to six months and the interest rate is based on the appropriate EURIBOR rate.

(c) Analysis of loans and receivables from banks by geographical sector

MCZK	31.12.2005	31.12.2004
Czech Republic	29,273	15,798
European Union	3,534	3,603
Others	2,633	606
Total loans and receivables from banks	**35,440**	**20,007**

15. LOANS AND RECEIVABLES FROM CUSTOMERS

(a) Analysis of loans and receivables from customers by type

MCZK	31.12.2005	31.12.2004
Loans to clients	94,909	85,199
Receivables from promissory notes	88	89
Clients' bonds acquired by primary auction and not designated as held for trading	-	716
Total loans and receivables from customers	**94,997**	**86,004**
Impairment losses of loans and receivables from customers	(1,114)	(1,058)
Net loans and receivables from customers	**93,883**	**84,946**

The above gross amounts include unpaid interest in the amount of MCZK 18 (2004: MCZK 9) from loans more than 90 days overdue. Included in these amounts are loans in the amount of MCZK 284 (2004: MCZK 351) upon which interest is not accrued. If the principle of accruing interest income from these loans were applied, the Bank would recognize MCZK 11 (2004: MCZK 15) as interest income.

(b) Classification of loans and receivables from customers

MCZK	31.12.2005	31.12.2004
Standard	91,100	80,594
Watched	2,403	4,061
Substandard	749	592
Doubtful	155	111
Loss	590	646
Total loans and receivables from customers	**94,997**	**86,004**

The Bank regularly classifies its receivables from customers. The categories used for classification consider the Bank's analysis of the probability of receivable repayment and analysis of the debtor's behaviour (number of days overdue, financial performance, etc.). The Bank assesses whether impairment of loans and receivables is indicated. If such impairment has been identified, the amount of the loss is measured as the difference between the carrying amount of the receivables and the present value of the estimated future cash flow.

(c) Analysis of loans and receivables from customers by sector

MCZK	31.12.2005	31.12.2004
Financial institutions	13,810	13,250
Non-financial institutions	68,802	61,946
Government sector	1,643	369
Non-profit organizations	178	191
Self-employed	693	766
Resident individuals	6,972	6,382
Non-residents	2,899	3,100
Total loans and receivables from customers	**94,997**	**86,004**

(d) Analysis of loans and receivables from customers by type of security received

MCZK	31.12.2005	31.12.2004
Personal guarantee	427	146
Bank and similar guarantee	12,198	10,985
Mortgage	26,792	28,105
Corporate guarantee	4,322	2,539
Other types of security	285	83
Security held by the Bank	8,374	9,251
Unsecured	42,599	34,895
Total loans and receivables from customers	**94,997**	**86,004**

(e) Analysis of loans and receivables from customers by business activity

MCZK	31.12.2005	31.12.2004
Realty services	28,730	26,767
Financial services	11,152	9,679
Wholesale	13,357	11,067
Household services	7,339	6,480
Retail	3,286	2,965
Leasing	2,785	3,275
Others	28,348	25,771
Total loans and receivables from customers	**94,997**	**86,004**

(f) Impairment of loans and receivables:

Impairment of loans and receivables consist of the following items:

MCZK	31.12.2005	31.12.2004
Impairment of individual loans and receivables from customers	616	649
Impairment of portfolios of standard loans and receivables from customers	498	409
Total	**1,114**	**1,058**

Impairment roll-forward

MCZK		
Balance as at 1 January 2004		1,245
Creation during the current year	156	
Release during the current year	(274)	
Net impact on profit and loss		(118)
Receivables written off		(62)
FX differences		(7)
Balance of impairment of loans as at 31 December 2004		**1,058**
Balance as at 1 January 2005		1,058
Creation during the current year	259	
Release during the current year	(101)	
Net impact to profit and loss		158
Receivables written off		(95)
FX differences		(7)
Balance of impairment of loans as at 31 December 2005		**1,114**

16. FINANCIAL INVESTMENTS

(a) Classification of financial investments into portfolios based on the Bank's intention

MCZK	31.12.2005	31.12.2004
Available-for-sale securities	20,373	26,160
Held-to-maturity securities	1,204	2,412
Financial assets at fair value through the profit and loss	6,098	3,545
Participation interests	505	489
Total	**28,180**	**32,606**

Financial investments include bonds that were provided as collateral with a market value of MCZK 1,250 (2004: MCZK 939).

(b) Analysis of available-for-sale securities

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return:		
Issued by financial institutions	8,019	7,861
Issued by non-financial institutions	2,246	4,628
Issued by government sector	10,101	13,664
Total	**20,366**	**26,153**
Shares and other securities with a variable rate of return:		
Issued by non-financial institutions	7	7
Total	**7**	**7**
Total available-for-sale securities	**20,373**	**26,160**
Thereof:		
Listed	19,272	19,004
Unlisted	1,101	7,156

(c) Analysis of held-to-maturity securities

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return:		
Issued by non-financial institutions	1,204	2,412
Total held-to-maturity securities	**1,204**	**2,412**

All securities held until maturity are listed on public markets.

(d) Analysis of securities at fair value through the profit and loss

MCZK	31.12.2005	31.12.2004
Bonds and securities with a fixed rate of return:		
Issued by financial institutions	2,420	31
Issued by non-financial institutions	548	860
Issued by government sector	262	346
Total	**3,230**	**1,237**
Shares and other securities with a variable rate of return:		
Issued by financial institutions	2,868	2,308
Total	**2,868**	**2,308**
Total of securities at fair value through the profit and loss	**6,098**	**3,545**
Thereof:		
Listed	3,187	1,193
Unlisted	2,911	2,352

(e) Analysis of participation interests

Name	Registered office	Business activity	Date of acquisition	Acquisition price	Net book value	Share of the Bank 31.12. 2005	2004
HYPO stavební spořitelna a.s.	Prague	building society	24.6.1994	360	360	60%	60%
HVB Factoring s.r.o.	Prague	factoring	26.10.2004	50	50	100%	100%
HVB Reality CZ, s.r.o.	Prague	realty services	30.12.2004	21	21	100%	100%
CAE PRAHA a.s.	Prague	lease of real estate	27.6.2003	78	74	100%	100%
CBCB – Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%

The amount of impairment of participation interests totalled MCZK 4 as at 31.12.2005 (31 December 2004: MCZK 20). The impairment loss on participation interests changed in 2005 due to an increase in the equity of the subsidiary HVB Reality.

17. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

MCZK	Land and buildings	Equipment	Furniture and fittings	Other non-operating property	Fixed assets not yet in use	Total
Cost						
At 1 January 2005	953	744	263	1	13	1,974
Additions	7	45	17	-	64	133
Disposals	(40)	(108)	(19)	-	(72)	(239)
Other	-	2	(2)	-	-	-
At 31 December 2005	920	683	259	1	5	1,868
Depreciation and impairment						
At 1 January 2005	801	621	218	-	-	1,640
Charge for the year	35	57	20	-	-	112
Disposals	(38)	(92)	(19)	-	-	(149)
Other	-	1	(1)	-	-	-
At 31 December 2005	798	587	218	-	-	1,603
Net book value						
At 1 January 2005	**152**	**123**	**45**	**1**	**13**	**334**
At 31 December 2005	**122**	**96**	**41**	**1**	**5**	**265**

The accumulated depreciation and impairment include impairment of buildings totalling MCZK 89 (2004: MCZK 89).

18. INTANGIBLE ASSETS

Movements in intangible fixed assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 January 2005	498	36	12	546
Additions	187	221	3	411
Disposals	(66)	(221)	(3)	(290)
At 31 December 2005	619	36	12	667
Depreciation and impairment				
At 1 January 2005	358	-	5	363
Charge for the year	93	-	2	95
Impairment losses	86	-	-	86
Disposals	(55)	-	-	(55)
At 31 December 2005	482	-	7	489
Net book value				
At 1 January 2005	**140**	**36**	**7**	**183**
At 31 December 2005	**137**	**36**	**5**	**178**

The impairment of MCZK 86 was booked in connection with planned change of information systems.

19. OTHER ASSETS

MCZK	31.12.2005	31.12.2004
Prepaid expense and accrued income	53	107
Trade receivables	127	154
Fair value of hedging derivatives	432	92
Receivables from securities	95	60
Suspense accounts	546	89
Other	59	62
Total	**1,312**	**564**
Impairment of other assets	(14)	(7)
Net other assets	**1,298**	**550**

(a) Impairment of other assets

MCZK	2005	2004
Balance as at 1 January	7	7
Created during the current year	9	-
Used during the current year	(1)	-
Release of allowances no longer considered necessary	(1)	-
Balance of impairment of other assets at 31 December	**14**	**7**

20. IMPAIRMENT OF ASSETS TOTAL

MCZK	Loan and receivables from clients (Note 15)	Financial investments (Note 16)	Tangible and intangible assets (Note 17, 18)	Other assets (Note 19)	Total
Balance as at 1 January 2004 (1,245)	(3)	(89)	(7)	(1,344)	
Creation during the current year	(156)	(17)	-	-	(173)
Release during the current year	274	-	-	-	274
Write-offs and others	69	-	-	-	69
Impairment loss as at 31 December 2004	**(1,058)**	**(20)**	**(89)**	**(7)**	**(1,174)**
Balance as at 1 January 2005 (1,058)	(20)	(89)	(7)	(1,174)	
Creation during the current year	(259)	-	(86)	(9)	(354)
Release during the current year	101	16	-	1	118
Write-offs and others	102	-	-	1	103
Impairment loss as at 31 December 2005	**(1,114)**	**(4)**	**(175)**	**(14)**	**(1,307)**

21. DEPOSITS FROM BANKS

Analysis of deposits from banks by type

MCZK	31.12.2005	31.12.2004
Current accounts	1,700	1,116
Bank loans	16,906	9,248
Term deposits	9,665	13,731
Total	**28,271**	**24,095**

22. DEPOSITS FROM CUSTOMERS

(a) Analysis of deposits from customers by type

MCZK	31.12.2005	31.12.2004
Current accounts	47,852	39,700
Loans	-	1,526
Term deposits	28,059	26,714
Issued depository notes	14,003	14,895
Savings deposits	2,202	2,316
Payments in transfer	3,915	2,335
Other	3	60
Total	**96,034**	**87,546**

Issued depository notes are securities with short-term maturity and represent an alternative form of clients' financing. Therefore, the Bank decided to include them in "Deposits from customers" rather than "Debt securities issued".

(b) Analysis of deposits from clients by sector

MCZK	31.12.2005	31.12.2004
Financial institutions	8,874	8,203
Non-financial institutions	48,475	40,172
Government sector	3,283	2,151
Non-profit organizations	834	676
Self-employed	10,943	10,315
Resident individuals	19,574	20,397
Non-residents	4,051	3,293
Other	-	2,339
Total	**96,034**	**87,546**

23. DEBT SECURITIES ISSUED

(a) Analysis of payables in respect of debt securities issued

MCZK	31.12.2005	31.12.2004
Mortgage bonds	15,920	9,273
Structured bonds	2,201	1,218
Zero coupon bonds	788	1,269
Other issued bonds	78	349
Net book value	**18,987**	**12,109**

The Bank has purchased its own debt securities for trading purposes in the total amount of MCZK 948 (2004: MCZK 2,901). These debt securities decrease the amount of "Debt securities issued".

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	31.12.2005 MCZK	31.12.2004 MCZK
4/2/2002	4/2/2009	CZK	6.00%	9,793	7,896
19/8/2004	19/8/2012	CZK	6.00%	1,465	1,377
15/12/2004	15/12/2006	CZK	1.55%	47	-
15/12/2004	15/12/2006	CZK	1.35%	37	-
5/10/2005	5/10/2015	CZK	4.50%	1,524	-
15/11/2005	15/11/2010	CZK	3.50%	2,956	-
23/11/2005	15/11/2025	CZK	5.00%	98	-
Total				**15,920**	**9,273**

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24. FINANCIAL LIABILITIES HELD FOR TRADING

For the Bank's trading strategy, see Note 35 (b).

MCZK	31.12.2005	31.12.2004
Interest rate contracts	1,719	1,423
Currency contracts	202	170
Equity contracts	804	268
Liabilities from short sales of securities	345	780
Total	**3,070**	**2,641**

Liabilities from short sales of securities are created by the sale of securities received under repurchase agreements.

25. PROVISIONS

Provisions include the following items:

MCZK	31.12.2005	31.12.2004
Provisions for off-balance sheet items	321	273
Other provisions		
Claims and litigations	25	75
Tax risk	62	-
Provision for tax	-	93
Other	33	27
Total provisions	**441**	**468**

(a) Provisions for off-balance sheet items

MCZK	
Balance as at 1 January 2005	273
Created during the current year	71
Released	(23)
Balance of provisions as at 31 December 2005	**321**

(b) Other provisions

MCZK	Claims and litigations	Tax risk	Current year tax	Other provisions	Total
Balance as at 1 January 2005	75	-	93	27	195
Creation during the current year	-	62	-	33	95
Use during the current year	-	-	(93)	(7)	(100)
Release of provisions no longer considered necessary	(50)	-	-	(20)	(70)
Balance of other provisions as at 31 December 2005	**25**	**62**	**-**	**33**	**120**

Due to ambiguity in the tax laws and their interpretation, and with a tax review by the tax authority being in progress, the Bank created a provision of MCZK 62.

The Bank reported a current year income tax provision of MCZK 93 in accordance with Regulation No. 593/1992 Coll. and related to the obligatory release of the provision for standard loans by 31 December 2005. In 2005, the provision was offset against increased expenses from the current year's income tax.

The creation of other provisions in the amount of MCZK 33 represents general operating costs in terms of "Wages and salaries".

26 OTHER LIABILITIES

MCZK	31.12.2005	31.12.2004
Deferred income and accrued expenses	267	202
Trade payables	166	208
Fair value of hedging derivatives	1,012	961
Taxes payable	101	38
Estimated payables	353	374
Securities payables (dealings for clients)	116	14
Unsettled securities dealing	55	68
Suspense accounts	510	17
Other	151	88
Total	**2,731**	**1,970**

27. INCOME TAX

(a) Tax in profit and loss

MCZK	31.12.2005	31.12.2004
Current year income tax	634	630
Income tax for previous period	15	1
Deferred tax	(156)	(2)
Total income tax	**493**	**629**

The Bank's income tax is different in the following way from the theoretical income tax that would be calculated using the tax rate applicable in the Czech Republic:

MCZK	31.12.2005	31.12.2004
Current year profit (loss) before tax	2,349	2,301
Income tax calculated using tax rate 26% (2004: 28%)	611	644
Effect of previous years and tax rate changes	26	(22)
Foreign income tax effect	(122)	(55)
Non-taxable income	(127)	(65)
Tax non-deductible expense	257	108
Change in deferred tax	(156)	(2)
Other	4	21
Total income tax	**493**	**629**

The effective tax rate of the Bank is 21% (2004: 27%).

(b) Deferred tax asset and liability

Deferred income tax is calculated on all temporary differences using the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following:

MCZK	31.12.2005 Deferred tax asset	31.12.2005 Deferred tax liability	31.12.2004 Deferred tax asset	31.12.2004 Deferred tax liability
Tax non-deductible reserves	6	-	18	-
Social and health insurance from bonuses	33	-	15	-
Impairment of loans and receivables	120	-	-	-
Fixed assets net book value differences	24	-	-	6
Deferred tax liability/asset	183		33	6
Net deferred tax liability/asset recognized in income statement	**183**	**-**	**27**	**-**
Reserve from revaluation of available-for-sale securities	-	37	-	-
Net deferred tax liability/asset recognized in equity	**-**	**37**	**-**	**-**

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When calculating the net tax liability/asset the Bank offsets the deferred tax liability/asset related to income tax paid to the tax authority in the same tax category. Deferred tax liabilities and assets recognized in equity are not offset against deferred tax liabilities and assets recognized in the profit and loss account.

The Bank management believes that it is highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2005 based on the Bank's current and expected future level of taxable profits.

28. SUBORDINATED LIABILITIES

MCZK	31.12.2005	31.12.2004
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	679	713
Total	**679**	**7133**

A new subordinated loan agreement was signed with Bank Austria Creditanstalt International AG, Vienna (now Bank Austria Creditanstalt AG, Vienna) on 1 April 2000. This agreement replaced the original subordinated loan agreement. The single subordinated loan withdrawal represents an amount of TEUR 23,400, with a maturity date in March 2010. The interest period can be selected within a range of one to twelve months and the interest rate is based on the market rate on the money market. The loan is in accordance with subordinated loan requirements of the Czech National Bank (CNB).

29. ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 31 December 2005 amounted to MCZK 5,125.

(a) The shareholders as at 31 December 2005 and 31 December 2004

Name	Registered office	Share nominal value (MCZK)	Share premium	Share on equity (%)
Bank Austria Creditanstalt AG, Vienna	Austria	5,125	1,997	100.00
Total		**5,125**	**1,997**	**100.00**

(b) Issued capital analysis:

	31.12.2005 Number of shares	31.12.2005 MCZK	31.12.2004 Number of shares	31.12.2004 MCZK
Common shares at 16,320,000 CZK	100	1,632	100	1,632
Common shares at 13,375,000 CZK	200	2,675	200	2,675
Common shares at 10,000 CZK	74,000	740	74,000	740
Common shares at 7,771,600 CZK	10	78	10	78
Total		**5,125**		**5,125**

Shares are transferable with the general meeting's approval.

The Bank held none of its own shares as at 31 December 2005 and 2004.

30. BONUSES TIED TO EQUITY

The Bank has not implemented any incentive bonus schemes or motivation program for employees for the purchase of the Bank's own shares or paid any remuneration in the form of options to purchase such shares.

31. RESERVE FUNDS AND RETAINED EARNINGS

The split of reserve funds is as follows:

MCZK	31.12.2005	31.12.2004
Statutory reserve fund	827	734
Other reserve funds	1,013	1,013
Reserve funds total	**1,840**	**1,747**
Retained earnings	**6,089**	**4,236**

The Bank creates, in accordance with the law, a statutory reserve fund (part of the item "Reserve funds"). The statutory reserve fund is created from net profit as at the date of preparation of the financial statements for the year in which a profit was first achieved, in an amount of at least 20% of the net profit but not more than 10% of the registered capital. This reserve is replenished annually by 5% of the net profit up to 20% of the registered capital. The statutory reserve fund can only be used to cover incurred losses, and use of the statutory reserve fund is under the control of the Board of Directors.

Other funds are allocated from profit to cover general risks or for specific purposes of the company. These are not required by law. Other funds allocated from profit are managed by the Board of Directors.

32. BORROWING AND LENDING OF SECURITIES, REPURCHASE AND RESALE COMMITMENTS

(a) Resale commitments

MCZK	31.12.2005	31.12.2004
Receivables from banks	26,006	13,540
Fair value of securities received	25,904	13,386
Receivables from clients	677	50
Fair value of securities received	856	49

(b) Repurchase commitments

MCZK	31.12.2005	31.12.2004
Payables to banks	12,419	3,822
Fair value of given securities (Financial assets held for trading)	54	161
Fair value of given securities (Financial assets available-for-sale)	12,550	3,706
Payables to clients	-	1,526
Fair value of given securities (Financial assets held for trading)	-	1,467

33. CONTINGENT LIABILITIES, CONTINGENT ASSETS AND DERIVATIVES

During regular business operations the Bank enters into various financial operations which are not recognized in the balance sheet. These are called off-balance sheet operations. Unless stated otherwise the following off-balance sheet operations are stated in nominal amounts.

(a) Contingent liabilities

Litigation and claims

The Bank reviewed all legal disputes affecting the Bank as at 31 December 2005 and created appropriate provisions for litigation and claims (see Note 25). In addition to these litigations there are other claims related to the Bank's business activities. However, the management does not expect the result of such claims to have significant impact on the financial situation of the Bank.

Taxation

Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also unclear which interpretation the tax authority will choose. The result of this situation cannot be quantified and a solution will only be possible after release of official interpretation.

Liabilities from guarantees and credit commitments and other contingent liabilities

Unused credit commitments represent the most significant part of contingent liabilities. The credit commitments granted by the Bank include issued commitments for loans or guarantees and also unused credit lines and overdraft facilities. The Bank can revoke the revocable credit commitments at anytime without stating reasons. On the other hand irrevocable credit commitments represent the Bank's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Bank, even though it depends on the client's fulfilment of the terms and conditions.

Liabilities from financial guarantees represent irrevocable commitments that the Bank will realize payments when the conditions defined in guarantee certificates are fulfilled. These commitments bear similar risks as do loans, so the Bank creates reserves for these commitments using a similar algorithm as when creating loan loss provisions (see Note 36).

A letter of credit represents a written irrevocable liability of the Bank to provide funds to a third party or to its order (beneficiary, commissioned) if the letter of credit's conditions were fulfilled in a defined period. It is issued on the basis of the customer's (applicant) request. The Bank creates reserves for these financial instruments using a similar algorithm as when creating loan loss provisions (see Note 36).

The Bank has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2005, the total amount of these provisions amounted to MCZK 321 (2004: MCZK 273) (see Note 25 (a)).

MCZK	31.12.2005	31.12.2004
Irrevocable letters of credit and financial guarantees	11,836	10,117
Other irrevocable contingent liabilities (unused credit commitments)	48,163	41,879
Total	**59,999**	**51,996**

Value taken into administration and management

MCZK	31.12.2005	31.12.2004
Bonds	75,414	57,333
Shares	185,700	67,800
Depository notes	14,009	14,930
Total	**275,123**	**140,063**

(b) Contingent assets

As at 31 December 2005, the Bank has the option to draw the following loans:

Credit line provided by Bank Austria Creditanstalt AG, Vienna in the maximum amount of MCZK 2,483 (TEUR 85,609) with maturity in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,711 (TEUR 59,390) with maturity in December 2009. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB.

(c) Financial derivatives

Financial derivatives from OTC market (OTC derivatives)

MCZK	Contractual amounts 31.12.2005	Fair value 31.12.2004	Contractual amounts 31.12.2005	Fair value 31.12.2004
Hedging instruments				
Interest rate swap contracts	38,805	28,463	(736)	(860)
Cross currency swap contracts	6,377	8,046	156	(9)
Trading instruments				
Forward rate agreements (FRA)	43,650	105,100	0	25
Interest rate swap contracts	78,046	54,920	(78)	(132)
Forward foreign exchange contracts	(74)	(31)		
Purchase	15,159	13,689	-	-
Sale	15,214	13,663	-	-
Option contracts	4	1		
Purchase	13,945	8,273		
Sale	13,945	8,273		
Cross currency swap contracts	15,870	14,336	178	368

Listed financial derivatives

MCZK	Contractual amounts 31.12.2005	Fair value 31.12.2004	Contractual amounts 31.12.2005	Fair value 31.12.2004
Trading instruments				
Interest rate futures	790	354	29	51

Residual maturity of financial derivatives

The nominal values of individual types of financial derivatives can be divided based on their residual maturity as follows (30/360 basis):

MCZK	Up to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
As at 31 December 2005									
Hedging instruments									
Interest rate swap contracts	-	145	1,830	11,209	3,228	7,500	3,243	11,650	38,805
Cross currency swap contracts	-	-	6,210	-	-	167	-	-	6,377
Trading instruments									
Forward rate agreements (FRA)	3,500	21,600	18,550	-	-	-	-	-	43,650
Interest rate swaps	5,750	1,244	13,651	20,304	5,697	2,546	3,945	24,909	78,046
Foreign exchange contracts (Purchase)	6,520	3,878	4,637	116	6	2	-	-	15,159
Foreign exchange contracts (Sale)	6,527	3,882	4,685	112	6	2	-	-	15,214
Option contracts (Purchase)	241	215	820	781	6,246	2,262	3,340	40	13,945
Option contracts (Sale)	241	215	820	781	6,246	2,262	3,340	40	13,945
Interest rate futures	-	790	-	-	-	-	-	-	790
Cross currency swap contracts	-	659	-	2,366	7,242	-	1,484	4,119	15,870

MCZK	Up to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
As at 31 December 2004									
Hedging instruments									
Interest rate swap contracts	771	-	3,600	2,826	2,408	2,474	4,541	11,843	28,463
Cross currency swap contracts	-	1,277	-	6,603	-	-	167	-	8,047
Trading instruments									
Forward rate agreements (FRA)	5,550	39,500	47,050	13,000	-	-	-	-	105,100
Interest rate swaps	1,524	2,171	5,295	11,707	7,338	4,494	2,500	19,891	54,920
Foreign exchange contracts (Purchase)	8,318	1,727	3,628	16	-	-	-	-	13,689
Foreign exchange contracts (Sale)	8,260	1,731	3,654	18	-	-	-	-	13,663
Option contracts (Purchase)	443	330	1,242	1,430	358	831	3,371	268	8,273
Option contracts (Sale)	443	330	1,272	1,460	373	862	3,401	132	8,273
Interest rate futures	354	-	-	-	-	-	-	-	354
Cross currency swap contracts	-	4,996	8,143	-	-	-	-	1,197	14,336

34. SEGMENT REPORTING

The Bank's primary segment reporting format is based on the clients' business segments.

(a) Business segments

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2005					
Net interest and dividend income	791	2,012	323	(166)	**2,960**
Other net income	519	1,433	242	16	**2,210**
Depreciation of property, plant and equipment	(30)	(4)	(4)	(255)	**(293)**
Impairment and provisions	(73)	(113)	(7)	-	**(193)**
Segment expenses	(1,280)	(966)	(229)	140	**(2,335)**
Profit before tax	(73)	2,362	325	(265)	**2,349**
Income tax	-	-	-	(493)	**(493)**
Result of segment	(73)	2,362	325	(758)	**1,856**
Segment assets	11,477	86,198	65,745	1,967	**165,387**
Segment liabilities	52,928	56,223	38,851	2,248	**150,250**

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2004					
Net interest and dividend income	608	1,535	285	(22)	**2,406**
Other net income	501	1,363	266	(9)	**2,121**
Depreciation of property, plant and equipment	(31)	(4)	(4)	(202)	**(241)**
Impairment and provisions	11	65	-	-	**76**
Segment expenses	(1,219)	(858)	(306)	322	**(2,061)**
Profit before tax	(130)	2,101	241	89	**2,301**
Income tax	-	-	-	(629)	**(629)**
Result of segment	(130)	2,101	241	(540)	**1,672**
Segment assets	9,499	79,782	51,902	1,461	**142,644**
Segment liabilities	48,558	43,667	35,349	1,968	**129,542**

(b) Geographical segments

The Bank's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In 2005 and 2004, the Bank generated the main part of its revenues from activities in the Czech Republic and the EU.

35. MARKET RISK MANAGEMENT

(a) Trading

The Bank holds trading positions in certain financial instruments, including financial derivatives. The majority of the Bank's business activities are conducted according to the requirements of the Bank's customers. Depending on the estimated demand of its customers, the Bank holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's trading strategy is thus affected by speculation and market creation but its goal is to maximize the net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 36 (a).

The majority of derivatives are contracted on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(b) Market risk management

Described below are selected risks to which the Bank is exposed through its non-trading activities, principles of managing positions resulting from these activities and management of these risks. The procedures that the Bank uses to measure and manage these risks are described in detail in the following paragraphs.

The Bank is exposed to market risks arising from its open positions in interest, equity and currency instruments and transactions, which are sensitive to changes in financial market conditions.

The Bank's risk management concentrates on managing the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods, which is expressed by the change of present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes, the Bank identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of hedge accounting.

Value at Risk

Value at Risk represents the main method for managing the market risks arising from the Bank's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Bank determines the Value at Risk through stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

The following are Values at Risk of the Bank.

MCZK	31 December 2005	Average 2005	31 December 2004	Average 2004
VaR of interest rate instruments	44	36	30	20
VaR of currency instruments	0.4	1.3	0.2	1.5
VaR of equity instruments	0.6	0.8	0.3	0.5

Interest risk

The Bank is exposed to interest risk as a result of interest-bearing assets and liabilities with different maturity or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Bank is exposed to a risk resulting from the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest on deposits, etc. The activities of the interest risk management section are focused on optimizing the Bank's net interest revenue in accordance with the strategy approved by the Board of Directors.

The Bank's position as at 31 December 2005 is characterized by a shorter duration on the side of assets compared with liabilities. The Bank is therefore more sensitive on the asset side. For longer maturities, the position of short-term assets is balanced by the positions of speculative trades. The Bank's overall position is approximately balanced. The financial position is diversified into several currencies, so the Bank is also sensitive to correlation in fluctuations of interest rate in respective currencies. The major sensitivity is connected to the EUR and CZK. Net interest income would decrease if the interest rates in respective currencies rose simultaneously.

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the deliberate incongruity between the interest sensitive assets and liabilities.

The Bank applies a "Basis Point Value (BPV)" approach for the measurement of interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. it represents the sensitivity of instruments to interest rate risks.

The Bank has set up the interest rate risk limits to restrict fluctuation of net interest income relative to 0.01% changes in interest rates ("BPV limits").

The Bank carries out weekly stress testing of interest rates by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impacts on the Bank's financial results. The Bank has set limits for these stress scenarios, which are part of the Bank's risk management process.

The following table includes interest rate sensitivity of the Bank's assets and liabilities and effective interest rates (EIR):

MCZK	EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2005											
Cash in hand and balances with central banks	0.00	-	-	-	-	-	-	-	-	2,171	2,171
Financial assets held for trading	1.15	-	63	939	-	-	-	-	-	2,787	3,789
Loans and receivables from banks	2.14	32,420	1,245	1,745	5	-	-	-	-	25	35,440
Loans and receivables from customers	3.98	14,239	32,530	9,215	5,501	5,176	4,824	3,582	7,355	11,461	93,883
Financial investments	5.11	4,217	5,885	14,662	5	5	5	5	17	3,379	28,180
Deposits from banks	2.66	18,660	7,266	2,330	-	-	-	-	-	15	28,271
Deposits from customers	1.75	84,677	3,050	1,165	144	8	7	3	46	6,934	96,034
Debt securities issued	4.58	198	10,111	5,729	-	1,273	1,142	294	240	-	18,987
Financial liabilities held for trading	0.00	345	-	-	-	-	-	-	-	2,725	3,070
Subordinated liabilities	2.80	-	-	679	-	-	-	-	-	-	679

MCZK	EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2004											
Cash in hand and balances with central banks	0.00	-	-	-	-	-	-	-	-	550	550
Financial assets held for trading	1.75	-	-	787	-	369	-	25	94	2,159	3,434
Loans and receivables from banks	2.52	16,628	1,117	1,990	6	-	-	-	-	266	20,007
Loans and receivables from customers	4.36	17,614	23,791	12,093	4,790	6,214	2,583	3,130	6,677	8,053	84,946
Financial investments	3.55	4,900	7,562	7,401	1,803	885	930	1,967	4,415	2,743	32,606
Deposits from banks	4.77	12,878	7,670	2,366	465	590	126	-	-	-	24,095
Deposits from customers	1.65	77,818	3,773	1,043	1,097	19	7	6	46	3,737	87,546
Debt securities issued	4.73	-	296	67	1,304	-	270	9,069	1,103	-	12,109
Financial liabilities held for trading	0.00	780	-	-	-	-	-	-	-	1,861	2,641
Subordinated liabilities	2.49	-	713	-	-	-	-	-	-	-	713

The Bank's information system does not allow exact determination of the effective interest rate for all types of financial instruments. For selected instruments, the Bank calculated best estimates. "Deposits from banks" in 2004 was significantly influenced by payables in HUF.

Hedge accounting

As part of its market risk management strategy, the Bank hedges against interest rate risk. The Bank's hedging strategy makes use of both fair value hedging and cash flow hedging.

Fair value hedging

Hedged instruments can be financial assets and liabilities recognized at their carrying amounts (except securities held-to-maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognized in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).

The following table shows the contractual amounts and fair values of derivatives designated as fair value hedging instruments.

MCZK	Contractual amount 31.12.2005	Fair value 31.12.2004	Contractual amount 31.12.2005	Fair value 31.12.2004
Interest rate swaps	26,551	8,937	(226)	(176)
Cross currency swaps	-	-	-	-

Cash flow hedging

The Bank uses the concept of cash flow hedging to eliminate interest risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense sensitive to changes in market interest rates. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps). The following table shows the contractual amounts and fair values of derivatives designated as cash flow hedging instruments.

MCZK	Contractual amount 31.12.2005	Fair value 31.12.2004	Contractual amount 31.12.2005	Fair value 31.12.2004
Interest rate swaps	12,254	19,526	(510)	(684)
Cross currency swaps	6,377	8,047	156	(9)

MCZK	Fair value 31.12.2005	Fair value 31.12.2004
Hedged instruments		
Available-for-sale securities	79	56
Loans and receivables from clients	161	143
Debt securities issued	(13)	(1)
The remaining part of formerly hedged financial instruments		
Available-for-sale securities	43	62
Loans and receivables from clients	192	275
Debt securities issued	59	79

In line with a change in group strategy in the area of hedge accounting, the Bank terminated the fair value hedge accounting for selected financial instruments in December 2003. In connection with this change, the Bank still reports the remaining fair value of those instruments, which is amortized until maturity.

Currency risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Bank's exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the profit and loss account.

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD). For remaining currencies are valid limits ranging from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

The Bank's position in foreign currencies is as follows:

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2005								
Cash and balances with central banks	2,006	104	33	8	6	-	14	2,171
Financial assets held for trading	3,789	-	-	-	-	-	-	3,789
Loans and receivables from banks	32,471	1,522	174	39	1	3	1,230	35,440
Loans and receivables from customers	60,956	30,759	718	98	1,342	-	10	93,883
Financial investments	12,928	10,199	782	-	-	4,271	-	28,180
Property, plant and equipment	265	-	-	-	-	-	-	265
Intangible assets	178	-	-	-	-	-	-	178
Deferred tax asset	183	-	-	-	-	-	-	183
Other assets	1,126	165	4	-	2	1	-	1,298
Deposits from banks	15,479	9,333	1,668	228	135	1,217	211	28,271
Deposits from customers	72,392	17,613	3,221	164	587	1,714	343	96,034
Debt securities issued	18,616	179	192	-	-	-	-	18,987
Financial liabilities held for trading	3,070	-	-	-	-	-	-	3,070
Provisions	441	-	-	-	-	-	-	441
Deferred tax liability	37	-	-	-	-	-	-	37
Other liabilities	2,465	250	15	-	-	-	1	2,731
Subordinated liabilities	-	679	-	-	-	-	-	679
Equity	15,137	-	-	-	-	-	-	15,137

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2004								
Cash and balances with central banks	383	118	26	6	7	-	10	550
Financial assets held for trading	3,434	-	-	-	-	-	-	3,434
Loans and receivables from banks	17,329	368	2,040	93	4	66	107	20,007
Loans and receivables from customers	50,777	31,361	800	57	1,943	-	8	84,946
Financial investments	19,511	10,034	753	-	-	2,308	-	32,606
Property, plant and equipment	334	-	-	-	-	-	-	334
Intangible assets	176	2	5	-	-	-	-	183
Deferred tax asset	27	-	-	-	-	-	-	27
Other assets	300	247	6	-	2	-	2	557
Deposits from banks	11,197	6,789	1,271	1	-	4,674	163	24,095
Deposits from customers	65,988	15,399	3,546	187	1,416	812	198	87,546
Debt securities issued	11,652	270	187	-	-	-	-	12,109
Financial liabilities held for trading	2,133	443	85	-	-	-	-	2,641
Provisions	468	-	-	-	-	-	-	468
Deferred tax liability	-	-	-	-	-	-	-	-
Other liabilities	904	383	36	-	647	-	-	1,970
Subordinated liabilities	-	713	-	-	-	-	-	713
Equity	13,102	-	-	-	-	-	-	13,102

Equity risk

The equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trading with equity instruments, although some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits.

Liquidity risk

Liquidity risk arises as a result of the type of financing of the Bank's activities and management of its positions. It includes both the risk that the Bank is unable to finance its assets using instruments with appropriate maturity and the risk that the Bank is unable to dispose of its assets for an appropriate price within the necessary time period.

The Bank has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans accepted and including subordinated loans, as well as equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's board of directors. The Bank also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Residual maturity of assets and liabilities of the Bank

MCZK	Up to 1 month	1-3 months	3 mon. - 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2005										
Cash and balances with central banks	469	-	-	-	-	-	-	-	1,702	2,171
Financial assets held for trading	-	2	578	-	296	61	39	26	2,787	3,789
Loans and receivables from banks	32,420	479	2,281	5	-	12	-	218	25	35,440
Loans and receivables from customers	3,379	6,340	20,854	10,333	6,357	8,098	6,098	28,646	3,778	93,883
Financial investments	481	2,175	2,260	878	1,616	2,228	1,092	14,071	3,379	28,180
Property, plant and equipment	-	-	-	-	-	-	-	-	265	265
Intangible assets	-	-	-	-	-	-	-	-	178	178
Deferred tax asset	-	-	183	-	-	-	-	-	-	183
Other assets	-	69	-	-	-		-	-	1,229	1,298
Total	**36,749**	**9,065**	**26,156**	**11,216**	**8,269**	**10,399**	**7,229**	**42,961**	**13,343**	**165,387**
Deposits from banks	18,660	3,342	2,368	183	-	2,342	-	1,361	15	28,271
Deposits from customers	91,600	3,052	1,166	148	8	7	5	48	-	96,034
Debt securities issued	73	488	136	-	905	11,177	3,030	3,178	-	18,987
Financial liabilities held for trading	345	-	-	-	-	-	-	-	2,725	3,070
Provisions	-	-	-	-	-	-	-	-	441	441
Deferred tax liability	-	-	37	-	-	-	-	-	-	37
Other liabilities	-	262	-	-	-	-	-	-	2,469	2,731
Subordinated liabilities	-	-	-	-	-	-	679	-	-	679
Equity	-	-	-	-	-	-	-	-	15,137	15,137
Total	**110,678**	**7,144**	**3,707**	**331**	**913**	**13,526**	**3,714**	**4,587**	**20,787**	**165,387**
Gap	**(73,929)**	**1,921**	**22,457**	**10,885**	**7,356**	**(3,127)**	**3,515**	**38,374**	**(7,444)**	**-**
Cumulative gap	**(73,929)**	**(72,008)**	**(49,559)**	**(38,674)**	**(31,318)**	**(34,445)**	**(30,930)**	**7,444**	**-**	**-**

MCZK	Up to 1 month	1-3 months	3 mon. - 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2004										
Cash and balances with central banks	498	-	-	-	-	-	-	-	52	550
Financial assets held for trading	-	-	787	-	369	-	25	101	2,152	3,434
Loans and receivables from banks	16,894	1,117	1,731	6	-	30	-	229	-	20,007
Loans and receivables from customers	3,087	7,374	15,603	6,891	6,271	5,200	8,989	26,510	5,021	84,946
Financial investments	4,401	6,587	6,048	3,004	885	1,081	1,967	8,136	497	32,606
Property, plant and equipment	-	-	-	-	-	-	-	-	334	334
Intangible assets	-	-	-	-	-	-	-	-	183	183
Deferred tax asset	-	-	27	-	-	-	-	-	-	27
Other assets	-	117	27	-	-		-	-	413	557
Total	**24,880**	**15,195**	**24,223**	**9,901**	**7,525**	**6,311**	**10,981**	**34,976**	**8,652**	**142,644**
Deposits from banks	9,005	3,930	5,554	644	1,056	285	2,379	1,242	-	24,095
Deposits from customers	77,818	3,768	1,049	1,096	19	7	7	45	3,737	87,546
Debt securities issued	-	296	22	1,304	-	271	9,114	1,102	-	12,109
Financial liabilities held for trading	780	-	-	-	-	-	-	-	1,861	2,641
Provisions	-	-	-	-	-	-	-	-	468	468
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	195	-	-	-	-	-	-	1,775	1,970
Subordinated liabilities	-	-	-	-	-	-	-	713	-	713
Equity	-	-	-	-	-	-	-	-	13,102	13,102
Total	**87,603**	**8,189**	**6,625**	**3,044**	**1,075**	**563**	**11,500**	**3,102**	**20,943**	**142,644**
Gap	**(62,723)**	**7,006**	**17,598**	**6,857**	**6,450**	**5,748**	**(519)**	**31,874**	**(12,291)**	**-**
Cumulative gap	**(62,723)**	**(55,717)**	**(38,119)**	**(31,262)**	**(24,812)**	**(19,,064)**	**(19,583)**	**12,291**	**-**	**-**

36. CREDIT RISK MANAGEMENT

The Bank is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

The credit risk is managed at both the level of the individual client (transaction) and the portfolio level.

The credit risk management division is organizationally independent of the trade divisions and is accountable to the member of the Board of Directors responsible for risk management.

(a) Credit risk management at individual client level

The credit risk at client level is managed by analysing the client's financial position and setting limits on the credit exposure. The analysis is focused on the client's standing in the relevant market, rating of the client's financial statements, prediction of future liquidity, etc. The result of this analysis reflects, among other things, the probability that the client will default and takes into account both quantitative and qualitative factors. The financial situation analysis and setting the credit limit are performed before the credit is granted to the client and then regularly during the following credit relationship with the client.

The internal rating system comprises 27 rating levels. This system assesses not only the overdue period, but also the financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash flow structure), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc.

If an external rating of the debtor prepared by a renowned rating agency is available, the rating results are also taken into account in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.

For receivables from individuals, an internal rating is not set by the Bank. The ability of the client to fulfil loan conditions is judged based on a standardized system of credit scoring.

As an additional source of information for assessing a client's financial standing, the Bank uses information from credit registries, mainly the CBCB–Czech Banking Credit Bureau, a.s. and the CNB Central Credit Registry.

In accordance with its credit risk management strategy, the Bank requires collateral for all provided credit before the credit is granted (according to the client's financial standing). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, a bank guarantee from a reputable bank, real estate, assignment of high quality receivables. The Bank's assessment of the net realizable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist department. The net realizable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realize the collateral if and when necessary.

(b) Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting, including analyses and monitoring of trends in certain credit sub-portfolios.

The Bank monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Bank has created a system of internal limits for certain countries, sectors and economically connected groups of debtors and regularly monitors its credit exposure in different segments.

(c) Classification of loans and receivables, impairment and provisions

The Bank is regularly pursuing categorization of its receivables arising from financial activities in accordance with Regulation No. 9/2002 of the CNB, as amended by Regulation No. 6/2004.

The Bank regularly evaluates whether impairments of receivables have occurred. If such impairment is identified, the Bank creates provisions for impairment in accordance with IFRS.

Impairment of individual loans

The Bank recognizes the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off such amount, or its part, adequate to the loss from the loan's carrying amount. The Bank assesses impairment of each watched, substandard, doubtful and loss loan.

The Bank calculates the individual impairment in the amount of the loss resulting from decrease of the loan's carrying amount, i.e. the impairment loss is equal to the difference between the carrying amount (reduced by the materially acceptable value of collateral) and the discounted value of estimated future cash flows.

Impairment of loans portfolio

The Bank recognizes impairment of the standard loans portfolio if it identifies a decrease in the portfolio carrying amount as a result of events indicating a decrease of expected future cash flows from this portfolio.

Provisions are assigned to individual portfolios, not to individual loan cases.

The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering the time delay between the impairment event and the moment when the Bank obtains information on the impairment event (i.e. the moment when the loan is classified individually).

Provisions for off-balance sheet items

The Bank creates provisions for selected off-balance sheet items, namely:

(i) Provisions for the off-balance sheet items of the Bank's clients for whom there are currently individual balance sheet receivables fulfilling the conditions for being included into the classified loans category and the Bank creates provisions for those particular loans.

Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off-balance sheet items of the Bank's clients for whom the Bank does not presently record any balance sheet receivable in a given period, but for which, in the case that such receivable did exist, the conditions for being included into the classified loans would be fulfilled.

(iii) Provisions for selected off-balance sheet items that are ranked into the portfolios. The Bank recognizes such provisions in the same way as in creating provisions for the loans portfolio.

(d) Recovery of receivables

The Bank has established a department to deal with recovery of loans (separately for private clients and corporate clients) in respect of receivables considered to be at risk. These departments aim to achieve one or more of the following goals: a) "revitalization" of the credit relationship, restructuring and potential reclassification to standard receivables, b) full repayment of the loan, c) minimization of the loss from the loan (realization of collateral, sale of receivable with a discount, etc.), and d) prevention of further losses from the loan (comparing future expenses with the probable future revenues).

37. OPERATIONAL RISK AND OTHER RISKS

Operational risk represents the risk of a loss due to the absence or failure of internal processes, human or system error, or external events, including legal risks.

The Bank has developed a complex system of internal rules and regulations that modify and define the working processes and related control activities.

The system of internal rules and regulation includes a "Disaster Recovery Plan" and a "Business Continuity Plan", which address the major operational risks. The validity of these documents is reviewed regularly by both internal and external auditors. The Bank also has verified the effectiveness of these plans during actual recoveries from failures that occurred, for example in August 2002 when the Bank was affected by floods.

The obligations of employees and management together with related control activities are precisely defined in the internal rules and regulations.

The Bank limits its operational risk in the payment and settlement systems by observing the following principles:

- transactions that result in a cash inflow or outflow (payment system and clearing transactions, settlement of interbank transactions, loan administration) are subject to the four eyes principle (i.e. data is entered by one person and authorized by a second),
- daily nostro accounts reconciliation,
- daily and monthly internal accounts reconciliation,
- recording, processing and escalation of client complaints resulting from processing mistakes.

Within its Basel II project, the Bank plans to implement a complex system for monitoring and managing its operational risks. It aims to use standardized methods for operational risk management as at the date of implementing Basel II.

38. TRANSACTIONS WITH RELATED PARTIES

Entities are considered to be related entities if one entity is able to control the activities of the other or is able to exercise significant influence over the financial or operational policy of the other entity. As at 31 December 2005 the Bank was controlled by Bayerische Hypo und Vereinsbank AG, Munich (HVB AG), which through Bank Austria Creditanstalt AG, Vienna, held a 77.5% stake in the Bank. In its normal course of business, the Bank enters into transactions with related entities. These transactions represent mainly loans, deposits and other types of transactions and are concluded under normal trade conditions and at normal market prices.

As related parties there were identified namely affiliated companies within HVB/BACA Group, subsidiaries and associated companies, Board members and other management of the Bank.

MCZK	31.12.2005	31.12.2004
Assets		
Loans and receivables from banks	4,103	1,950
thereof:		
Bank Austria Creditanstalt AG	1,340	1,518
HVB Bank Serbia a Cerna Gora	2,206	-
Loans and receivables from customers	6,490	6,610
thereof:		
BA/CA Leasing GmbH	3,882	4,415
HVB Reality CZ, s.r.o.	492	530
HVB Factoring s.r.o.	208	-
Board of Directors	-	2
Management	37	18
Financial investment	1,403	-
HVB Jelzalogbank, Hungary	1,403	-
Total	**11,996**	**8,560**
Liabilities		
Deposits from banks	5,651	9,179
thereof:		
Bank Austria Creditanstalt AG	3,007	7,838
Bayerische Hypo-und Vereinsbank AG	2,268	1,268
HYPO stavební spořitelna a.s.	31	50
Deposits from customers	548	400
thereof:		
BA/CA Leasing GmbH	213	132
HVB Reality CZ, s.r.o.	52	52
HVB Factoring s.r.o.	-	50
Board of Directors	14	7
Management	41	6
Issued debt securities	1,715	1,377
HYPO stavební spořitelna a.s.	1,715	1,377
Subordinated liabilities	679	713
Bank Austria Creditanstalt AG	679	713
Total	**8,593**	**11,669**

MCZK	2005	2004
Revenues		
Interest income and similar income	322	342
Fee and commission income	145	84
Total	**467**	**426**
Expenses		
Interest expenses and similar expenses	500	338
Fee and commission expense	27	19
General administrative expenses	2	69
Total	**529**	**426**

39. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, the market value of a group of financial instruments is not available. In such circumstances, the fair values are based on the management's estimates, discounted cash flow models or other commonly used valuation methods. Many from the methods mentioned above are characterized by considerable uncertainty; the fair value estimates cannot be always considered as market values and in many cases would not be obtained in selling certain financial instruments. Changes of initial assumptions used in determining fair value can significantly impact this calculated value.

The following table analyses the carrying values and fair values of financial assets and liabilities, which are not presented in the balance sheet at their fair values:

MCZK	31.12.2005 Carrying amount	31.12.2004 Fair value	31.12.2005 Carrying amount	31.12.2004 Fair value
Financial assets				
Loans and receivables from banks	35,440	35,445	20,007	20,007
Loans and receivables from customers	93,883	94,579	84,946	85,114
Financial investments				
Securities held to maturity	1,204	1,203	2,412	2,412
Financial liabilities				
Deposits from banks	28,271	28,278	24,095	24,196
Deposits from customers	96,034	96,039	87,546	87,545
Debt securities issued	18,987	19,341	12,209	12,186
Subordinated liabilities	679	679	713	710

40. SUBSEQUENT EVENTS

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Bank's financial statements as at 31 December 2005.

AUDITOR’S REPORT
ON THE NON-CONSOLIDATED
ANNUAL REPORT

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This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

Auditor's report to the shareholders of HVB Bank Czech Republic a.s.

We have audited the accompanying financial statements of HVB Bank Czech Republic a.s. for the year ended 31 December 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of HVB Bank Czech Republic a.s. as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the E.U.

Prague
20 March 2006

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

Pavel Závitkovský
Licence number 69

Supplementary Information Published Pursuant to § 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as Amended

1. INFORMATION ABOUT HVB BANK AS AN ISSUER OF REGISTERED SECURITIES

1.1. BASIC DATA

Business name:	HVB Bank Czech Republic a.s.
Company ID no.:	64948242
Registered office:	Prague 1, nám. Republiky 3a/2090

HVB Bank Czech Republic a.s. ("HVB Bank") was incorporated according to Czech law, and in particular pursuant to the Banking Act 21/1992 Coll., as amended. HVB Bank was established for an indefinite period.

HVB Bank is duly entered in the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608. A banking licence was granted to HVB Bank by the Czech National Bank, decision ref. no. V 40/9-95 dated 14 September 1995, effective from 1 January 1996.

The issuer has been in business continually, with no interruptions.

1.2 PERSONS RESPONSIBLE FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Responsible person:

PAVEL ZÁVITKOVSKÝ

Licence no.: 69
Domicile: Chudenická 1061/26, Prague 10
Auditor: KPMG Česká republika Audit, s. r. o., Licence no.: 71
Registered office: Pobřežní 648/1a, Prague 8

1.3 MANAGING BOARD OF HVB BANK

DAVID GRUND

Chairman of the Managing Board and Chief Executive Officer
Domicile: K lukám 702, Šestajovice
Birth number: 550224/0062

DR. PETER KOERNER

Member of the Managing Board and Executive Director
Domicile: Pötzleinsdorfer Höhe 33, A - 1180 Vienna, Austria
Born: 18 May 1959

ALFRED FÜSSELBERGER

Member of the Managing Board and Executive Director
Domicile: Ober-Grafendorf, Daniel Granstrasse 8, Austria
Born: 21 March 1964

CHRISTIAN SUPPANZ

Member of the Managing Board and Executive Director
Domicile: 1120 Vienna, Meidlinger Hauptstrasse 7-9/2/53, Austria

No Member of the Managing Board is conducting any other business activity that might be relevant for the purpose of appraising the issuer except for his activities for the issuer.

1.4 SUPERVISORY BOARD OF HVB BANK

HEINZ MEIDLINGER

Member of the Supervisory Board
Domicile: Kalmusweg 46 / Haus 107, Vienna, Austria
Born: 3 November 1955
Date of appointment to the office: 30 July 2001
Academy of Commerce and Trade
36 years of experience in treasury

JAROSLAVA LAUROVÁ

Member of the Supervisory Board
Domicile: Amforová 1886, Prague 5
Birth number: 595902/1068
Date of appointment to the office: 3 June 2003
Law Faculty, Charles University, Prague
23 years of experience in banking law

FRIEDERIKE KOTZ

Member of the Supervisory Board
Domicile: Döblinger Hauptstrasse 11, DG 29, Vienna, Austria
Born: 22 November 1962
Date of appointment to the office: 21 March 2002
University of Economics, Vienna
20 years of experience in commercial banking, internal audit and quality management

HELENA ŠRÁMKOVÁ

Member of the Supervisory Board
Domicile: Liškova 633/8, Prague 4
Birth number: 545518/2623
Date of appointment to the office: 11 March 2002
Secondary School of Economics, Prague
15 years of experience in banking payments systems

DDR. REGINA PREHOFER

Member of the Supervisory Board
Domicile: Adolfstorgasse 49/2/7, 1130 Vienna, Austria
Born: 2 August 1956
Date of appointment to the office: 30 January 2004
University of Vienna, Doctorate
25 years of experience in economy

ING. PAVEL ŠLAMBOR

Member of the Supervisory Board
Domicile: Černošická 614, Prague 5
Birth number: 720312/0903
Date of appointment to the office: 21 April 2004
Technical University, Prague
11 years of experience in securities trading and FX and money operations

HELMUT BERNKOPF

Member of the Supervisory Board
Domicile: Hockegasse 85/4, 1180 Vienna, Austria
Born: 10 May 1967
Date of appointment to the office: 6 December 2004
University of Economics, Vienna
Commercial College, Vienna
11 years of experience in banking

HARALD VERTNEG

Member of the Supervisory Board
Domicile: Felixgasse 21, 1130 Vienna, Austria
Born: 26 June 1959
Date of appointment to the office: 7 September 2004
University of Vienna
University of Economics, Vienna
22 years of experience in banking

ROBERT ZADRAZIL

Member of the Supervisory Board
Domicile: Polgarstrasse 21/4, A-1220 Vienna, Austria
Born: 16 October 1970
Date of appointment to the office: 1 February 2005
University of Vienna
12 years of experience in banking

No Member of the Supervisory Board is conducting either any other business activity in the Czech Republic or any business activity that might be relevant for the purpose of appraising the issuer, except for his or her activities for the issuer.

The Members of the Supervisory Board are appointed by the general meeting, with the sole shareholder of the issuer exercising the powers of the general meeting. The Members of the Managing Board are appointed by the Supervisory Board either at its meeting or on the basis of its decision per rollam (i.e. outside its meeting). Managers are appointed to their positions in accordance with the Competence Rules depending on their functions (2nd management level, 3rd management level, etc.). Appointment of the Members of the Supervisory Board is regulated in the issuer's Articles of Association; appointment of managers is governed by the issuer's Competence Rules.

The Supervisory Board decides by a simple majority of the votes present.

1.5. BANK'S MANAGERS HEAD OFFICE

ING. DAVID GRUND
Chairman of the Managing Board and Chief Executive Officer
From 4 February 2003
University of Economics, Prague
26 years of experience in banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

DR. PETER KOERNER
Member of the Managing Board and Executive Director
From 1 December 2004
University of Vienna – Faculty of Law
21 years of experience in corporate banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

ALFRED FÜSSELBERGER
Member of the Managing Board and Executive Director
From 1 July 2005
Donau Universität Krems
15 years of experience in banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

DR. CHRISTIAN SUPPANZ
Member of the Managing Board and Executive Director
From 1 July 2005
University of Vienna
28 years of experience in banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

ING. JAROSLAV ŽAHOUREK
Retail Distribution Department
From 20 June 2005
Technical University, Prague
11 years of experience in treasury
Domicile: U Zvonařky 2536, Prague 2
Born: 30 May 1970

ING. IVO KUBÁLEK
Segment and Product Management Dept.
From 1 April 2003
University of Economics, Prague
11 years of experience in banking
Domicile: Revoluční 25, Prague 1
Born: 9 December 1961

ING. JAN PRACHAŘ, MBA
Private Banking and Securities Dept.
From 18 August 2004
University of Economics, Prague
11 years of experience in investment banking
Domicile: Rembrandtova 2186, Prague 10
Born: 17 July 1969

ING. JIŘÍ DOUBRAVSKÝ, MBA
Retail Distribution Dept. - SMEs
From 1 September 2002
West Bohemia University, Faculty of Economics, Plzeň
11 years of experience in corporate transactions and real estate finance
Domicile: S.K.Neumanna 344, Mladá Boleslav
Born: 29 June 1971

ING. DUŠAN HLADNÝ
Corporate Clients Department
From 1 August 2004
University of Economics, Prague
14 years of experience in corporate banking
Domicile: Na Hřebenech II 3a, Prague 4
Born: 29 November 1964

ING. PAVEL NĚMEJC
Regional Corporate Clients Dept.
From 1 July 2004
University of Economics, Prague
19 years of experience in banking
Domicile: Družstevní 1658/4, Plzeň
Born: 9 March 1963

ING. JANA KYTLICOVÁ
Trade Finance Department
From 1 January 1995
University of Economics, Prague
20 years of experience in foreign trade
Domicile: Choceradská 3120/8, Prague 4
Born: 25 January 1956

ING. FILIP LESCH
Trading Department
From 1 October 2003
University of Economics, Prague
11 years of experience in banking
Domicile: Na hřebenkách 13, Prague 5
Born: 26 November 1969

ING. MICHAL STUCHLÍK
Custody Department
From 1 March 2005
Technical University, Prague
10 years of experience in custody
Domicile: K Horoměřicům 1185, Prague 6
Born: 28 February 1971

ING. PATRIK MAREŠ
Authorised to manage the Assets and Liabilities Management Dept.
From 1 July 2005
University of Economics, Prague
9 years of experience in treasury
Domicile: Pařížská 98/17, Prague 1
Born: 15 February 1974

MAG. ALOIS BARTLHUBER
Credit Risk Management Dept. - Corporate Clients
From 1 October 2001
University of Economics, Vienna
17 years of experience in risk management
Domicile: K Botiči 8/1483, Prague 10
Born: 21 June 1962

MAG. CHRISTIAN MICHALEK
Credit Risk Management Dept. - Private and Business Clients
From 1 February 2002
University of Economics, Vienna
9 years of experience in credit risk management and project management
Domicile: Grünentorg 23/15, Vienna
Born: 15 February 1967

ING. MIROSLAV ŠULAI
Financial Department
From 1 October 2001
Technical University, Prague
15 years of experience in banking in management of finance, strategy, bank services and technologies
Domicile: Gabinova 831/14, Prague 5
Born: 11 July 1961

ING. TOMÁŠ HOLÍK
Controlling Department
From 4 April 2002
University of Economics, Prague
9 years of experience in controlling and market risk monitoring
Domicile: Mirovická 25/1101, Prague 8
Born: 1 May 1971

B.SC. O'MAHONY DAVID JOSEPH
Information Technologies Department
From 22 November 2004
University College Cork, Ireland
10 years of experience in bank information technologies
Domicile: U Zvonařky 1, Prague 2
Born: 4 March 1965

ING. MICHAL HLADÍK
Authorised to manage the Card Operations Centre
From 1 April 2004
Technical University, Prague, machinery and engineering
6 years of experience in banking
Domicile: Pod Valem 354/9, Prague 10
Born: 8 June 1970

HELENA ŠRÁMKOVÁ
Bank Operations Department
From 17 May 2004
Secondary School of Economics, Prague
15 years of experience in bank payment systems
Domicile: Liškova 633/8, Prague 4
Born: 18 May 1954

ING. DANA CASIMATY, MBA
Strategic Planning Department
From 1 December 2003
University of Economics, Prague, London Business School, London
12 years of experience in strategic planning and product development
Domicile: Peckova 252, Prague 8
Born: 30 June 1968

ING. JANA RIEBOVÁ
Human Resources Department
From 1 November 2002
Institute of Chemical Technology, Prague
15 years of experience in HR management and training
Domicile: Semonická 2173/4, Prague 9
Born: 14 June 1962

ING. JAN CHVOJKA
Central Marketing Department
From 1 October 2003
University of Economics, Prague
9 years of experience in marketing
Domicile: Ke Klimentce 45, Prague 5
Born: 27 March 1971

MGR. TIBOR KUZMÍK
Legal Department
From 1 July 2003
Faculty of Law, Charles University, Prague
12 years of experience in law
Domicile: Nechvílova 1869/13, Prague 4
Born: 20 February 1968

ING. JOSEF TYLL, CSC.
Internal Audit Dept.
From 1 October 2001
University of Economics, Prague
12 years of experience in internal audit in banking
Domicile: Kaštanová 662, Zeleneč
Born: 8 August 1947

MGR. MARKUS KRIEGLER
Dept. Corporate and Public Finance
From 1 September 2004
Business administration, Vienna
11 years of experience in banking
Domicile: Náprstkova 10, Prague 1
Born: 13 February 1969

DUŠAN PRCHLÍK, MBA
Dept. Real Estate Finance
From 9 April 2003
University of West Florida, USA
7 years of experience in real estate finance
Domicile: Jiráskova 875, Benešov
Born: 29 June 1974

MGR. PAVEL KUBIČKA, MBA
Dept. Segment and Product Management
From 7 April 2004
8 years of experience in project management
Domicile: Liborova 14, Prague 6
Born: 21 May 1966

ING. MARTIN VINTER
Sales Department
From 1 October 2001
University of Economics, Prague
10 years of experience in treasury
Domicile: Galandova 1237, Prague 6
Born: 22 December 1969

ING. ANTONÍN FIKRLE
Dept. Controlling and Credit Risk Management
From 1 October 2001
University of Economics, Prague
7 years of experience in credit risk management and analysis
Domicile: Hviezdoslavova 506/9, Prague 4
Born: 26 September 1974

ING. MILAN ŘÍHA
Dept. Market Risk Measurement
From 1 October 2003
Technical University, Prague
13 years of experience in treasury
Domicile: Splavná 1489, Prague 9
Born: 19 May 1966

ING. FRANTIŠEK ŽEHRA
Bank Security Department
From 1 November 2003
University of Agriculture, Prague
12 years of experience in bank security
Domicile: Polívkova 539, Prague 5
Born: 12 June 1955

MGR. KAREL SKALICKÝ
Infrastructure Department
From 1 October 2002
Faculty of Education, Charles University, Prague
12 years of experience in banking infrastructure
Domicile: Miletice 63
Born: 14 November 1959

MGR. MARIE WOJCIKOVÁ
PR and Internal Communication Dept.
From 1 May 2003
Kiev State University
11 years of experience in communication
Domicile: Mánesova 1234, Úvaly u Prahy
Born: 24 May 1960

BC. MAREK KORTUS
Compliance Department
From 1 February 2003
University of Economics, Prague
6 years of experience in compliance
Domicile: Churáňovská 2692/9, Prague 5
Born: 27 August 1973

1.6. DIVIDENDS AND DIRECTORS FEES

HVB Bank Czech Republic did not pay any dividend to its shareholder in 2005. Neither were directors fees paid during the period.

1.7. SCOPE OF THE BUSINESS ACTIVITIES ACCORDING TO THE ARTICLES OF ASSOCIATION

The scope of HVB Bank's business activities includes banking transactions and providing a full range of financial services as defined in the Banking Act 21/1992 Coll., as amended, and the Foreign Exchange Act 219/1995 Coll., as amended, i.e.:

a) receiving deposits from the public;

b) granting loans;

c) investing in securities on its own behalf;

d) system of payments and clearing;

e) issuing and administering payment products;

f) granting guarantees;

g) opening letters of credit;

h) administering cash collection;

i) providing investment services

– main investment service pursuant to Section 8, para. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), taking receipt of and conveying instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;

– main investment service pursuant to Section 8, para. 2b) of the Securities Act, executing instructions related to investment instruments on the account of other parties, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;

– main investment service pursuant to Section 8, para. 2c) of the Securities Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;

– main investment service pursuant to Section 8, para. 2d) of the Securities Act, administration of individual portfolios at own discretion within the terms of a contractual covenant with the client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;

– main investment service pursuant to Section 8, para. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1b) of the Securities Act;

– supplementary investment service pursuant to Section 8, para. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1c) of the Securities Act;

– supplementary investment service pursuant to Section 8, para. 3c) of the Securities Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant to this transaction, with respect to investment instruments pursuant to Section 8a para. 1a)–1d) and 1g) of the Securities Act;

– supplementary investment service pursuant to Section 8, para. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies;

– supplementary investment service pursuant to Section 8, para. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, para. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, para. 1a) and 1b) of the Securities Act;

– supplementary investment service pursuant to Section 8, para. 3f) of the Securities Act, consulting services related to investment into investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act; and

– supplementary investment service pursuant to Section 8, para. 3g) of the Securities Act, performing of foreign currency operations related to provision of investment services;

j) issuing mortgage bonds;

k) financial brokerage;

l) depository services;

m) foreign currency exchange services (purchase of foreign currencies);

n) providing banking information;

o) trading on own behalf or on behalf of clients with foreign currencies and gold;

p) renting safe-deposit boxes; and

q) other activities directly related to the activities specified above.

2. SHARE CAPITAL AND SHAREHOLDER'S EQUITY, SECURITIES AND GROUP

2.1. SHARE CAPITAL

HVB Bank has share capital of CZK 5,124,716,000, consisting of:

(a) 100 unlisted, book-entry common shares, each with a nominal value of CZK 16,320,000;

(b) 200 unlisted, book-entry common shares, each with a nominal value of CZK 13,375,000;

(c) 74,000 unlisted, book-entry common shares, each with a nominal value of CZK 10,000; and

(d) 10 unlisted, book-entry common shares, each with a nominal value of CZK 7,771,600.

All the aforementioned shares are registered with the Securities Centre.

HVB Bank's share capital has been fully paid up.

HVB Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares.

2.2 CHANGES IN SHAREHOLDER'S EQUITY

(All data as at 31 December)	2005 (IFRS)	2004	2003 (CAS)	2002 (CAS)
Registered capital	5,124,716	5,124,716	5,124,716	5,047,000
Share premium	1,996,920	1,996,920	1,996,920	1,996,920
Mandatory reserve funds and risk funds	826,866	733,548	648,218	563,121
Other reserve funds and other funds from profit	1,013,319	1,013,319	1,014,169	1,013,511
Revaluation gains (losses)	85,520	-93,168	0	0
Retained earnings from previous years	4,233,293	2,654,847	1,698,698	146,794
Profit for accounting period	1,856,070	1,671,895	1,706,605	1,665,671
Total shareholder's equity	**15,136,704**	**13,102,077**	**12,189,326**	**10,433,017**

2.3. LIST OF UNPAID BOND ISSUES

The total volume of outstanding bond issues, including EUR and USD bonds converted at the CNB's exchange rate valid as at 15 February 2006, totals CZK 18,812,197,875.

2.4. GROUP STRUCTURE

A/ HVB Bank's shareholder

Shareholder	Share in CZK	Share in %
Bank Austria Creditanstalt AG, Vienna	CZK 5,124,716,000	100%

B/ Affiliate companies and other companies on an equal footing

Company	Address	Partner/Shareholder (share in %)
HVB Leasing Czech Republic, s.r.o.	Prague 5, Radlická 14/3201	Bank Austria Creditanstalt Leasing GmbH, Vienna (100%)
CAC Leasing a.s.	Prague 5, Radlická 14/3201	Bank Austria Creditanstalt Leasing GmbH, Vienna (100%)
Banking Transaction Services s.r.o.	Prague 1, Nové Město, Václavské náměstí 33/823, postal code no. 11000	Bank Austria Creditanstalt AG, Vienna (100%)

C/ Subsidiaries

Company	Address	Partner/Shareholder (share in %)
HYPO stavební spořitelna a.s.	Prague 1, Senovážné nám. 27	HVB Bank Czech Republic a.s. (60%) Vereinsbank Victoria Bauspar AG, Munich (40%)
CAE PRAHA, a.s. (CA IB Securities)	Prague 5, nám. Kinských 602	HVB Bank Czech Republic a.s. (100%)
HVB Reality CZ, s.r.o.	Prague 5, Elišky Peškové 15	HVB Bank Czech Republic a.s. (100%)
HVB Factoring s.r.o.	Prague 2, Italská 24	HVB Bank Czech Republic a.s. (100%)

MAIN COMPANIES OF HVB GROUP

Business segment Germany	**Business segment Austria, CEE**	**Business segment Corporates and Markets**
Bayerische Hypo-und Vereinsbank AG, Munich* Registered capital: 11,137,585,000 EUR	Bank Austria Creditanstalt AG, Vienna Registered capital: 6,053,352,000 EUR Share: 77.5%	Bayerische Hypo- und Vereinsbank AG, Munich* Registered capital: 11,137,585,000 EUR
HVB Banque Luxembourg S.A.,Luxembourg Registered capital: 1,070,700,000 EUR Share: 100%	Asset Management GmbH, Vienna Registered capital: 7,508,000 EUR Share: 100%	Bank Austria Creditanstalt AG, Vienna Registered capital: 6,053,352,000 EUR Share: 77.5%
Activest Investmentgesellschaft GmbH, Munich Registered capital: 19,757,000 EUR Share: 100%	Bank Austria Creditanstalt d.d. Ljubljana, Ljubljana Registered capital: 19,476,334, 000 SIT Share: 100%	HVB Banque Luxembourg S.A., Luxembourg Registered capital: 1,070,700,000 EUR Share: 100%
Bankhaus Neelmeyer AG, Bremen Registered capital: 42,192,000 EUR Share: 100%	Bank Austria Creditanstalt Leasing GmbH, Vienna Registered capital: 298,063,000 EUR Share: 100%	Bode Grabner Beye AG & Co. KG, Grünwald Registered capital: 4,767,000 EUR Share: 100%
DAB Bank AG, Munich Registered capital: 129,062,000 EUR Share: 76.4%	Bankprivat AG, Vienna Registered capital: 11,766,000 EUR Share: 100%	INDEXCHANGE Investment AG, Munich Registered capital: 11,481,000 EUR Share: 100%

H.F.S. Hypo-Fondsbeteligungen für Sachwerte GmbH, Munich Registered capital: 4,890,000 EUR Share: 100%	Bank BPH Spólka Akcyjna, Cracow Registered capital: 5,926,789,000 PLN Share: 71%	HVB Risk Management Products Inc., New York Registered capital: 62,711,000 USD Share: 100%
HVB Leasing GmbH, Hamburg Registered capital: 22,000 EUR Share: 100%	Capital Invest die Kapitalanlagegesellschaft der Bank Austria/Creditanstalt Gruppe GmgH,Vienna Registered capital. 9,162,000 EUR Share: 100%	HVB U.S: Finance Inc., New York Registered capital: 67,452,000 USD Share: 100%
Internationales Immobilien-Institut GmbH, Munich Registered capital: 8,100,000 EUR Share: 94%	HVB Bank Biochim AD, Sofia Registered capital: 167,945,000 BGN Share: 99.7%	International Moscow Bank, Moscow Registered capital: 276,751,000 USD Share: 46%
Nordinvest Norddeutsche Investmentgesellschaft GmbH, Hamburg Registered capital: 26,602,000 EUR Share: 100%	HVB Bank Czech Republic a.s., Prague Registered capital: 5,124,716,000 CZK Share: 100%	
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich Registered capital: 62,418,000 EUR Share: 70%	HVB Bank Hungary Rt., Budapest Registered capital: 96,063,000 HUF Share: 100%	
Westfalenbank Aktiengesellschaft, Bochum Registered capital: 108,529,000 EUR Share: 100%	HVB Bank Romania S.A., Bucharest Registered capital: 54,489,000 EUR Share: 100%	
Activest Investmentgesellschaft Luxembourg S.A., Luxembourg Registered capital. 25,552,000 EUR Share: 100%	HVB Bank Slovakia S.A., Bratislava Registered capital: 7,220,190,000 SKK Share: 100%	
Direktanlage.at AG, Salzburg Registered capital: 17,689,000 EUR Share: 100%	Schoellerbank Aktiengesellschaft, Vienna Registered capital: 114,585,000 EUR Share: < 100%	
	Splitska bank d.d., Split Registered capital: 1,589,788,000 Share: 99.7%	

2.5 INFORMATION ON ALL MONETARY AND IN-KIND INCOMES ACCEPTED BY THE MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD FROM THE ISSUER

(in CZK)	**Total incomes**	**Salaries and remuneration**	**Annual bonuses**	**Non-monetary compensation**
Managing Board of HVB Bank	**49,366,774**	37,288,730	7,848,745	4,229,299
Supervisory Board of HVB Bank	**6,198,283**	3,799,287	2,368,000	30,996

2.6 INFORMATION ON THE NUMBER OF SHARES ISSUED BY THE ISSUER AND WHICH ARE UNDER THE OWNERSHIP OF THE ISSUER'S STATUTORY BODIES

The number of shares issued by the issuer under the ownership of the statutory bodies or members thereof, other managers and Members of the Supervisory Board, is zero, because all shares issued by the issuer are held by the sole shareholder, Bank Austria Creditanstalt AG, Vienna.

2.7 PRINCIPLES OF REMUNERATING THE ISSUER'S MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD

Remuneration and incentive strategy for the managers of HVB Bank Czech Republic

HVB Bank has created a remuneration and incentive strategy based on market comparison with other entities active on the financial and banking market in the Czech Republic. The aim of our strategy is to support achievement of our bank's business goals in the best possible way.

Structure of the remuneration and incentive system:

- Policy of basic salaries
- Bonus scheme
- System of benefits

Remuneration and incentive principles:

- Individual performance goals are reflected in the amount of the bonus.
- Key capabilities of a management employee influences reappraisal of his or her basic salary.
- The system of benefits is set in a transparent way for all the staff.

The remuneration and incentive strategy is identical for all of the Bank's employees. The company regularly invests into the personal and professional development of each management employee.

A system of performance evaluation is based on an individual approach that involves setting goals and regular evaluations relative to those goals. Motivating managers in their further personal and professional growth is an inseparable part of this process.

2.8 INFORMATION ON REMUNERATION PAID TO AUDITORS ON BEHALF OF THE ISSUER AND SEPARATELY ON BEHALF OF THE CONSOLIDATED UNIT IN THE REPORTING PERIOD

(in CZK)		HYPO stavební spořitelna a.s.					
		On behalf of the issuer		On behalf of the consolidated unit			Total
	tax advisory	audit	tax advisory	audit	tax advisory	audit	
Ernst & Young	499,800.00	0.00	0.00	0.00	499,800.00	0.00	499,800.00
Deloitte Touche	211,983.03	178,678.50	508,103.93	0.00	720,086.96	178,678.50	898,765.46
Konečná, Šafář, Staněk	80,920.00	0.00	0.00	0.00	80,920.00	0.00	80,920.00
KPMG	1,787,030.00	13,666,979.00	0.00	1,647,500.00	1,787,030.00	15,314,479.00	17,101,509.00
PriceWaterhouseCoopers	179,214.00	0.00	0.00	0.00	179,214.00	0.00	179,214.00
Total CZK	2,758,947.03	13,845,657.50	508,103.93	1,647,500.00	3,267,050.96	15,493,157.50	**18,760,208.46**

2.9 MAJOR INVESTMENTS

Data on major investments (in CZK 000)					
Type of investment	2005/12	2005/6	2004	2003	2002
Securities	**29,114,360**	**35,431,012**	**34,035,049**	**27,056,739**	**18,271,846**
thereof:					
State zero-coupon bonds and other securities for trading	1,222,016	2,480,878	1,559,931	7,890,557	2,725,394
State zero-coupon bonds and other securities for sale	3,631,500	7,528,388	9,333,195	2,302,814	5,075,412
Debt securities for trading	3,009,225	3,098,419	958,956	1,088,492	2,478,862
Debt securities for sale	16,734,646	17,265,196	16,881,722	14,586,070	7,005,752
Debt securities held to maturity	1,204,303	2,435,634	2,543,035	751,306	623,426
Shares, participation certificates and other interests for trading	2,871,281	2,180,383	2,316,096	44	0
Shares, participation certificates and other interests for sale	7,478	7,478	7,478	3,000	3,000
Controlling interests	433,671	434,396	488,278	434,216	360,000
Substantial interests	240	240	240	240	0
Information technologies	**166,003**	**205,693**	**176,255**	**140,518**	**160,413**

All data are as at 31 December of the relevant year and stated in CZK 000. All of HVB's investments, except for the financial investments, are of an operative nature. The investments are mostly made in the Czech Republic and are not therefore broken out geographically. Ownership interests that are not securities (i.e. interests in limited liability companies) are not included.

2.10 MAJOR FUTURE INVESTMENTS EXCEPT FOR FINANCIAL INVESTMENTS (PLANNED FOR 2006)

((in CZK 000)	
Investments into information technologies	300,000,000
Other investments (except for financial investments)	27,841,000
Total	**327,841,000**

2.11 GUARANTEES PROVIDED BY THE ISSUER – DATA AS AT 31 DECEMBER 2006

((in CZK 000)	
Guarantees provided	11,330,009
Guarantees provided under opened L/Cs	376,609
Guarantees provided under confirmation of L/Cs	129,796
Total	**11,836,414**

2.12 REVENUES IN RECENT ACCOUNTING PERIODS

(in CZK 000)	1 Jan. – 31 Dec. 2005	1 Jan. – 31 Dec. 2004	1 Jan. – 31 Dec. 2003	1 Jan. – 31 Dec. 2002
Interest income and similar income	5,066,968	4,676,427	4,436,802	6,281,254
Income from shares and participation interests	230,064	90,000	124,007	25,500
Commission and fee income	2,360,030	2,207,888	1,052,972	999,959
Total gross income	**7,657,062**	**6,974,315**	**5,613,781**	**7,306,713**

There is no item known as "revenues" in the financial statements of banks. The issuer is of the opinion that the total gross income (i.e., "Interest income and similar income" + "Income from shares and participation interests" + "Commission and fee income") can be considered equivalent to this indicator.

2.13 ISSUER'S DIRECT AND INDIRECT PARTICIPATION INTERESTS EXCEEDING 10%

Company:	**HYPO stavební spořitelna a. s.**
Registered office:	Senovážné nám. 27, Prague 1
Company identification no.:	61858251
Subjects of business:	The subjects of business are administration of building society savings pursuant to § 1 of Act No. 96/1993 Coll., on Building Society Saving and State Support to Building Society Saving, and performance of the activities listed under § 9, para. 1 of Act No. 96/1993 Coll.: – a) acceptance of deposits from participants in building society savings schemes; – b) providing of loans to participants in building society savings schemes; – c) providing of state subsidies to individuals participating in building society savings schemes; – d) granting of loans to entities whose products and delivered services are intended to meet residential needs; – e) acceptance of deposits from banks, foreign banks, branches of foreign banks, financial institutions, foreign financial institutions and branches of foreign financial institutions; – f) providing of guarantees for loans under building society savings schemes, for loans granted in – compliance with § 5, para. 5 of the Act on Building Society Saving, and for loans specified in § 9, para. 1a) of the Act on Building Society Saving; – g) trading on its own account with mortgage bonds and similar products issued by member countries of the Organisation for Economic Co-operation and Development; – h) trading on its own account with bonds issued by the Czech Republic, with bonds for which the Czech Republic assumed guarantee, and with bonds issued by the Czech National Bank; – i) trading on its own account with bonds issued by the member countries of the Organisation for Economic Co-operation and Development, by the central banks of these countries, by financial institutions of these countries and by banks having their seats in these countries, as well as with bonds for which these countries assumed guarantee, and with bonds issued by the European Investment Bank, Nordic Investment Bank and European Central Bank; – j) conducting payments and clearing payments in connection with the activities of a building society savings company; – k) provision of banking information; and – l) financial brokerage.
Subscribed registered capital:	CZK 500,000,000
Amounts and types of reserves as at 31 December 2005:	Reserves for taxes: CZK 896,520
Other reserves:	CZK 15,500,000
Mandatory reserve fund:	CZK 100,000,000
Net profit for 2005:	CZK 119,955,000
HVB's share in the company's registered capital	60% (fully paid up)
Income from the share in 2005:	CZK 38,762,094
Company:	**CBCB-Czech Banking Credit Bureau, a.s.**
Registered office:	Na Příkopě 21, 117 19 Prague 1
Company identification no.:	26199696
Subjects of business:	Provision of software Consultancy in the area of HW and SW Automatic data processing Databank services Administration of computer networks
Subscribed registered capital:	CZK 1,200,000
Amounts and types of reserves as at 31 December 2005:	The company does not publish financial statements.

Net profit for 2005:	The company does not publish financial statements.
HVB's share in the company's registered capital:	20% (fully paid up)
Income from the share in 2005:	CZK 172,514
Company:	**CAE PRAHA, a.s.**
Registered office:	Nám. Kinských 602, Prague 5
Company identification no.:	43004580
Subject of business:	Lease of real estate, apartments and non-residential premises, without providing other than basic services, ensuring proper administration of real estate, apartments and non-residential premises
Subscribed registered capital:	CZK 100,000,000
Amounts and types of reserves as at 31 December 2005:	CZK 0
Loss for 2004:	CZK 725,000
HVB's share in the company's registered capital:	100%
Income from the share in 2005:	CZK 0
Company:	**HVB Reality CZ, s.r.o.**
Registered office:	Elišky Peškové 15, Prague 5
Company identification no.:	60465859
Subject of business:	Real estate brokerage activities Wholesaling Specialised retail sale Business, financial, organisational and economic consultancy
Subscribed registered capital:	CZK 570,312,000
Amounts and types of reserves as at 31 December 2005:	Mandatory reserve fund: CZK 2,660,000
Net profit for 2005:	CZK 42,151,000
HVB's share in the company's registered capital:	100%
Income from the share in 2005:	CZK 0
Company:	**HVB Factoring s.r.o.**
Registered office:	Italská 24, Prague 2
Company identification no.:	27182827
Subject of business:	Business, financial, organisational and economic consultancy Services in the area of administrative management and services of organisational-economic nature with natural persons and legal entities
Subscribed registered capital:	CZK 50,000,000
Amounts and types of reserves as at 31 December 2005:	Tax reserves: CZK 35,880
Mandatory reserve fund:	CZK 2,356
Net profit for 2005:	CZK 10,248
HVB's share in the company's registered capital:	100%
Income from the share in 2005:	CZK 0

2.14 ISSUER'S BUSINESS OUTLOOK THROUGH THE END OF THE 2006 ACCOUNTING PERIOD (IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS), AND FUTURE STRATEGY OF ISSUER'S ACTIVITY

Balance sheet	
Assets (estimates, in CZK 000)	
Cash in hand and balances with central banks	2,418,701
Receivables from banks	24,000,000
Receivables from customers	105,970,785
Securities for trading	5,200,000
thereof: Fixed income securities	5,200,000
Variable income securities	0
Securities portfolio – financial assets	34,000,000
Participation interests	504,629
thereof: Participation interests with substantial influence	240
Participation interests with controlling influence	504,389
Long-term financial investments	33,495,371
Intangible fixed assets	384,402
Tangible fixed assets (including leasing)	347,847
Receivables from shareholders and partners (subscribed unpaid capital)	0
Treasury shares to reduce registered capital	0
Other assets	1,330,000
Total assets	**173,651,735**
Liabilities and owner's equity (estimates, in CZK 000)	
Due to banks	36,542,998
Due to customers	97,935,042
Certificates of deposit issued	0
Bonds issued	16,500,000
Reserves	335,000
Long-term loans of a special kind taken	676,260
Registered capital	5,124,716
Capital funds, reserve funds and other funds from profit	9,694,678
Other liabilities	6,843,041
Total liabilities and owner's equity	**173,651,735**
Profit and loss account	
Interest income (banks, clients, government bodies)	3,179,861
Commission and fee income (banks, clients, government bodies)	2,166,603
Gains from trading operations	150,000
General administrative expenses	-2,343,966
Other operating loss	-92,822
Net creation of adjustments and reserves	-416,800
Extraordinary income	-192
Income tax	-641,644
Net profit/loss for the accounting period	**2,001,041**

2.15 GENERAL OUTLINE OF TRENDS IN THE ISSUER'S ACTIVITY FROM 31 DECEMBER 2005 ONWARD

The Bank is maintaining its position as one of the leading banks delivering comprehensive services to corporate clients, based on detailed knowledge of the clients' needs, tailored solutions and individualised client care. The Bank retains its traditionally strong position in the segment of financing foreign trade transactions and in project and structured financing. The Bank also maintains a significant market share in financing of commercial real estate, and it continues to develop its operations in the segment of small and medium-sized companies.

In the private customers segment, the Bank is focused on providing high-quality services and products meeting clients' individual needs, including consultancy services. The Bank will continue to target customers from growing segments, for whom it has designated product packages, mortgage financing, consumer loans and alternative investment products (i.e. structured bonds, zero-coupon bonds). In addition to the branch network, there exist such alternatives for accessing the Bank's services as affiliated companies and the Bank's network of strategic partners.

3. ACTIVITIES

3.1. KEY ACTIVITIES

Client group	Banking products and services
Corporate clients	
	Loans
	Project financing and structured financing
	International transactions
	Documentary transactions
	Mortgages
	Treasury & Custody services
	Deposits
	Retail banking
	Payment cards
	Asset management
	Retail (private) clients
Personal and business current accounts	
	Savings accounts, savings books, term deposits
	Overdraft loans on personal accounts
	Standardised consumer loans
	Mortgage loans
	Payment cards
	Homebanking and Phonebanking
	Asset management
	Investment consultancy (share certificates)
	Counter services

3.2 REGISTERED OFFICE OF THE ISSUER'S ORGANISATIONAL UNIT AND DESCRIPTION OF REAL ESTATE OWNED BY THE ISSUER

HVB Bank Czech Republic a.s. has neither any external operations nor any separate organisational units.

HVB Bank owns two real estate properties, both in Brno, at Lidická Street no. 59 and Dvořákova Street no. 1.

3.3 PATENTS AND LICENCES

1/ CNB resolution dated 16 January 2004, ref. no. 2004/141/520 Sp. 520/93/19.12.2003, on the basis of which HVB Bank was granted a bank licence.

2/ Czech Ministry of Finance resolution dated 19 December 1995, ref. no. 104/75 407/95, permitting Vereinsbank (CZ) a.s. to trade in securities and to perform other activities permitted by the Securities Act (confirming the decision of the Securities Commission dated 14 June 1999, ref. no. 521/2703-k/99). This permit remains valid after the change of the company name to Hypovereinsbank CZ a.s. and subsequently to HVB Bank. HVB Bank requested an extension of the granted permit to include other investment services. The Securities Commission granted its permission thereto by a resolution dated 9 October 2002, ref. no. 43/N/224/2001, legally valid and effective from 13 November 2002.

3.4 JUDICIAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

HVB Bank is not and was not involved in any judicial, administrative or arbitration proceedings which had or could have a significant impact on the issuer's financial situation. Neither HVB Bank nor its legal predecessors were involved in such proceedings during the current accounting period and the two preceding accounting periods.

3.5 LOANS OUTSTANDING AND OTHER LIABILITIES

Creditor	European Investment Bank, Luxembourg
Debtor	HypoVereinsbank CZ a.s.
Loan amount	CZK 940,000,000
Interest rate	PRIBOR -0.05%
Loan date	15 June 1999
Maturity date	15 March 2009
Collateral	No collateral*
Creditor	European Investment Bank, Luxembourg
Debtor	HypoVereinsbank CZ a.s.
Loan amount	CZK 677,000,000
Interest rate	PRIBOR -0.05 %
Loan date	15 December 2000
Maturity date	15 March 2009
Collateral	No collateral*
Creditor	European Investment Bank, Luxembourg
Debtor	Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount	EUR 5,862,639.64
Interest rate	EIB POOL RATE**
Loan date	26 April 2001
Maturity date	15 December 2006
Collateral	No collateral*
Creditor	European Investment Bank, Luxembourg
Debtor	Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount	EUR 25,000,000
Interest rate	EIB POOL RATE**
Loan date	15 June 2001
Maturity date	15 June 2009
Collateral	No collateral*
Creditor	European Investment Bank, Luxembourg
Debtor	HVB Bank Czech Republic a.s.
Loan amount	EUR 100,000,000 (disbursed EUR 50,000,000)
Interest rate	EIB POOL RATE**
Loan date	4 December 2001
Maturity date	15 March 2011 – the disbursed portion
Collateral	No collateral*

*) Bayerische Hypo- und Vereinsbank AG, Munich, originally issued a guarantee for EIB with regard to all loans to HypoVereinsbank Czech Republic a.s. However, this guarantee was transferred to Bank Austria Creditanstalt AG, Vienna. Bank Austria AG, Vienna, originally issued a guarantee for EIB regarding all loans

to Bank Austria Creditanstalt Czech Republic a.s. and to HVB Bank Czech Republic a.s., and this guarantee was also transferred to Bank Austria Creditanstalt AG, Vienna. Presently, all loans are guaranteed by Bank Austria Creditanstalt AG, Vienna.

**) EIB POOL RATE is an interest rate fixed by EIB on a quarterly basis.

Total amount of loans as at 31 December 2005 – converted into CZK (only disbursed amounts)	CZK 3,741,572,429.03

4. STATEMENT OF THE ACCURACY OF THE DATA IN THE ANNUAL REPORT

The Managing Board hereby declares that the data included in the Annual Report reflect the actual situation and that no substantial circumstances that might affect the accurate and correct assessment of the Bank as an issuer of securities have been omitted or distorted.

REPORT ON RELATIONS BETWEEN THE CONTROLLING AND CONTROLLED ENTITIES

Report on Relations between the Controlling and Controlled Entities and on the Relations between Associated Entities pursuant to § 66a of the Commercial Code

This Report includes information on the relations between the company HVB Bank Czech Republic a.s., having its registered office at nám. Republiky 3a/2090, 110 00 Prague 1, ("the controlled entity" or "HVB Bank"), and the company Bank Austria Creditanstalt AG, having its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Austria ("the controlling entity"), and on the relations between the controlled entity and other entities controlled by the controlling entity ("the associated entities").

As the controlling entity is the sole shareholder of the controlled entity, this Report shall not be reviewed pursuant to § 66a, para. 16 of the Commercial Code by the Supervisory Board of HVB Bank.

Within the scope of its business activities in the last year, HVB Bank entered into the following contractual relations with the controlling entity and with other entities controlled by the controlling entity.

1. BANK GUARANTEES

One group of these relations consists of relations established in connection with the provision of bank guarantees by the controlling entity or associated entities on behalf of HVB. For these guarantees, the controlling entity or associated entities are provided with commissions. The controlled entity did not incur any loss on the basis of such relations.

2. COUNTER-GUARANTEES

Relations arising from accepted or issued counter-guarantees are of a similar nature. On the basis of an accepted counter-guarantee, the Bank issues a bank guarantee on behalf of a beneficiary (a third party). In the last year such counter-guarantees were provided by the controlling entity on behalf of the controlled entity. The controlled entity paid co-acceptance commissions to the controlling entity as consideration provided that the beneficiaries of these guarantees were not associated entities. The controlled entity did not incur any loss on the basis of such relations.

3. PLEDGE AGREEMENTS

Pledge agreements represent another form of loan collateral. Pursuant to Czech National Bank Provision No. 3/1999, on Capital Adequacy of Banks Including Credit and Market Risks, in 2002 the controlling entity and the controlled entity concluded a pledge agreement, including amendment thereto, pursuant to § 39 et seq. of Act No. 591/1992 Coll., on Securities, and pursuant to § 152 of the Civil Code, on the basis of which the controlling entity as the pledger pledged the right to bonds and its receivables from bank accounts on behalf of the controlled entity (the pledgee), as a guarantee for the obligations of the controlled entity's debtors. The annexes to the agreement identifying the bonds and receivables and containing the list of debtors were amended in the last reporting period. The controlled entity did not incur any loss on the basis of such relation.

Furthermore, in the last accounting period the controlled entity concluded an amendment to the pledge agreement concluded in 2004 with the company HYPO stavební spořitelna a.s. pursuant to the provisions of § 39 et seq. of Act No. 591/1992, on Securities, as amended, in connection with the provisions of § 152 et seq. of Act No. 40/1964 Coll., the Civil Code, as amended, and pursuant to CNB Decree No. 333/2002 Coll., Stipulating the Prudential Rules for Parent Undertakings on a Consolidated Basis, and of CNB Provision No. 2/2002, on Capital Adequacy of Banks and Other Prudential Rules on a Solo Basis. On the basis of the said pledge agreement, the controlled entity as the pledger establishes a pledge right to bonds in favour of the company HYPO stavební spořitelna a.s. as the pledgee as a guarantee for the receivables of the pledgee against the pledger. The amendment does not change the basic parameters of the pledge agreement.

4. IT AGREEMENTS

Relations to the associated entities are also created by agreements that provide the controlled entity with services in the field of information technologies.

Amendments to the previously concluded Site Framework Contract were executed with the company Informations-Technologie Austria GmbH, and an amendment regulating the performance and payments under a previously concluded agreement was executed with the company WAVE Solutions Information Technology GmbH.

The services were provided under terms corresponding with standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

5. LEASE AGREEMENTS

For the purpose of carrying out its activities the controlled entity has entered into a number of contractual relations, both as a lessee and as a lessor. In the last year, amendments newly stipulating the currency of rent payment were concluded with the associated entities, and furthermore a sublease agreement was concluded with the company Banking Transaction Services s.r.o. Services under both the new agreements and the agreements previously concluded were provided at arm’s length. The controlled entity did not incur any loss on the basis of these relations.

6. BANKING TRANSACTION SERVICES S.R.O.

Furthermore, in the last year the controlled entity concluded a so-called Service Level Agreement with the newly established associated entity Banking Transaction Services s.r.o. Based on this agreement, the company performs activities related to foreign payments for the controlled entity.

The controlled entity also concluded a contract on sale of hardware and a contract on sublease of a back-up centre with Banking Transaction Services s.r.o.

The services were provided under terms corresponding with standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

7. HVB REALITY CZ S.R.O. AND HVB FACTORING S.R.O.

In the last year, the controlled entity concluded Service Level Agreements with the companies HVB Reality CZ s.r.o. and HVB Factoring s.r.o., a company for providing banking support services and a financial institution, which are fully owned by the Bank. The activities performed by the controlled entity for these companies are related to ensuring their operation.

The services were provided under terms corresponding with standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

8. OTHER AGREEMENTS

The controlled entity also entered into other contractual relations with the associated entities in the last reporting period that may not be unambiguously classified into any of the above-defined groups.

The Risk Participation Agreement and the Funded Risk Participation Agreement were concluded with the controlling entity on the basis of which the controlled entity undertakes to participate in the risk of non-repayment of loans to be granted by the controlling entity to third parties.

Furthermore, the Risk Participation Agreement was concluded with the company HVB Banka Serbia and Montenegro a.d. binding that company to participate in the risk of non-repayment of loans to be granted by HVB CZ to third parties.

The controlled entity also concluded, as the creditor, three agreements on provision of credit with the company HVB Banka Serbia and Montenegro a.d.

A framework agreement on co-operation in processing and settling of MasterCard credit cards transactions was executed with the Hungarian company HVB Bank Hungary Rt.

The controlled entity further participated, as a security agent, in transactions wherein the controlling entity was one of the contractual parties.

In the last year, the controlled entity concluded an agency agreement with the company CA IB Corporate Finance Beratungs Ges. m. b. H., the subject matter of which was mediation of an opportunity to conclude a loan agreement with a third party.

A Subcustody Agreement was concluded with Bank BPH SA and HVB Bank Slovakia, a.s., in 2005.

Furthermore the controlled entity concluded a service agreement, known as Agreement Funds Advisory, with the company Asset Management GmbH that regulates distribution of mutual funds of various investment companies.

On the basis of a previously concluded framework Auditing Agreement, the subject of which is performance of internal audit of the controlled company, the Annual Auditing Agreement stipulating the scope of this co-operation for 2006 was concluded last year. The controlled entity provided the controlling entity with adequate compensation for the activity of foreign managers carried out as part of the internal audit.

Further, the controlled entity trades on the inter-bank market at arm's length with the controlling entity and with those associated entities that are banks.

The controlled entity did not incur any loss on the basis of any of the said agreements.

CONCLUSION

All services and considerations were provided in accordance with standard business conditions in the market. The Managing Board declares that HVB Bank did not incur any loss due to the conclusion of the aforementioned agreements, services provided or consideration accepted.

Ing. David Grund

Managing Board, Supervisory Board

Members of the Managing Board

MEMBERS OF THE MANAGING BOARD AS OF 31 DECEMBER 2005:

ING. DAVID GRUND
Born: 24 February 1955
Chairman of the Managing Board
and Chief Executive Officer
Date of appointment to the office:
4 February 2003
Date of appointment as a Member
of the Managing Board:
1 October 2001
K lukám 702, Šestajovice
University of Economics, Prague
26 years of experience in banking

DR. PETER KOERNER
Born: 18 May 1959
Member of the Managing Board
and Executive Director
Date of appointment to the office:
1 December 2004
Pötzleinsdorf Höhe 33, 1180 Vienna,
Austria
University of Economics, Vienna
21 years of experience in banking

NEW MEMBERS:

ALFRED FÜSSELBERGER
Born: 1 March 1964
Member of the Managing Board
and Executive Director
Date of appointment to the office:
1 July 2005
Ober-Grafendorf,
Daniel Granstrasse 8,
Austria
15 years of experience in banking

CHRISTIAN SUPPANZ
Born: 27 December 1950
Member of the Managing Board
and Executive Director
Date of appointment to the office:
1 July 2005
1120 Vienna,
Meidlinger Hauptstrasse 7-9/2/53,
Austria
28 years of experience in banking

MEMBERS OF THE MANAGING BOARD WHO RESIGNED FROM THEIR OFFICES DURING 2005:

ING. PETR BRÁVEK
Born: 4 August 1961
Member of the Managing Board
and Executive Director
Date of resignation from the office:
30 April 2005
Dykova 19, Prague 10
Technical University, Prague
11 years of experience in bank
operations and project management

DR. UDO AMADEUS SZEKULICS
Born: 19 December 1958
Member of the Managing Board
and Executive Director
Date of resignation from the office:
30 June 2005
Nad údolím 62/338, Prague 4
University of Salzburg
20 years of experience in risk
management and law

CHRISTIAN FRANZ BRUCKNER

Born: 19 February 1971
Member of the Managing Board and Executive Director
Date of resignation from the office: 30 June 2005
Hellwagstrasse 12
Vienna, Austria
Danube University, Krems
12 years of experience in banking

MEMBERS OF THE SUPERVISORY BOARD AS OF 31 DECEMBER 2005:

HEINZ MEIDLINGER

Born: 6 September 1955
Date of appointment to the office: 30 July 2001
Kalmusweg 46/Haus 107,
1220 Vienna, Austria
Academy of Commerce and Trade
36 years of experience in treasury

MAG. FRIEDERIKE KOTZ

Born: 22 November 1962
Date of appointment to the office: 21 March 2002
Dobliger Hauptstrasse 11, DG 29
1190 Vienna, Austria
University of Economics, Vienna
20 years of experience in commercial banking, internal audit and quality management

JUDR. JAROSLAVA LAUROVÁ

Born: 2 September 1959
Date of appointment to the office: 3 June 2003
Amforová 1886, 155 00 Prague 5
Faculty of Law, Charles University, Prague
23 years of experience in banking law

HELENA ŠRÁMKOVÁ

Born: 18 May 1954
Date of appointment to the office: March 11, 2002
Liškova 633/8
140 00 Prague 4
Secondary School of Economics, Prague
15 years of experience in banking and payments

HELMUT BERNKOPF

Born: 10 May 1967
Date of appointment to the office: 6 December 2004
Hockegasse 85/4, A-1180 Vienna, Austria
University of Economics, Vienna, Commercial College, Vienna
11 years of experience in banking

HARALD VERTNEG

Born: 26 June 1959
Date of appointment to the office: 7 September 2004
Felixgasse 21, A-1130 Vienna, Austria
University of Vienna
University of Economics, Vienna
22 years of experience in banking

DDR. REGINA PREHOFER

Born: 2 August 1956
Date of appointment to the office: 30 January 2004
Adolfstorgasse 49/2/7,
1130 Vienna, Austria
University of Economics and Business Administration, Vienna
University of Vienna
25 years of experience in banking

ING. PAVEL ŠLAMBOR

Born: 12 March 1972
Date of appointment to the office: 21 April 2004
Černošická 614, 155 31 Prague 5
Technical University, Prague
11 years of experience in banking

NEW MEMBERS OF THE SUPERVISORY BOARD:

ROBERT ZADRAZIL

Born: 16 October 1970
Date of appointment to the office: 1 February 2005
Polgarstrasse 21/4, A-1220 Vienna, Austria
12 years of experience in banking

MEMBERS OF THE SUPERVISORY BOARD WHO RESIGNED FROM THEIR OFFICES DURING 2005:

RALF CYMANEK

Born: 13 February 1969
Date of resignation from the office: 31 January 2005
Rüdigergasse 9/10, 1050 Vienna, Austria
Technical University, Budapest,
MBA - El Escorial, Spain
13 years of experience in consultancy

Branches

HVB BANK CZECH REPUBLIC A.S.
nám. Republiky 3a
110 00 Prague 1
Tel.: 00420 221 112 111
Fax: 00420 221 112 132

PRAGUE – NÁMĚSTÍ REPUBLIKY
nám. Republiky 3a
110 00 Prague 1
Tel.: 221 119 611
Fax: 221 119 622

PRAGUE – REVOLUČNÍ
Revoluční 7
110 00 Prague 1
Tel.: 221 119 761
Fax: 221 119 762

PRAGUE – PALÁC ADRIA
Jungmannova 31
110 00 Prague 1
Tel.: 221 119 641
Fax: 221 119 642

PRAGUE – HAVELSKÁ
Havelská 19
110 00 Prague 1
Tel.: 221 119 706
Fax: 221 119 702

PRAGUE – VINOHRADY
Italská 24
121 49 Prague 2
Tel: 221 119 671
Fax: 221 119 672

PRAGUE – VALDEK
Jugoslávská 29
120 00 Prague 2
Tel.: 221 119 721
Fax: 221 119 722

PRAGUE – PALÁC FLÓRA
Vinohradská 151
130 00 Prague 3
Tel.: 255 743 201
Fax: 255 743 204

PRAGUE – ARBES
Štefánikova 32
150 00 Prague 5
Tel.: 251 081 617
Fax: 251 081 620

PRAGUE – DEJVICE
Vítězné náměstí 10
160 00 Prague 6
Tel.: 233 089 511
Fax: 233 089 520

BRNO – KOBLIŽNÁ
Kobližná 2
601 80 Brno
Tel.: 542 422 411
Fax: 542 215 561

BRNO – LIDICKÁ
Lidická 59
602 00 Brno
Tel.: 549 523 411
Fax: 549 523 499

ČESKÉ BUDĚJOVICE
U Zimního stadionu 3
370 21 České Budějovice
Tel.: 386 105 411
Fax: 386 105 499

HRADEC KRÁLOVÉ
Ulrichovo náměstí 854
500 02 Hradec Králové
Tel.: 495 000 127
Fax: 495 512 550

CHOMUTOV
Blatenská 802
430 01 Chomutov
Tel.: 474 686 832
Fax: 474 629 295

JIHLAVA
Palackého 28
586 01 Jihlava
Tel.: 567 310 767
Fax: 567 301 107

KARLOVY VARY
Moskevská 10
360 01 Karlovy Vary
Tel.: 353 221 525
Fax: 353 228 208

LIBEREC
Husova 1354/49
460 01 Liberec
Tel.: 485 105 267
Fax: 485 105 268

MLADÁ BOLESLAV
Českobratrské nám. 1321
293 01 Mladá Boleslav
Tel.: 326 721 837
Fax: 326 721 845

OLOMOUC
28. října 15
772 00 Olomouc
Tel.: 585 223 281
Fax: 585 223 269

OSTRAVA
Smetanovo náměstí 1
702 00 Ostrava
Tel.: 596 101 411
Fax: 596 112 004

PARDUBICE
Smilova 1904
530 02 Pardubice
Tel.: 466 614 092
Fax: 466 614 096

PLZEŇ – NÁMĚSTÍ REPUBLIKY
nám. Republiky/Riegrova 1
304 48 Plzeň
Tel.: 377 196 111
Fax: 377 196 245

ÚSTÍ NAD LABEM
Mírové náměstí 35A
400 01 Ústí nad Labem
Tel.: 474 445 555
Fax: 474 445 556

ZLÍN
nám. Míru 175
760 01 Zlín
Tel.: 577 212 239
Fax: 577 212 233

Financial Group HVB Bank Czech Republic a.s.

STRUCTURE OF THE FINANCIAL GROUP HVB BANK CZECH REPUBLIC A.S. AND ITS CONSOLIDATION UNIT

Apart from the parent bank, the Financial Group HVB Bank Czech Republic a.s. (HVB Bank) is comprised of HYPO stavební spořitelna a.s., HVB Reality CZ, s.r.o. and HVB Factoring s.r.o. Through the subsidiaries, the Group's range of financial services is extended to include, among others, building society savings and factoring services.

HYPO STAVEBNÍ SPOŘITELNA A.S.

HVB Bank owns 60% of the company's registered capital. The other shareholder is VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, which holds the minority share of 40%.

The building savings market grew by 36.7% in 2005, which means the building savings products are still in great demand among consumers. Building savings represent an integral part of private real estate financing and providing for customers' future welfare, and these savings will continue to play this role.

The number of new contracts increased after declining in the previous year. The company acquired 71,421 proposed contracts with a target amount of CZK 12.5 billion. In comparison with the previous year, this performance represents a 49% increase in the number of contracts and 35% increase in the target amount.

Of the contracts proposed, 65,070 were duly concluded with the target amount of CZK 11.4 billion.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(CZK 000):	31.12.2005	31.12.2004
Registered capital	500,000	500,000
Equity	934,064	806,850
Total assets	28,760,530	24,387,032
Net profit/loss	119,955	64,603

HVB Reality CZ, s.r.o.

HVB Bank owns 100% of the company, whose operations are to provide real estate services.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(CZK 000):	31.12.2005	31.12.2004
Registered capital	570,212	570,212
Equity	62,226	20,075
Total assets	580,173	577,189
Net profit/loss	42,151	29,798

HVB Factoring s.r.o.

HVB Bank owns 100% of the company, which started its factoring operations at the beginning of 2005. The company offers services in purchasing, financing, administration and collecting of receivables.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(CZK 000):	31.12.2005	31.12.2004
Registered capital	50,000	50,000
Equity	50,033	50,024
Total assets	584,181	52,509
Net profit/loss	10	24

KEY FINANCIAL INDICATORS ON CONSOLIDATED BASIS

KEY FINANCIAL INDICATORS ON CONSOLIDATED BASIS

		2005	2004
A. Capital and capital adequacy			
Capital adequacy ratio	%	11.0	10.4
Tier 1	CZK mil.	13,194	11,289
Tier 2	CZK mil.	716	1,216
Employed Tier 3	CZK mil.	-	-
Items deductible from the total of Tier 1 and Tier 2	CZK mil.	218	279
Total capital	CZK mil.	13,692	12,226
Capital requirements in accordance with specific regulations:			
Capital requirement A	CZK mil.	9,408	8,196
Capital requirement B	CZK mil.	592	1,167
Capital requirement for credit risk of trading portfolio	CZK mil.	281	158
Capital requirement for credit exposure risk of trading portfolio	CZK mil.	-	-
Capital requirement for general interest rate risk	CZK mil.	248	965
Capital requirements for general equity risk	CZK mil.	2	-
Capital requirement for foreign exchange risk	CZK mil.	62	44
Capital requirement for commodities risk	CZK mil.	-	-
B. Ratio indicators			
Return on average equity after tax	%	13.7	12.9
Return on average assets after tax	%	1.1	1.1
Assets per employee	CZK mil.	143.2	123.8
General administrative expenses per employee	CZK mil.	2.0	1.9
Net profit per employee	CZK mil.	1.5	1.2

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED INCOME STATEMENT

	Note	2005 MCZK	2004 MCZK
Interest income and similar income	6	6,063	5,557
Interest expense and similar expenses	6	(3,138)	(2,962)
Net interest income		**2,925**	**2,595**
Dividends income	7	191	0
Fee and commission income	8	2,728	2,577
Fee and commission expense	8	(500)	(467)
Net fee and commission income		**2,228**	**2,110**
Gains/losses from trading	9	88	108
Gains/losses from financial investments	12	42	238
Other operating income	11	214	54
General administrative expenses	10	(2,762)	(2,499)
Impairment of loans and receivables	16	(199)	54
Other operating expenses	11	(264)	(330)
Profit before tax		**2,463**	**2,330**
Current income tax	28	(648)	(672)
Deferred income tax	28	147	6
Net profit for the year		**1,962**	**1,664**
Minority interest		(48)	(26)
Net profit for the year		**1,914**	**1,638**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 MCZK	2004 MCZK
ASSETS			
Cash in hand and balances with central banks	13	2,247	593
Financial assets held for trading	14	3,789	3,434
Loans and receivables from banks	15	36,208	21,228
Loans and receivables from customers	16	94,952	86,188
Financial investments	17	50,716	50,710
Property, plant and equipment	18	836	910
Intangible assets	19	256	248
Deferred tax asset	28	191	36
Other assets	20	3,166	1,829
Total assets		**192,361**	**165,176**
LIABILITIES			
Deposits from banks	22	28,230	24,041
Deposits from customers	23	122,596	110,078
Debt securities issued	24	17,272	10,732
Financial liabilities held for trading	25	3,070	2,641
Provisions	26	457	498
Deferred tax liability	28	87	20
Other liabilities	27	4,217	2,887
Subordinated liabilities	29	679	713
Total liabilities		**176,608**	**151,610**
SHAREHOLDER’S EQUITY			
Issued capital	30	5,125	5,125
Share premium	30	1,997	1,997
Reserve funds	32	1,840	1,747
Reserves from revaluation of financial instruments		165	(57)
Retained earnings	32	6,252	4,431
Total shareholder’s equity		**15,379**	**13,243**
Minority interest		374	323
Total shareholder’s equity and minority interest		**15,753**	**13,566**
Total liabilities, shareholder’s equity and minority interest		**192,361**	**165,176**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MCZK	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of hedging instruments	Reserves from revaluation of available-for-sale securities	Retained earnings	Shareholders' equity without minority. interest	Minority interest	Shareholders' equity and minority interest
Balance at 31 Dec. 2003 according to CAS	**5,125**	**1,997**	**649**	**1,051**	**–**	**–**	**3,507**	**12,329**	**357**	**12,686**
Impact of the IFRS adoption				(38)	(57)	(53)	371	223		223
Balance at 1 Jan. 2004	**5,125**	**1,997**	**649**	**1,013**	**(57)**	**(53)**	**3,878**	**12,552**	**357**	**12,909**
Change in revaluation of available-for-sale securities						360			–	
Change in fair value of derivatives in cash flow hedging					(307)					
Unrealized gains/losses booked into equity					**(307)**	**360**		**53**	**–**	**53**
Transfer to statutory reserve fund			85				(85)	–		–
Dividends paid							(1,000)	(1,000)	(60)	(1,060)
Net profit/loss for the year							1,638	1,638	26	1,664
Balance at 31 Dec. 2004	**5,125**	**1,997**	**734**	**1 013**	**(364)**	**307**	**4,431**	**13,243**	**323**	**13,566**
Change in revaluation of available-for-sale securities						198			29	
Change in fair value of derivatives in cash flow hedging					24					
Unrealized gains/losses booked into equity					**24**	**198**		**222**	**29**	**251**
Transfer to statutory reserve fund			93				(93)	–		
Dividends paid								–	(26)	(26)
Net profit/loss for the year							1,914	1,914	48	1,962
Balance at 31 Dec. 2005	**5,125**	**1,997**	**827**	**1,013**	**(340)**	**505**	**6,252**	**15,379**	**374**	**15,753**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED CASH FLOW STATEMENT		
	2005	2004
	MCZK	MCZK
Net profit for the year	**1,962**	**1,664**
Adjustments for non-cash items		
Impairment of loans and receivables	199	(54)
Impairment of participation interests	6	-
Impairment of other assets	20	125
Creation and release of other provisions	246	256
Depreciation of property, plant and equipment and intangible fixed assets	86	-
Impairment of intangible fixed assets	(1)	-
Changes in accruals	147	6
Deferred tax	117	(99)
Operating profit before change in operating assets and liabilities	***2,782***	***1,898***
Financial assets held for trading	(384)	3,935
Loans and receivables from banks	(14,979)	4,863
Loans and receivables from customers	(8,856)	(4,160)
Other assets	(1,377)	(154)
Deposits from banks	4 323	412
Deposits from customers	12,533	11,934
Financial liabilities held for trading	429	266
Other liabilities	1 275	758
Net cash flows from operating activities	**(4,254)**	**19,752**
Change in financial investments	(6)	(20,200)
Proceeds from sale of property, plant and equipment and intangible fixed assets	39	3
Acquisition of property, plant and equipment and intangible fixed assets	(457)	(302)
Acquisition of subsidiary	-	(70)
Net cash flows from investing activities	**(424)**	**(20,569)**
Dividends paid	-	(1,000)
Dividends paid to minority shareholders	(26)	(60)
Debt securities issued	6,392	1,957
Repaid subordinated liabilities	(34)	(443)
Net cash flows form financing activities	**6,332**	**454**
Cash and cash equivalents at 1 January	**593**	**956**
Net cash flows from operating activities	(4,254)	19,752
Net cash flows from investing activities	(424)	(20,569)
Net cash flows from financing activities	6,332	454
Cash and cash equivalents at 31 December	**2,247**	**593**
Income tax paid	(664)	(725)
Interest received	6,126	5,658
Interest paid	(3,084)	(3,162)
Dividends received	191	-

Notes to the Financial Statements (consolidated)

1. BACKGROUND

On 1 October 2001, Bank Austria Creditanstalt Czech Republic, a.s. merged with HypoVereinsbank CZ a.s. resulting in the termination of Bank Austria Creditanstalt Czech Republic, a.s., without liquidation. The name of the combined entity was changed to HVB Bank Czech Republic a.s. All rights and liabilities of the terminated Bank Austria Creditanstalt Czech Republic, a.s. were assigned to HVB Bank Czech Republic a.s. The change of name to HVB Bank Czech Republic a.s. ("the Bank" or "the parent company"), the change in the registered capital and other changes connected with the merger were recorded on 1 October 2001 in the Companies Register of the District Court of Prague under reference number B 3608. The sole shareholder of the Bank is Bank Austria Creditanstalt Aktiengesellschaft, Vienna.

Registered office of the Bank:
Nám. Republiky 3a, č.p. 2090
110 00 Prague 1

The Bank is a provider of retail, commercial and investment banking services in Czech and foreign currency mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follow:

- receiving deposits from the public;
- granting loans;
- investing in securities on its own behalf
- system of payments and clearing;
- issuing payment products, e.g. payment cards, traveller's cheques;
- granting guarantees;
- opening letters of credit (export financing);
- administration of cash collection;
- trading on own behalf or on behalf of clients:
  1. with foreign exchange currency products
  2. with forward and option contracts including foreign currency and interest rate contracts
  3. with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing clients' securities including portfolio management;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information;

- rent of safe-deposit boxes.

The Bank also provides the following additional services through its subsidiaries and associated companies:

- receiving deposits from members of building savings schemes;
- granting loans to members of building savings schemes;
- granting state subsidy to individuals – members of building savings schemes;
- granting other loans to members of building savings schemes for the purpose of early payment to solve housing needs in situation where the members have not yet the right for receiving loans from building savings schemes;
- realty services;
- factoring (purchasing, financing and management of receivables);
- operating bank register.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

For the Bank as an accounting unit, which is an issuer of securities on the regulated securities markets of member states of the European Union, it is mandatory to maintain its accounting and prepare its financial statements in accordance with IFRS as adopted by the EU, with effect from 1 January 2005. Restatements made in connection with the accounting transition to IFRS are recognized and described in Note 4.

All presented amounts are in millions of CZK (MCZK), unless stated otherwise. Numbers in brackets represents negative amounts.

These financial statements are the consolidated financial statements and include the parent company and its subsidiaries ("the Group") and participation interests in associated companies.

The financial statements have been prepared based on the fair value principle including financial derivatives, financial assets and liabilities measured at the fair value through profit and loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(c), part (iv). Recognized assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value. Other financial assets and liabilities and non-financial assets and liabilities are valued at amortized cost or historical cost.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associated companies

Associated companies are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognized gains and losses of associated companies on an equity accounted basis, from the date that significant influence commences to the date that significant influence ceases. When the Bank's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

Non-consolidated subsidiaries and associated companies

Non-consolidated subsidiaries and associated companies are reported in the balance sheet at their purchase prices less impairment losses.

Transactions between the companies in the Group and mutual balances and unrealized profits from relations in the Group are eliminated in the consolidated financial statements. The unrealized profits from transactions with associated companies are eliminated in the amount of the Bank's participation interest in the entity against investments in associated companies.

(b) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are not stated at fair value, are translated at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement as "Gains/losses from trading".

(c) Financial instruments

(i) Classification

Financial assets and financial liabilities at fair value through profit and loss include instruments classified as held for trading and instruments designated by the Group as at fair value through profit and loss upon initial recognition.

Trading instruments are those held by the Group principally for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated hedging instruments, and liabilities from short sales of financial instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

Other financial assets designated by the Group upon initial recognition as at fair value through profit and loss are included within "Financial investments".

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the markets. Loans and receivables are mainly those created by the Group providing money to a debtor other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and customers and unquoted bonds purchased upon primary issue.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are presented as "Financial investments".

Available-for-sale assets are financial assets that are not classified as financial assets recognized at fair value through profit and loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are presented as "Financial investments".

(ii) Recognition

Financial assets at fair value through profit and loss are recognized on the date the Group commits to purchase the assets. From this date any gains or losses arising from changes in the fair value of the assets are recognized in the Group income statement.

The Group recognizes available-for-sale assets on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity under "Reserves from revaluation of available-for-sale securities".

Held-to-maturity assets are recognized on the day the Group commits to purchase the assets.

The Group initially recognizes loans and receivables on the date they are transferred to the Group.

(iii) Measurement

Financial instruments are measured initially at fair value, including (in the case of financial assets not at fair value through profit and loss) transaction costs.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit and loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date. The fair value of unquoted equity instruments is determined as the share in the issuer's equity.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Group would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognized directly in the income statement as "Gains/losses from trading".

Gains and losses arising from a change in the fair value of other financial assets and liabilities at fair value through profit and loss are recognized directly in the income statement as "Gains/losses from financial investments".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement as "Gains/losses from financial investments". Interest income from available-for-sale debt securities is recognized in profit and loss as "Interest income and similar income". Accounting of impairment of available-for-sale assets is described in Note 3(g).

Gains and losses arising from financial assets and liabilities carried at amortized cost are recognized in the income statement when the financial asset or liability is derecognized or impaired (see Note 3(g)), and through the amortization process.

(vi) Derecognition

A financial asset is derecognized when the Group loses the contractual rights to the cash flow from an asset or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is settled.

Available-for-sale assets and assets recognized at fair value through profit and loss that are sold are derecognized and the corresponding receivables from the buyer are recognized as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the maturity date or on the day they are transferred to another portfolio.

(d) Derivatives

(i) Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognizing fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- the hedge is in line with the Group's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its life,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period,
- in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of recognized assets and liabilities or unrecognized commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on remeasurement of the interest-bearing hedged item and hedging derivative are recognized in the income statement in "Interest income and similar income/Interest expense and similar charges".

If the derivative hedges the exposure to the variability of cash flows related to recognized assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognized in equity in "Reserves from revaluation of hedging instruments". The ineffective part of the hedge is recognized in the income statement.

If the hedging of expected transactions results in the recognition of a financial asset or financial liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement in the same period during which the hedged item affects the net profit or loss and are included in the same line as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in equity remains in equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in equity s recognized in the income statement immediately.

(ii) Embedded derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative must be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognized in the balance sheet.

(e) Borrowing and lending of securities

Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.

As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Group recognizes a liability to either banks or customers.

Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized.

As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Group recognizes loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security.

Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations, are recognized on an accrual basis over the period of the transactions and are included in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(g) Impairment

The Group assesses at each balance sheet date whether there is any indication of impairment of assets. If any such indication exists, the asset’s recoverable amount is estimated and the impairment of the asset is recognized in the income statement.

(i) Loans and receivables and held-to-maturity assets

Loans and receivables and held-to-maturity assets are presented net, i.e. considering impairment losses for uncollectibility.

Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets to reduce the carrying amount of these assets to their recoverable amounts. The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument’s original effective interest rate.

Collective impairment losses of portfolios of standard loans, for which no indication of impairment has been identified on an individual basis, are maintained to reduce the carrying amounts of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit ratings of the underlying customers and late payments of interest or penalties. Historical loss experience is the basis for calculating expected loss, which is adjusted by the loss confirmation period that is the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition only of those losses that had occurred in the portfolio as at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, then the loan is written off directly and the loss is recognized in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written-off loan is recognized in the income statement under "Other operating income".

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the recognition of the impairment of the asset, then the impairment loss is reversed through the income statement in "Impairment of loans and receivables".

(ii) Financial assets available-for-sale

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognized directly in equity, the cumulative loss is transferred to the income statement and recognized in "Gains/losses from financial investments". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent of the impairment. Any additional impairment loss is recognized in the income statement. Impairment losses recognized in profit and loss arising from investments in equity instruments classified as available-for-sale are not reversed through profit and loss.

(h) Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are assets that are held for the purpose of providing banking services and the useful lives of which are more than one year.

Property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method to reduce the costs of assets to their residual values over their estimated useful lives as follows:

• Software	2 – 8 years
• Buildings	30 – 50 years
• Other	3 – 20 years

Leaseholds improvements are depreciated on a straight-line basis over the lease term or their remaining useful lives, whichever is the shorter.

Low value fixed assets with acquisition prices lower than CZK 40,000 and useful lives more than 1 year are depreciated over 2 years.

(i) Provisions

A provision represents a probable outflow of an uncertain amount in an uncertain period of time. Provisions are recognized when:

- there is an obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%), and
- the amount of the obligation can be reliably estimated.

(j) Interest income and expense

Interest income and expenses are recognized in the income statement in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued linearly on a daily basis. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(k) Fee and commission income

Fee and commission income and expense represent fees and commissions received/paid by the Group for providing financial services other than those related to the origination of financial assets or liabilities. These form a part of the effective interest income/expense. Fees and commissions arises on financial services provided by the Group, including cash management and payment services, intermediary services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided.

(l) Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared.

(m) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the next period. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments.

The Group's primary segment reporting relates to its business segments, which correspond to the Group's various operations – retail banking, corporate banking, investment banking and other.

As regards geographical segments, the Group operates principally in the Czech Republic and in other member states of the EU.

Retail banking – includes providing loans, mortgages, payment services (including payment cards for consumers), term and saving deposits, building savings scheme.

Corporate banking – includes providing loans, credit commitments and guarantees to corporate clients, cash management, account maintenance, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies with corporate clients, government institutions, etc.

Investment banking – includes such capital market activities as underwriting of investments for clients, investment advisory, mergers and acquisition advisory.

Other – banking activities that are not included in retail, corporate or investment banking.

(o) Impact of standards that are not yet effective

The Group has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force but which are already approved and will have an impact in the future on the Group's financial statements.

IFRS 7 Financial instruments: Disclosures – this standard will require increased disclosure in respect of the Group's financial instruments. It supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and is applicable to all entities that prepare financial statements in accordance with IFRS. The extended disclosure relates mainly to the area of risk management procedures and other qualitative information.

Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* – as a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital and its structure.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – the amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Group believes that this amendment should not have a significant impact on its classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

The Group's management considers the impact of other standards that are already effective but were not used in preparing the current financial statements to be immaterial.

4. IMPACT OF FIRST TIME ADOPTION OF IFRS

As a result of the transition from Czech accounting standards ("CAS") to IFRS on 1 January 2004, the Group booked adjustments to enable presentation of the differences between CAS and IFRS in the financial statements. The booked adjustments mainly relate to changes in the accounting methods and the different presentation of selected items in the financial statements. Changes in the accounting methods mainly affected creation of the loan loss provisions and revaluation of available-for-sale financial instruments. Changes in presentation were required mainly in the area of financial investments.
The changes are described in detail below:

I. Impact of the changes on assets, liabilities and equity as at 1 January 2004:

The table shows the impact of the accounting differences on the Group's assets as at 1 January 2004:

MCZK	Note	CAS 31.12.2003	Impact of transition to IFRS	IFRS 1.1.2004
ASSETS				
Cash in hand and balances with central banks		956	-	956
Financial assets held for trading	(a)	8,979	(1,714)	7,265
Loans and receivables from banks	(b)	25,804	169	25,973
Loans and receivables from customers	(c)	83,029	(92)	82,937
Financial investments	(d)	27,422	3,018	30,440
Plant, property and equipment		509	-	509
Intangible assets		185	-	185
Deferred tax asset		24	14	38
Other assets	(e)	3,348	(1,522)	1,826
TOTAL		**150,256**	**(127)**	**150,129**

(a) "Financial assets held for trading" – the main change is represented by reclassification of the positive fair value of derivatives held for trading of MCZK 1,577 from "Other assets". On the other hand, securities of MCZK 3,371 were transferred to "Financial investments". Under IFRS, these securities are classified into the portfolio of securities valued at fair value through profit and loss.

(b) The only difference in this item involves trading bills of exchange issued by other banks, which were presented in "Financial investments" under CAS.

(c) The main difference in the balance of "Loans and receivables from customers" is due to the difference in the amount of impairment losses from loans and receivables. The Group's total impairment losses from loans and receivables amounted to MCZK 956 under CAS and CNB regulation No. 9, but based on IFRS methodology the impairment losses totalled MCZK 1,252 (including "incurred" losses at portfolio level of MCZK 461). Furthermore, the Group transferred non-listed bills of exchange to "Loans and receivables from customers" (included in "Financial investments" under CAS).

(d) "Financial investments" – the difference is due to the classification of securities valued at fair value through profit and loss (see Note (a)) and the exclusion of bills of exchange (see Notes (b) and (c)).

(e) The main change in "Other assets" represents transfer of the fair value of trading financial derivatives in the amount of MCZK 1,577 to "Financial assets held for trading" (see Note (a)).

The table shows the impact of the accounting differences on the Group's liabilities and equity as at 1 January 2004:

MCZK	Note	CAS 31.12.2003	Impact of transition to IFRS	IFRS 1.1.2004
LIABILITIES AND EQUITY				
Deposits from banks		23,559	-	23,559
Deposits from customers	(f)	87,263	11,079	98,342
Debt securities issued	(g)	15,836	(6,926)	8,910
Financial liabilities held for trading	(h)	-	2,375	2,375
Provisions	(i)	936	(508)	428
Deferred tax liability		-	9	9
Other liabilities	(j)	8,845	(6,379)	2,466
Subordinated liabilities		1,156	-	1,156
Total liabilities		**137,595**	**(350)**	**137,245**
Issued capital		5,125	-	5,125
Share premium		1,997	-	1,997
Reserve funds		1,662	-	1,662
Reserves from revaluation of financial instruments	(k)	-	(110)	(110)
Retained earnings	(l)	3,545	333	3,878
Minority interest		332	-	332
Total equity and minority interest		**12,661**	**223**	**12,884**
TOTAL		**150,256**	**(127)**	**150,129**

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(f) "Deposits from customers" increased mainly due to the transfer of depository notes in the amount of MCZK 6,954 from "Debt securities issued" and the inclusion of selected settlement accounts in the amount of MCZK 2,984 in "Other liabilities". Depository notes are presented in "Due to clients" under IFRS because their substance is the substitution of client's deposits. In addition, payables from expected state subsidy from building savings scheme amounting to MCZK 1,112 were transferred from "Other liabilities".

(g) The difference is mainly due to the exclusion of depository notes in the amount of MCZK 6,954 (see Note (f)). Furthermore, liabilities from short sales of securities of MCZK 697 were transferred to "Financial liabilities held for trading" (see Note (h)). Conversely, accruals of premium arising from issued debt securities were transferred from "Other liabilities".

(h) "Financial liabilities held for trading" comprises the negative fair value of derivatives held for trading of MCZK 1,678, transferred from "Other liabilities", and also liabilities from short sales of securities of MCZK 697 (see Note (g)).

(i) Due to the different approach to provisioning under CAS and IFRS, the IFRS financial statements do not include the general provision for banking risks of MCZK 718. Under IFRS, the general provision is replaced by impairment losses on the portfolio of standard loans presented within "Loans and receivables from customers" (see Note (c)) and the provision for credit risk arising from selected off-balance sheet items of MCZK 212.

(j) "Other liabilities" is influenced mainly by the changes described above: transfer of the settlement account of MCZK 2,984 (see Note (f)), transfer of the negative fair values of derivatives held for trading of MCZK 1,678 (see Note (h)), transfer of expected state subsidy from building savings scheme of MCZK 1,112 (see Note (f)) and other minor reclassifications.

(k) The IFRS balance of MCZK (110) consists of the reserve from revaluation of available-for-sale securities MCZK (53) and the reserve from revaluation of hedging instruments of MCZK (57). Under CAS, available-for-sale securities were revalued through profit and loss and cash flow hedging derivatives were considered as trading derivatives.

(l) The change in "Retained earnings" is due to the differences described in Notes (c), (i) and (k):

	Note	MCZK
Retained earnings – CAS 31.12.2003		**3,545**
Impairment losses of loans and receivables and provision for off-balance sheet items	(c), (i)	218
Revaluation of cash flow hedging derivatives	(k)	57
Revaluation of available-for-sale securities	(k)	53
Other		5
Retained earnings – IFRS 1.1.2004		**3,878**

II. Impact of the changes on assets, liabilities and equity as at 1 January 2005:

The table shows the impact of the accounting differences on the Group's assets as at 1 January 2005:

MCZK	Note	CAS 31.12.2004	Impact of transition to IFRS	IFRS 1.1.2005
ASSETS				
Cash in hand and balances with central banks		586	7	593
Financial assets held for trading	(a)	4,835	(1,401)	3,434
Loans and receivables from banks	(b)	21,188	40	21,228
Loans and receivables from customers	(c)	86,324	(136)	86,188
Financial investments	(d)	47,357	3,353	50,710
Plant, property and equipment		910	-	910
Intangible assets		248	-	248
Deferred tax asset		36	-	36
Other assets	(e)	3,881	(2,052)	1,829
TOTAL ASSETS		**165,365**	**(189)**	**165,176**

(a) "Financial assets held for trading" – the main change is represented by reclassification of the positive fair value of derivatives held for trading of MCZK 2,143 from "Other assets". However, this item does not include securities in the amount of MCZK 3,544, which are presented within "Financial investments". The securities consist of debt securities and certificates, which under IFRS are classified as securities revalued at fair value through profit and loss.

(b) Bills of exchange issued by other banks in the amount of MCZK 40 were transferred from "Financial investments" to "Loans and receivables from banks". These bills of exchange are not listed and meet the criteria to be recognized as receivables.

(c) Under IFRS, the Group reported impairment losses of MCZK 409 from the portfolio of homogeneous loans and receivables, which are not reported under CAS. Impairment losses from individual loans and receivables were simultaneously reduced, especially for non-performing loans. The total difference was MCZK 178 due to the different classification of loans according to CNB regulation No. 9 and the different valuation of collateral connected with non-performing loans.

Under CAS specific collateral was not taken into consideration, whereas under IFRS this could be considered in the analysis of estimated future cash flow. Further changes concern bills of exchange in the amount of MCZK 89, reported as "Financial investments" under CAS, and selected accounts for credit cards settlement and purchased receivables transferred from "Other assets".

(d) "Financial investments" – main changes are the inclusion of securities revalued at fair value through profit and loss (see Note (a)) and the exclusion of non-listed bills of exchange (see Notes (b) and (c)).

(e) Included in "Other assets" are the balances of other accounts receivable, which were offset against "Other liabilities" under CAS. This increased the IFRS balance by MCZK 105. Another change is the transfer of the fair value of trading financial derivatives in the amount of MCZK 2,143 (see Note (a)) and accounts for payment cards settlement and receivables due from members of building savings schemes (see Note (c)).

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The table shows the impact of the accounting differences on the Group’s liabilities and equity as at 1 January 2005:

	Note	CAS 31.12.2004	Impact of transition to IFRS	IFRS 1.1.2005
LIABILITIES AND EQUITY				
Deposits from banks		24,041	-	24,041
Deposits from customers	(f)	91,650	18,428	110,078
Debt securities issued	(g)	26,400	(15,668)	10,732
Financial liabilities held for trading	(h)	-	2,641	2,641
Provisions	(i)	825	(327)	498
Deferred tax liability		20	-	20
Other liabilities	(j)	8,199	(5,312)	2,887
Subordinated liabilities		713	-	713
Total liabilities		**151,848**	**(238)**	**151,610**
Issued capital		5,125	-	5,125
Share premium		1,997	-	1,997
Reserve funds		1,747	-	1,747
Reserve from revaluation of financial instruments	(k)	36	(93)	(57)
Retained earnings	(l)	4,289	142	4,431
Minority interest		323	-	323
Total equity and minority interest		**13,517**	**49**	**13,566**
TOTAL		**165,365**	**(189)**	**165,176**

(f) "Deposits from customers" increased mainly due to the reclassification of depository notes of MCZK 14,895 from "Debt securities issued" and settlement accounts of MCZK 2,333 from "Other liabilities". Depository notes are presented in "Due to clients" under IFRS as their substance is the substitution of client's deposits. In addition, payables from expected state subsidy from building savings scheme amounting to MCZK 1,200 were transferred from "Other liabilities".

(g) The main change is the exclusion of depository notes (see Note (f)) and liabilities from short sales of securities (see Note (h)).

(h) "Financial liabilities held for trading" has changed due to the reclassification of the negative fair values of derivatives held for trading of MCZK 1,861 from "Other assets" and the reclassification of liabilities from short sales of securities of MCZK 780 from "Debt securities issued".

(i) Due to the different approach to provisioning under CAS and IFRS, the IFRS financial statements do not include the general provision for banking risks of MCZK 598. Under IFRS, the general provision is replaced by Impairment losses on the portfolio of standard loans presented within "Loans and receivables from customers" (see Note (c)) and the provision for credit risk arising from selected off-balance sheet items of MCZK 273.

(j) Changes in "Other liabilities" are described above.

(k) The IFRS balance of MCZK (93) consists of the reserve from revaluation of available-for-sale securities of MCZK 271 and the reserve from revaluation of hedging derivatives of MCZK (364). Under CAS, available-for-sale securities were revalued through profit and loss and cash flow hedging derivatives were considered as trading derivatives.

(l) Summary of impact of the transition to IFRS on "Retained earnings":

	Note	MCZK
Retained earnings – CAS 31.12.2004		**4,289**
Differences from previous years	I. (l)	333
Differences in income statement 2004	III.	(194)
Rounding		3
Retained earnings – IFRS 1.1.2005		**4,431**

III. Impact of changes on Group's income statement as at 31 December 2004:

MCZK	Note	CAS 2004	Impact of transition to IFRS	IFRS 2004
INCOME STATEMENT				
Interest income and similar income	(a)	5,959	(402)	5,557
Interest expense and similar charges	(b)	(3,219)	257	(2,962)
Net interest and similar income		**2,740**	**(145)**	**2,595**
Dividends income		-	-	-
Fee and commission income	(c)	1,624	953	2,577
Fee and commission expense		(451)	(16)	(467)
Net fee and commission income		**1,173**	**937**	**2,110**
Net gain from financial operations	(d)	1,237	(1,237)	-
Gains/losses from trading	(e)	-	108	108
Gains/losses from financial investments	(f)	-	238	238
Other operating income		41	13	54
General administrative expenses	(g)	(2,532)	33	(2,499)
Impairment of loans and receivables	(h)	119	(65)	54
Other operating expenses	(i)	(239)	(91)	(330)
Profit before tax		**2,539**	**(209)**	**2,330**
Current income tax	(j)	(687)	15	(672)
Deferred income tax		6	-	6
Net profit for the year		**1,858**	**(194)**	**1,664**
Minority interest		(26)	-	(26)
Net profit for the year		**1,832**	**(194)**	**1,638**

(a) "Interest income and similar income" changed due to:

- Effects of fair value hedge are reported differently under IFRS, as they are not included in "Interest expenses" but in "Interest income". Furthermore, the revaluation of hedged available-for-sale securities was adjusted. Due to these effects, the sum decreased by MCZK (214).
- Interest expenses from cash flow hedging derivatives in the amount of MCZK (140) were transferred from "Net gain from financial operations".
- Interest income from securities held for trading was transferred to "Gains/losses from trading" and Interest income from securities revalued at fair value through profit and loss was transferred from "Gains/losses from trading". The total effect of these transfers is MCZK (48).

(b) The item "Interest expense and similar charges" is affected mainly by the inclusion of MCZK 172, which relates to fair value hedge accounting (see above) and the transfer of MCZK 85 to "Net gain from financial operations", which relates to available-for-sale securities hedged in fair value hedges.

(c) Foreign currency commissions from documentary payments and currency exchange transactions increased "Fee and commission income" by MCZK 946 under IFRS. These items were reported in "Gains/losses from trading" under CAS.

(d) "Net gain from financial operations" was allocated to separate lines of the income statement as described above. One of the most significant changes is that, under IFRS, the revaluation of available-for-sale securities and cash flow hedging derivatives is included within equity rather than in profit and loss under CAS. The net effect of this change is MCZK (17). The last change reflects the different calculation of the change in the fair value of hedged available-for-sale securities under CAS and its impact on the profit before tax was MCZK (67).

(e) Gains and losses from financial instruments held for trading were transferred from "Net gain from financial operations" to a separate line.

(f) Gains and losses from financial investments were transferred from "Net gain from financial operations" to a separate line.

(g) The Group transferred selected items in the amount of MCZK 33 from "General administrative expenses" to "Other operating expenses". These consisted mainly of services paid for employees.

(h) The main change in "Impairment of loans and receivables" is the lower release of provisions under IFRS of MCZK (113). Under IFRS, the Group also reported in 2004 a release of the provision for selected off-balance sheet instruments which was MCZK (12) lower. At the same time, income from written-off receivables of MCZK 6 was transferred to "Other operating income".

(i) The item "Other operating expenses" is influenced by creation of the provision for selected off-balance sheet items in the amount of MCZK (61), and further by the inclusion of services transferred from "General administrative expenses" of MCZK (33) and the reclassification of the fee for interbank services of MCZK 16 to "Fee and commission expenses".

(j) The change in "Current income tax" was due to the more accurate calculation of income tax totalling MCZK 15.

The impact of the transition to IFRS on the profit and loss without reclassification is as follows:

	Note	MCZK
Net profit for the year – CAS 2004		**1,858**
Impairment losses from l oans and receivables	(h)	(125)
Revaluation of cash flow hedge derivatives	(e)	307
Revaluation of available-for-sale securities	(e)	(324)
Revaluation of available-for-sale securities hedged against risk of changes in fair value	(e)	(67)
Correction of income tax expenses	(j)	15
Net profit for the year – IFRS 2004		**1,664**

5. CONSOLIDATED COMPANIES

The consolidated financial statements include the following subsidiaries that are in the consolidated Group:

Name	Registered office	Business activity	Date of acquisition	Acquisition price	Net book value	Share of the Group 31.12 2005	Share of the Group 31.12 2004
HYPO stavební spořitelna a.s.	Prague	building savings	24.6.1994	360	360	60%	60 %
HVB Factoring s.r.o.	Prague	factoring	26.10.2004	50	50	100%	100 %
HVB Reality CZ, s.r.o.	Prague	realty services	30.12.2004	21	21	100%	100 %

The audited financial statements of the subsidiaries for the years ended 31 December 2005 and 2004 were used for the preparation of these consolidated financial statements.

The Bank founded the company HVB Factoring s.r.o. as its 100% subsidiary in order to expand its business activities. The Company was founded on 26 October 2004 and its main activity is factoring financing of receivables.

The company HVB Reality CZ, s.r.o. was purchased on 30 December 2004 and its main activities are in real estate services.

6. NET INTEREST AND SIMILAR INCOME

MCZK	2005	2004
Interest income and similar income:		
Balances with the central bank	366	275
Loans and receivables from banks	503	573
Loans and receivables from customers	3,356	3,091
Financial investments	1,817	1,609
Net income from fair value hedging of loans and deposits	21	9
Interest income and similar income	**6,063**	**5,557**
Interest expense and similar charges:		
Deposits from banks	(924)	(953)
Deposits from customers	(1,695)	(1,561)
Debt securities issued	(490)	(401)
Subordinated liabilities	(17)	(28)
Net loss from fair value hedging of debt securities issued	(12)	(19)
Interest expense and similar charges	**(3,138)**	**(2,962)**

7. DIVIDENDS INCOME

MCZK	2005	2004
Dividends income		
From participation certificates	191	-
Total	**191**	**-**

8. NET FEE AND COMMISSION INCOME

MCZK	2005	2004
Fee and commission income from		
Securities transactions	75	44
Management, administration, deposit and custody services	99	89
Loans	230	238
Payment services	614	574
FX transaction	947	935
Payment cards	352	284
Operations connected with the provision of building savings	369	371
Other	42	42
Fee and commission income	**2,728**	**2,577**
Fee and commission expense from		
Securities transactions	(1)	(6)
Management, administration, deposit and custody services	(29)	(23)
Loans	(69)	(54)
Payment services	(16)	(29)
Payment cards	(185)	(133)
Operations connected with the provision of building savings	(200)	(206)
Other	-	(16)
Fee and commission expenses	**(500)**	**(467)**
Total	**2,228**	**2,110**

Net fee and commission income from payment services includes FX commissions from flat and documentary payments and from cash transactions and currency exchange transactions with customers of the Group. The FX commission represents the difference between the buy/sell FX rate set by the Bank and the official CNB FX rate, which is required by the Accounting Act when revaluating transactions denominated in foreign currency. FX commission is included in "Net fee and commission income" as this income represents significant continuous income from payment transactions and currency exchange transactions with customers of the Group.

9. GAINS/LOSSES FROM TRADING

MCZK	2005	2004
Net realized and unrealized gain/loss from securities held for trading	40	(27)
Net realized and unrealized gain/loss from derivatives held for trading	(71)	12
Net realized and unrealized gain/loss from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	119	123
Total gain from trading	**88**	**108**

10. GENERAL ADMINISTRATIVE EXPENSES

MCZK	2005	2004
Personnel expenses		
Wages and salaries paid to employees	945	783
Social and health insurance	325	273
	1,270	1,056
Including wages and salaries paid to:		
Members of the Board of Directors	24	13
Other executives	74	65
	98	78
Other administrative expenses		
Rent and building maintenance	308	367
Information technologies	232	206
Promotion and marketing	226	250
Materials	91	90
Expense for audit, legal and tax advisory	74	75
Services	219	191
Other	10	8
	1,160	1,187
Depreciation of property, plant and equipment	138	160
Depreciation of intangible assets	108	96
Impairment loss from tangible and intangible assets	86	-
Total general administrative expenses	**2,762**	**2,499**

Social and health insurance includes employees' pension supplementary insurance paid by the Group in the amount of MCZK 9 (2004: MCZK 6).

Information about bonuses tied to equity is included in Note 31.

The average number of employees of the Group (including HVB Group expatriates) was as follows:

	2005	2004
Employees	1,343	1,334
Members of the Board of Directors	4	5
Members of the Supervisory Board	9	9
Other executives	30	27

11. OTHER OPERATING INCOME AND EXPENSES

MCZK	2005	2004
Income from ceded and written-off receivables	23	20
Income from rent	26	12
Release of other provisions	83	5
Release of impairment of other assets	3	3
Release of impairment of property, plant and equipment	16	-
Release of provisions for off-balance sheet items	23	-
Other	40	14
Total other operating income	**214**	**54**
Deposits and transactions insurance	(68)	(148)
Creation of other provisions	(55)	(69)
Impairment of other assets	(9)	(1)
Creation of provisions for off-balance sheet items	(71)	(61)
Other expenses for employees	(31)	(29)
Write-off of other assets	(16)	(12)
Other	(14)	(10)
Total other operating expenses	**(264)**	**(330)**

12. GAINS/LOSSES FROM FINANCIAL INVESTMENTS

MCZK	2005	2004
Net gain/loss from available-for-sale and held-to-maturity securities	29	(2)
Net gain/loss from hedging against risk of changes in fair value of available-for-sale securities	(3)	(6)
Net gain/loss from securities at fair value through profit and loss	17	246
Impairment of participation interest	(1)	-
Total gain from financial investments	**42**	**238**

The decrease in the net gain from financial investments measured at the fair value through profit and loss was caused by dividend payment in 2005 included in "Dividends income".

13. CASH IN HAND AND BALANCES WITH CENTRAL BANKS

MCZK	31.12.2005	31.12.2004
Cash in hand	471	460
Obligatory minimum reserves	1,773	94
Other balances at central banks	3	39
Total	**2,247**	**593**

The obligatory minimum reserves represent deposits made in accordance with CNB regulations and which are not available for ordinary operations. CNB provides interest on these mandatory deposits based on the official CNB two week repo rate.

Cash in hand and balances with central banks are defined as cash and cash equivalents for the purpose of the cash flow statement.

14. FINANCIAL ASSETS HELD FOR TRADING

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return held for trading	1,002	1,283
Shares and other securities with a variable rate of return held for trading	3	8
Fair value of financial derivatives held for trading	2,784	2,143
Total	**3,789**	**3,434**

(a) Analysis of bonds and other securities with a fixed rate of return held for trading

MCZK	31.12.2005	31.12.2004
Issued by financial institutions	-	25
Issued by government sector	1,002	1,258
Total	**1,002**	**1,283**

All bonds held for trading are listed on public markets.

(b) Analysis of shares and other securities with a variable rate of return held for trading

MCZK	31.12.2005	31.12.2004
Issued by financial institutions	3	6
Issued by non-financial institutions	-	2
Total	**3**	**8**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31.12.2005	31.12.2004
Interest rate contracts	1,670	1,367
Currency contracts	306	507
Equity contracts	808	269
Total	**2,784**	**2,143**

For the Group's business strategy related to financial assets held for trading, see Note 36.

15. LOANS TO AND RECEIVABLES FROM BANKS

(a) Analysis of loans and receivables from banks by type

MCZK	31.12.2005	31.12.2004
Current accounts at other banks	294	233
Loans and receivables from banks	29,210	14,001
Term deposits	6,704	6,994
Total loans and receivables from banks	**36,208**	**21,228**
Impairment losses of loans and receivables from banks	-	-
Net loans and receivables from banks	**36,208**	**21,228**

(b) Subordinated loans and receivables from banks

The Bank provided a subordinated loan to another bank in 2004 in the amount of TEUR 7,500. The loan totalled MCZK 218 as at 31 December 2005 (31 December 2004: MCZK 229). The loan is for a term of 10 years. The interest period is to be set within the range of one to six months and the interest rate is based on the appropriate EURIBOR rate.

(c) Analysis of loans and receivables from banks by geographical sector

MCZK	31.12.2005	31.12.2004
Czech Republic	30,041	17,019
European Union	3,534	3,603
Others	2,633	606
Total loans and receivables from banks	**36,208**	**21,228**

16. LOANS AND RECEIVABLES FROM CUSTOMERS

(a) Analysis of loans and receivables from customers by type

MCZK	31.12.2005	31.12.2004
Loans to clients	96,108	86,530
Receivables from promissory notes	88	89
Clients' bonds acquired by primary auction and not designated as held for trading	-	716
Total loans and receivables from customers	**96,196**	**87,335**
Impairment losses of loans and receivables from customers	(1,244)	(1,147)
Net loans and receivables from customers	**94,952**	**86,188**

The above gross amounts include unpaid interest in the amount of MCZK 18 (2004: MCZK 9) from loans more than 90 days overdue. Included in these amounts are loans in the amount of MCZK 284 (2004: MCZK 351) upon which interest is not accrued. If the principle of accruing interest from these loans were applied, the Group would recognize MCZK 11 (2004: MCZK 15) as interest income.

(b) Classification of loans and receivables from customers

MCZK	31.12.2005	31.12.2004
Standard	92,097	81,743
Watch	2,440	4,109
Substandard	773	624
Doubtful	188	156
Loss	698	703
Total loans and receivables from customers	**96,196**	**87,335**

The Group regularly classifies its receivables from customers. The categories used for classification consider the Group's analysis of the probability of receivable repayment and analysis of the debtor's behaviour (number of days overdue, financial performance, etc.). The Group assesses whether impairment of loans and receivables is indicated. If such impairment has been identified, the amount of the loss is measured as the difference between the carrying amount of the receivables and the present value of the estimated future cash flow.

(c) Analysis of loans and receivables from customers by sector

MCZK	31.12.2005	31.12.2004
Financial institutions	13,602	13,250
Non-financial institutions	68,314	61,417
Government sector	1,645	371
Non-profit organizations	178	191
Self-employed	693	766
Resident individuals	8,865	8,240
Non-residents	2,899	3,100
Total loans and receivables from customers	**96,196**	**87,335**

(d) Analysis of loans and receivables from customers by type of security received

MCZK	31.12.2005	31.12.2004
Personal guarantee	427	146
Bank and similar guarantee	12,198	10,985
Mortgage	26,148	27,645
Corporate guarantee	4,322	2,539
Other types of security	1,654	1,573
Security held by the Bank	8,547	9,358
Unsecured	42,900	35,089
Total loans and receivables from customers	**96,196**	**87,335**

(e) Analysis of loans and receivables from customers by business activity

MCZK	31.12.2005	31.12.2004
Realty services	28,238	26,237
Financial services	10,944	9,679
Wholesale	13,357	11,067
Household services	7,339	6,480
Retail	3,286	2,965
Leasing	2,785	3,275
Others	30,247	27,632
Total loans and receivables from customers	**96,196**	**87,335**

(f) Impairment of loans and receivables

Impairment of loans and receivables consists of the following items:

MCZK	31.12.2005	31.12.2004
Impairment of individual loans and receivables from customers	746	737
Impairment of portfolios of standard loans and receivables from customers	498	410
Total	**1,244**	**1,147**

Impairment roll-forward

Balance as at 1 January 2004		1,270
Creation during the current year	225	
Release during the current year	(279)	
Net impact on profit and loss		(54)
Receivables written off		(62)
FX differences		(7)
Balance of impairment of loans and receivables as at 31 December 2004		**1,147**

Balance as at 1 January 2005		1,147
Creation during the current year	332	
Release during the current year	(133)	
Net impact to profit and loss		199
Receivables written off		(95)
FX differences		(7)
Balance of impairment of loans and receivables as at 31 December 2005		**1,244**

17. FINANCIAL INVESTMENTS

(a) Classification of financial investments into portfolios based on the Group's intention

MCZK	31.12.2005	31.12.2004
Available-for-sale securities	30,312	31,298
Held-to-maturity securities	14,232	15,792
Financial assets at fair value through the profit and loss	6,098	3,545
Non-consolidated subsidiaries and associated companies	74	75
Total	**50,716**	**50,710**

(b) Analysis of available-for-sale securities

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return:		
Issued by financial institutions	8,019	7,861
Issued by non-financial institutions	2,246	4,628
Issued by government sector	20,040	18,802
Total	**30,305**	**31,291**
Shares and other securities with a variable rate of return:		
Issued by non-financial institutions	7	7
Total	**7**	**7**
Total available-for-sale securities	**30,312**	**31,298**
Thereof:		
Listed	29,211	24,142
Unlisted	1,101	7,156

(c) Analysis of held-to-maturity securities

MCZK	31.12.2005	31.12.2004
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	1,835	1,164
Issued by non-financial institutions	2,073	3,380
Issued by government sector	10,324	11,248
Total	**14,232**	**15,792**

All securities held until maturity are listed on public markets.

(d) Analysis of securities at fair value through the profit and loss

MCZK	31.12.2005	31.12.2004
Bonds and securities with a fixed rate of return:		
Issued by financial institutions	2,420	31
Issued by non-financial institutions	548	860
Issued by government sector	262	346
Total	**3,230**	**1,237**
Shares and other securities with a variable rate of return:		
Issued by financial institutions	2,868	2,308
Total	**2,868**	**2,308**
Total of securities at fair value through the profit and loss	**6,098**	**3,545**
Thereof:		
Listed	3,187	1,193
Unlisted	2,911	2,352

(e) Non-consolidated subsidiaries and associated companies

Name	Registered office	Business activity	Date of acquisition	Acquisition price	Net book value	Share of the Bank 31.12. 2005	2004
CAE PRAHA a.s.	Prague	lease of real estate	27.6.2003	78	74	100%	100%
CBCB - Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%

In the opinion of the Bank's management, consolidation of the financial statements of the subsidiary CAE PRAHA a.s. would not have a material impact on the consolidated financial statements, and therefore the management of the Bank decided not to include this company into the consolidated group. The company is currently not engaged in any business activity.

CBCB - Czech Banking Credit Bureau, a.s. operates a banking client information register and enables banks to exchange information about accounts, the identity of account owners and other matters concerning their clients' payment prospects and creditworthiness.

18. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

MCZK	Land and buildings	Equipment	Furniture and fittings	Other non-operating property	Fixed assets not yet in use	Total
Cost						
At 1 January 2005	2,045	793	272	1	13	3,124
Additions	8	49	18	-	64	139
Disposals	(42)	(111)	(20)	-	(72)	(245)
Other	-	2	(2)	-	-	-
At 31 December 2005	2,011	733	268	1	5	3,018
Depreciation and impairment						
At 1 January 2005	1,334	659	224	-	-	2,214
Charge for the year	53	64	21	-	-	138
Disposals	(39)	(95)	(20)	-	-	(154)
Release of impairments	(16)	-	-	-	-	(16)
Other	-	1	(1)	-	-	-
At 31 December 2005	1,332	626	224	-	-	2,182
Net book value						
At 1 January 2005	**711**	**137**	**48**	**1**	**13**	**910**
At 31 December 2005	**679**	**107**	**44**	**1**	**5**	**836**

The accumulated depreciation and impairment include impairment of buildings totalling MCZK 456 (2004: MCZK 472).

19. INTANGIBLE ASSETS

Movements in intangible assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 January 2005	696	38	12	746
Additions	210	226	3	439
Disposals	(66)	(223)	(3)	(292)
At 31 December 2005	840	41	12	893
Depreciation and impairment				
At 1 January 2005	493	-	5	498
Charge for the year	106	-	2	108
Impairment losses	86	-	-	86
Disposals	(55)	-	-	(55)
At 31 December 2005	630	-	7	637
Net book value				
At 1 January 2005	203	38	7	248
At 31 December 2005	210	41	5	256

The impairment of MCZK 86 was booked in connection with planned change of information systems.

20. OTHER ASSETS

MCZK	31.12.2005	31.12.2004
Prepaid expense and accrued income	81	142
Trade receivables	191	169
Factoring receivables	581	-
Fair value of hedging derivatives	432	92
Receivables from securities	95	60
Expected state subsidy	1,175	1,200
Suspense accounts	546	89
Other	81	87
Total	**3,182**	**1,839**
Impairment of other assets	(16)	(10)
Net other assets	**3,166**	**1,829**

The subsidiary company's expected claims for state subsidy for building savings from the Ministry of Finance was calculated based on the volume of individual clients' deposits with valid claims for state subsidy, which is limited to CZK 4,500 (or CZK 3,000) per individual. The calculated amount is also presented in the balance sheet in "Deposits from customers" (see Note 23).

(a) Impairment of other assets

MCZK	2005	2004
Balance as at 1 January	10	12
Created during the current year	9	1
Used during the current year	(1)	(1)
Release of allowances no longer considered necessary	(2)	(2)
Balance of impairment of other assets as at 31 December	**16**	**10**

21. IMPAIRMENT OF ASSETS TOTAL

MCZK	Loans and receivables from clients (Note 16)	Financial investments (Note 17)	Tangible and intangible assets (Note 18,19)	Other assets (Note 20)	Total
Balance as at 1 January 2004	(1,270)	(3)	(89)	(12)	(1,374)
Creation during the current year	(225)	-	-	(1)	(226)
Release during the current year	279	-	-	2	281
Write-offs and others	69	-	-	1	70
Impairment loss as at 31 December 2004	**(1,147)**	**(3)**	**(89)**	**(10)**	**(1,249)**
Balance as at 1 January 2005	(1,147)	(3)	(89)	(10)	(1,249)
Additions from business combination	-	-	(383)	-	(383)
Creation during the current year	(332)	(1)	(86)	(9)	(428)
Release during the current year	133	-	16	2	151
Write-offs and others	102	-	-	1	103
Impairment loss as at 31 December 2005	**(1,244)**	**(4)**	**(542)**	**(16)**	**(1,806)**

22. DEPOSITS FROM BANKS

Analysis of deposits from banks by type

MCZK	31.12.2005	31.12.2004
Current accounts	1,659	1,062
Bank loans	16,906	9,248
Term deposits	9,665	13,731
Total	**28,230**	**24,041**

23. DEPOSITS FROM CUSTOMERS

(a) Analysis of deposits from customers by type

MCZK	31.12.2005	31.12.2004
Current accounts	47,800	39,598
Loans	-	1,526
Term deposits	28,059	26,714
Issued depository notes	14,003	14,895
Payables from building savings scheme	25,439	21,434
Payables from expected state subsidy	1,175	1,200
Savings deposits	2,202	2,316
Payments in transfer	3,915	2,335
Other	3	60
Total	**122,596**	**110,078**

Issued depository notes are securities with short-term maturity and represent an alternative form of clients' financing. Therefore, the Group decided to include them in "Deposits from customers" rather than "Debt securities issued".

(b) Analysis of deposits from customers by sector

MCZK	31.12.2005	31.12.2004
Financial institutions	8,874	8,153
Non-financial institutions	48,493	40,176
Government sector	3,316	2,151
Non-profit organizations	840	678
Self-employed	10,943	10,315
Resident individuals	46,079	42,945
Non-residents	4,051	3,293
Other	-	2,339
Total	**122,596**	**110,078**

24. DEBT SECURITIES ISSUED

(a) Analysis of debt securities issued

MCZK	31.12.2005	31.12.2004
Mortgage bonds	14,205	7,896
Structured bonds	2,201	1,218
Zero coupon bonds	788	1,269
Other issued bonds	78	349
Net book value	**17,272**	**10,372**

The Group has purchased its own debt securities for trading purposes in the total amount of MCZK 948 (2004: MCZK 2,901). These debt securities decrease the amount of "Debt securities issued".

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	31.12.2005 MCZK	31.12.2004 MCZK
4/2/2002	4/2/2009	CZK	6.00%	9,543	7,896
15/12/2004	15/12/2006	CZK	1.55%	47	-
15/12/2004	15/12/2006	CZK	1.35%	37	-
5/10/2005	5/10/2015	CZK	4.50%	1,524	-
15/11/2005	15/11/2010	CZK	3.50%	2,956	-
23/11/2005	15/11/2025	CZK	5.00%	98	-
Total				**14,205**	**7,896**

25. FINANCIAL LIABILITIES HELD FOR TRADING

For the Group's trading strategy, see Note 36.

MCZK	31.12.2005	31.12.2004
Interest rate contracts	1,719	1,423
Currency contracts	202	170
Equity contracts	804	268
Liabilities from short sales of securities	345	780
Total	**3,070**	**2,641**

Liabilities from short sales of securities are created by the sale of securities received under repurchase agreements.

26. PROVISIONS

Provisions include the following items:

MCZK	31.12.2005	31.12.2004
Provisions for off-balance sheet items	321	273
Other provisions		
Claims and litigations	41	104
Tax risk	62	-
Provision for tax	-	94
Other	33	27
Total	**457**	**498**

(a) Provisions for off-balance sheet items

MCZK	
Balance as at 1 January 2005	273
Created during the current year	71
Released	(23)
Balance of provisions as at 31 December 2005	**321**

(b) Other provisions

MCZK	Claims and litigations	Tax risk	Current year tax	Other provisions	Total
Balance as at 1 January 2005	104	-	94	27	225
Creation during the current year	-	62	-	33	95
Use during the current year	-	-	(94)	(7)	(101)
Release of provisions no longer considered necessary	(63)	-	-	(20)	(83)
Balance of other provisions as at 31 December 2005	**41**	**62**	**-**	**33**	**136**

Due to ambiguity in the tax laws and their interpretation, and with a tax review by the tax authority being in progress, the Group created a provision of MCZK 62.

The Group reported a current year income tax provision of MCZK 94 in accordance with Regulation No. 593/1992 Coll. related to the obligatory release of the provision for standard loans by 31 December 2005. In 2005, the provision was offset against increased expenses from current year's income tax.

The creation of other provisions in the amount of MCZK 33 represents general operating costs in terms of "Wages and salaries".

27. OTHER LIABILITIES

MCZK	31.12.2005	31.12.2004
Deferred income and accrued expenses	280	215
Trade payables<	520	276
Fair value of hedging derivatives	1,012	961
Taxes payable	102	52
Estimated payables	1,446	1,181
Securities payables (dealings for clients)	116	14
Unsettled securities dealing	55	68
Suspense accounts	510	17
Other	176	103
Total	**4,217**	**2,887**

The creation of estimated payables for interest advantages had an impact on the estimated payables as at 31 December 2005 and 31 December 2004. These interest advantages are credited in accordance with the subsidiary's business terms and conditions to the clients' building savings accounts at the end of the saving cycle. In 2005, an estimated payable was created for these future expenses amounting to MCZK 392 (2004: MCZK 261). The final balance of estimated payable is affected by interest advantages drawn in the current period amounting to MCZK 114 (2004: MCZK 60).

The increased creation of the estimate payable to interest bonuses in 2005 was affected by the use of a different coefficient to calculate the estimated additional interest bonuses. The coefficient was changed based on an evaluation of the development of claims and utilization of these bonuses in 2005.

28. INCOME TAX

(a) Tax in profit and loss

MCZK	31.12.2005	31.12.2004
Current year income tax	633	671
Income tax for previous period	15	1
Deferred tax	(147)	(6)
Total income tax	**501**	**666**

The Group's income tax is different in the following way from the theoretical income tax that would be calculated using the tax rate applicable in the Czech Republic:

MCZK	31.12.2005	31.12.2004
Current year profit (loss) before tax	**2,463**	**2,330**
Income tax calculated using tax rate 26% (2004: 28%)	640	652
Effect of previous years and tax rate changes	26	(22)
Foreign income tax effect	(122)	(55)
Non-taxable income	(188)	(97)
Tax non-deductible expense	277	143
Change in deferred tax	(147)	(6)
Other	15	51
Total income tax	**501**	**666**

The effective tax rate of the Group is 20% (2004: 29%).

(b) Deferred tax asset and liability

Deferred income tax is calculated on all temporary differences using the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following:

MCZK	31.12.2005 Deferred tax asset	31.12.2005 Deferred tax liability	31.12.2004 Deferred tax asset	31.12.2004 Deferred tax liability
Tax non-deductible reserves	6	-	18	-
Social and health insurance from bonuses	33	-	16	-
Impairment of loans and receivables	120	-	5	-
Fixed assets net book value differences	32	5	-	6
Other differences	-	3	4	1
Deferred tax liability/asset	191	8	43	7
Net deferred tax liability/asset recognized in				
Income statement	**191**	**8**	**36**	**-**
Reserve from revaluation of available-for-sale securities	-	79	-	20
Net deferred tax liability/asset recognized in equity	**-**	**79**	**-**	**20**

When calculating the net tax liability/asset the Group offsets the deferred tax liability/asset related to income tax paid to the tax authority in the same tax category. Deferred tax liabilities and assets recognized in equity are not offset against deferred tax liabilities and assets recognized in the profit and loss account.

The Group management believes it is highly probable that the Group will fully realize its deferred tax asset as at 31 December 2005 based on the Group's current and expected future level of taxable profits.

29. SUBORDINATED LIABILITIES

MCZK	31.12.2005	31.12.2004
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	679	713
Total	**679**	**713**

A new subordinated loan agreement was signed with Bank Austria Creditanstalt International AG, Vienna (now Bank Austria Creditanstalt AG, Vienna) on 1 April 2000. This agreement replaced the original subordinated loan agreement. The single subordinated loan withdrawal represents an amount of TEUR 23,400, with a maturity date in March 2010. The interest period can be selected within a range of one to twelve months and the interest rate is based on the market rate on the money market. The loan is in accordance with subordinated loan requirements of the CNB.

30. ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 31 December 2005 and 2004 amounted to MCZK 5,125.

(a) The shareholder as at 31 December 2005 and 31 December 2004

Name	Registered office	Share nominal value (MCZK)	Share premium	Share on equity (%)
Bank Austria Creditanstalt AG, Vienna	Austria	5,125	1,997	100.00
Total		**5,125**	**1,997**	**100.00**

(b) Issued capital analysis

	31.12.2005 Number of shares	31.12.2005 MCZK	31.12.2004 Number of shares	31.12.2004 MCZK
Common shares at 16,320,000 CZK	100	1,632	100	1,632
Common shares at 13,375,000 CZK	200	2,675	200	2,675
Common shares at 10,000 CZK	74,000	740	74,000	740
Common shares at 7,771,600 CZK	10	78	10	78
Total		**5,125**		**5,125**

Shares are transferable with the general meeting’s approval.

The Bank held none of its own shares as at 31 December 2005 and 2004.

31. BONUSES TIED TO EQUITY

The Group has not implemented any incentive bonus schemes or motivation program for employees for the purchase of the Bank’s own shares or paid any remuneration in the form of options to purchase such shares.

32. RESERVE FUNDS AND RETAINED EARNINGS

The split of reserve funds is as follows:

MCZK	31.12.2005	31.12.2004
Statutory reserve fund	827	734
Other reserve funds	1,013	1,013
Reserve funds total	**1,840**	**1,747**
Retained earnings	**6,252**	**4,431**

The Bank creates, in accordance with the law, a statutory reserve fund (part of the item "Reserve funds"). The statutory reserve fund is created from net profit as at the date of preparation of the financial statements for the year in which a profit was first achieved, in an amount of at least 20% of the net profit but not more than 10% of the registered capital. This reserve is replenished annually by 5% of the net profit up to 20% of the registered capital. The statutory reserve fund can only be used to cover incurred losses and use of the statutory reserve fund is under the control of the Board of Directors.

Other funds are allocated from profit to cover general risks or for specific purposes of the company. These are not required by law. Other funds allocated from profit are managed by the Board of Directors.

33. BORROWING AND LENDING OF SECURITIES, REPURCHASE AND RESALE COMMITMENTS

(a) Resale commitments

MCZK	31.12.2005	31.12.2004
Loans and receivables from banks	26,006	13,540
Fair value of securities received	25,904	13,386
Loans and receivables from clients	677	50
Fair value of securities received	856	49

(b) Repurchase commitments

MCZK	31.12.2005	31.12.2004
Payables to banks	12,419	3,822
Fair value of given securities (Financial assets held for trading)	54	161
Fair value of given securities (Financial investments available-for-sale)	12,550	3,706
Payables to clients	-	1,526
Fair value of given securities (Financial assets held for trading)	-	1,467

34. CONTINGENT LIABILITIES, CONTINGENT ASSETS AND DERIVATIVES

During regular business operations the Group enters into various financial operations which are not recognized in the balance sheet. These are called off-balance sheet operations. Unless stated otherwise the following off-balance sheet operations are stated in nominal amounts.

(a) Contingent liabilities

Litigation and claims

The Group reviewed all legal disputes affecting the Group as at 31 December 2005 and created appropriate provisions for litigation and claims (see Note 25). In addition to these litigations there are other claims related to the Group's business activities. However, the management does not expect the result of such claims to have any significant impact on the financial situation of the Group.

The Office for the Protection of Competition (ÚOHS) initiated an administrative procedure against the building societies on 2 April 2004. The procedure resulted in a decision whereby HYPO stavební spořitelna a.s. (HYST) was obliged to pay a fine amounting to MCZK 29, to refrain from implementation of a forbidden and invalid agreement on the exchange of information (data about financial performance of building societies), to refrain from acting in concert concerning the setting of fees relating to building saving schemes, to correct the disparity between the fees for new and old accounts related to building savings schemes, and to set the fees for accounts connected with building savings schemes to the level that existed prior to 1 April 1999. HYST has created a provision for the fine of MCZK 29, assessed by the first instance decision of the ÚOHS on 24 August 2004 but protested against this decision on 9 September 2004.
Based on the decision of ÚOHS on 2 December 2005, the provision was reduced by MCZK 14. HYST protested against this decision on 20 December 2005. The results of this protest were not known as at the date of approval of these consolidated financial statements.

Taxation

Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also unclear which interpretation the tax authority will choose. The result of this situation cannot be quantified and a solution will only be possible after release of official interpretation.

Liabilities from guarantees and credit commitments and other contingent liabilities

Unused credit commitments represent the most significant part of contingent liabilities. The credit commitments granted by the Group include issued commitments for loans or guarantees and also unused credit lines and overdraft facilities. The Group can revoke the revocable credit commitments at any time without stating reasons. On the other hand, irrevocable credit commitments represent the Group's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Group, even though it depends on the client's fulfilment of the terms and conditions.

Liabilities from financial guarantees represent irrevocable commitments that the Group will realize payments when the conditions defined in guarantee certificates are fulfilled. These commitments bear similar risk as do loans, so the Group creates reserves for these commitments using a similar algorithm as when creating loan loss provisions (see Note 37).

Letters of credit represent a written irrevocable liability of the Group to provide funds to the third party or to its order (beneficiary, commissioned) if the letter of credit's conditions were fulfilled in a defined period. It is issued on the basis of the customer's (applicant) request. The Group creates reserves for these financial instruments using a similar algorithm as when creating loan loss provisions (see Note 37).

The Group has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2005, the total amount of these provisions amounted to MCZK 321 (2004: MCZK 273) (see Note 26(a)).

MCZK	31.12.2005	31.12.2004
Irrevocable letters of credit and financial guarantees	11,836	10,117
Other irrevocable contingent liabilities (unused credit commitments)	48,232	41,949
Total	**60,068**	**52,006**

Values taken into administration and management

MCZK	31.12.2005	31.12.2004
Bonds	50,733	37,520
Shares	185,700	67,800
Depository notes	14,009	14,930
Total	**250,442**	**120,250**

(b) Contingent assets

As at 31 December 2005, the Group has the option to draw the following loans:

Credit line provided by Bank Austria Creditanstalt AG, Vienna in the maximum amount of MCZK 2,483 (TEUR 85,609) with maturity in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,711 (TEUR 59,390) with maturity in December 2009. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB.

(c) Financial derivatives

Financial derivatives from OTC market (OTC derivatives)

MCZK	Contractual amounts 31.12.2005	Contractual amounts 31.12.2004	Fair value 31.12.2005	Fair value 31.12.2004
Hedging instruments				
Interest rate swap contracts	38,805	28,463	(736)	(860)
Cross currency swap contracts	6,377	8,047	156	(9)
Trading instruments				
Forward rate agreements (FRA)	43,650	105,100	-	25
Interest rate swap contracts	78,046	54,920	(78)	(132)
Forward foreign exchange contracts	(74)	(31)		
Purchase	15,159	13,689	-	-
Sale 15,214	13,663	-	-	
Option contracts			4	1
Purchase	13,945	8,273		
Sale 13,945	8,273			
Cross currency swap contracts	15,870	14,336	178	368

Listed financial derivatives

MCZK	Contractual amounts 31.12.2005	Contractual amounts 31.12.2004	Fair value 31.12.2005	Fair value 31.12.2004
Trading instruments				
Interest rate futures	790	354	29	51

Residual maturity of financial derivatives

The nominal values of individual types of financial derivatives can be divided based on their residual maturity as follows (30/360 basis).

MCZK	Up to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
As at 31 December 2005									
Hedging instruments									
Interest rate swap contracts	-	145	1,830	11,209	3,228	7,500	3,243	11,650	38,805
Cross currency swap contracts	-	-	6,210	-	-	167	-	-	6,377
Trading instruments									
Forward rate agreements (FRA)	3,500	21,600	18,550	-	-	-	-	-	43,650
Interest rate swaps	5,750	1,244	13,651	20,304	5,697	2,546	3,945	24,909	78,046
Foreign exchange contracts (Purchase)	6,520	3,878	4,637	116	6	2	-	-	15,159
Foreign exchange contracts (Sale)	6,527	3,882	4,685	112	6	2	-	-	15,214
Option contracts (Purchase)	241	215	820	781	6,246	2,262	3,340	40	13,945
Option contracts (Sale)	241	215	820	781	6,246	2,262	3,340	40	13,945
Interest rate futures	-	790	-	-	-	-	-	-	790
Cross currency swap contracts	-	659	-	2,366	7,242	-	1,484	4,119	15,870

MCZK	Up to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
As at 31 December 2004									
Hedging instruments									
Interest rate swap contracts	771	-	3,600	2,826	2,408	2,474	4,541	11,843	28,463
Cross currency swap contracts	-	1,277	-	6,603	-	-	167	-	8,047
Trading instruments									
Forward rate agreements (FRA)	5,550	39,500	47,050	13,000	-	-	-	-	105,100
Interest rate swaps	1,524	2,171	5,295	11,707	7,338	4,494	2,500	19,891	54,920
Foreign exchange contracts (Purchase)	8,318	1,727	3,628	16	-	-	-	-	13,689
Foreign exchange contracts (Sale)	8,260	1,731	3,654	18	-	-	-	-	13,663
Option contracts (Purchase)	443	330	1,242	1,430	358	831	3,371	268	8,273
Option contracts (Sale)	443	330	1,272	1,460	373	862	3,401	132	8,273
Interest rate futures	354	-	-	-	-	-	-	-	354
Cross currency swap contracts	-	4,996	8,143	-	-	-	-	1,197	14,336

35. SEGMENT REPORTING

The Group’s primary segment reporting format is based on the clients’ business segments.

(a) Business segments

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2005					
Net interest and dividends income	36	2,012	1,257	(189)	**3,116**
Other net income	689	1,433	241	14	**2,377**
Depreciation of property, plant and equipment	(30)	(4)	(4)	(294)	**(332)**
Impairment and provisions	(114)	(113)	(7)	12	**(222)**
Segment expenses	(1,280)	(966)	(246)	16	**(2,476)**
Profit before tax	(699)	2,362	1,241	(441)	**2,463**
Income tax	-	-	-	(501)	**(501)**
Result of segment	(699)	2,362	1,241	(942)	**1,962**
Minority interest	-	-	-	(48)	**(48)**
Net profit / loss for the year	**(699)**	**2,362**	**1,241**	**(990)**	**1,914**
Segment assets	14,421	85,498	89,556	2,886	**192,361**
Segment liabilities	80,649	54,508	38,758	2,693	**176,608**

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2004					
Net interest and dividends income	75	1,535	1,006	(21)	**2,595**
Other net income	665	1,363	256	8	**2,292**
Depreciation of property, plant and equipment	(31)	(4)	(4)	(217)	**(256)**
Impairment and provisions	(53)	65	-	(29)	**(17)**
Segment expenses	(1,219)	(858)	(306)	99	**(2,284)**
Profit before tax	(563)	2,101	952	(160)	**2,330**
Income tax	-	-	-	(666)	**(666)**
Result of segment	(563)	2,101	952	(826)	**1,664**
Minority interest	-	-	-	(26)	**(26)**
Net profit / loss for the year	**(563)**	**2,101**	**952**	**(852)**	**1,638**
Segment assets	12,471	79,752	71,684	1,769	**165,176**
Segment liabilities	72,023	42,290	35,193	2,103	**151,610**

(b) Geographical segments

The Group’s accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In 2005 and 2004, the Group generated the main part of its revenues from activities in the Czech Republic and the EU.

36. MARKET RISK MANAGEMENT

(a) Trading

The Group holds trading positions in certain financial instruments including financial derivatives. The majority of the Group's business activities are conducted according to the requirements of the Group's customers. Depending on the estimated demand of its customers, the Group holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Group's trading strategy is thus affected by speculation and market creation but its goal is to maximize the net income from trading.

The Group manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Market risk management" in Note 36 (b).

The majority of derivatives are contracted on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(b) Market risk management

Described below are selected risks to which the Group is exposed through its non-trading activities, principles of managing positions resulting from these activities and management of these risks. The procedures that the Group uses to measure and manage these risks are described in detail in the following paragraphs.

The Group is exposed to market risks arising from its open positions in interest, equity and currency instruments and transactions, which are sensitive to changes in financial market conditions.

The Group's risk management concentrates on the management of the total net exposure resulting from the Group's structure of assets and liabilities. The Group monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods, which is expressed by the change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes, the Group identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of the hedge accounting.

Value at Risk

Value at Risk is the main method for managing the market risks arising from the Group's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Group determines the Value at Risk through the stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Group identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

The following Values at Risk of the consolidated entity relating to individual types of risks are calculated under the assumption that there is no correlation between the risks of the Bank and its subsidiaries.

	31 December	Average	31 December	Average
MCZK	2005	2005	2004	2004
VaR of interest rate instruments	56	47	42	28
VaR of currency instruments	0.4	1.3	0.2	1.5
VaR of equity instruments	0.6	0.8	0.3	0.5

Interest risk

The Group is exposed to interest risk as a result of interest-bearing assets and liabilities with different maturity or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Group is exposed to a risk resulting from the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest on deposits, etc. The activities of the interest risk management section are focused on optimizing the Group's net interest revenue in accordance with the strategy approved by the Board of Directors.

The Group's position as at 31 December 2005 is characterized by a shorter duration on the side of assets compared with liabilities. The Group is therefore more sensitive on the asset side. For longer maturities, the position of short-term assets is balanced by the positions of speculative trades.
The Group's overall position is approximately balanced. The financial position is diversified into several currencies, so the Group is also sensitive to correlation in fluctuations of interest rate in respective currencies. The major sensitivity is connected to EUR and CZK. Net interest income would decrease if the interest rates in respective currencies rose simultaneously.

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Group's strategy for the management of assets and liabilities approved by the Board of Directors. Part of the Group's income is generated by the deliberate incongruity between the interest sensitive assets and liabilities.

The Group applies a "Basis Point Value (BPV)" approach for the measurement of interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. it represents the sensitivity of instruments to interest rate risks.

The Group has set up the interest rate risk limits to restrict fluctuation of net interest income relative to 0.01% changes in interest rates ("BPV limits").

The Group carries out weekly stress testing of interest rates by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impacts on the Group's financial results. The Group has set limits for these stress scenarios, which are part of the Group's risk management process.

The following table includes interest rate sensitivity of the Group's assets and liabilities and effective interest rate:

MCZK	EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspec-ified	Total
As at 31 December 2005											
Cash in hand and balances with central banks	0.00	-	-	-	-	-	-	-	-	2,247	2,247
Financial assets held for trading	1.15	-	63	939	-	-	-	-	-	2,787	3,789
Loans and receivables from banks	2.14	33,188	1,245	1,745	5	-	-	-	-	25	36,208
Loans and receivables from customers	3.98	14,056	32,558	9,338	5,643	5,281	4,929	3,687	7,924	11,536	94,952
Financial investments	5.11	4,320	5,885	16,001	1,520	2,052	2,531	3,577	11,882	2,948	50,716
Deposits from banks	2.66	18,629	7,266	2,330	-	-	-	-	-	5	28,230
Deposits from customers	1.75	85,246	3,389	15,203	4,586	2,311	2,310	2,306	311	6,934	122,596
Debt securities issued	4.58	198	10,111	4,264	-	1,273	892	294	240	-	17,272
Financial liabilities held for trading	0.00	345	-	-	-	-	-	-	-	2,725	3,070
Subordinated liabilities	2.80	-	-	679	-	-	-	-	-	-	679

MCZK	EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2004											
Cash in hand and balances with central banks	0.00	-	-	-	-	-	-	-	-	593	593
Financial assets held for trading	1.75	-	-	787	-	369	-	25	94	2,159	3,434
Loans and receivables from banks	2.52	16,632	1,117	3,207	6	-	-	-	-	266	21,228
Loans and receivables from customers	4.36	17,633	23,813	12,189	4,903	6,303	2,672	3,220	7,308	8,147	86,188
Financial investments	3.55	4,900	7,881	7,401	3,271	2,401	2,723	4,302	15,503	2,328	50,710
Deposits from banks	4.77	12,824	7,670	2,366	465	590	126	-	-	-	24,041
Deposits from customers	1.65	78,192	3,827	9,444	7,222	2,450	2,438	2,438	331	3,736	110,078
Debt securities issued	4.73	-	296	45	1,304	-	270	8,813	4	-	10,732
Financial liabilities held for trading	0.00	780	-	-	-	-	-	-	-	1,861	2,641
Subordinated liabilities	2.49	-	713	-	-	-	-	-	-	-	713

The Group's information system does not allow exact determination of the effective interest rate for all types of financial instruments. For selected instruments, the Group calculated best estimates. "Deposits from banks" in 2004 was significantly influenced by payables in HUF.

Hedge accounting

As part of its market risk management strategy, the Group hedges against interest rate risk. The Group's hedging strategy makes use of both fair value hedging and cash flow hedging.

Fair value hedging

Hedged instruments can be financial assets and liabilities recognized at their carrying amounts (except securities held-to-maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognized in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).

The following table shows the contractual amounts and fair values of derivatives designated as fair value hedging instruments.

MCZK	Contractual amount 31.12.2005	Contractual amount 31.12.2004	Fair value 31.12.2005	Fair value 31.12.2004
Interest rate swaps	26,551	8,937	(226)	(176)
Cross currency swaps	-	-	-	-

Cash flow hedging

The Group uses the concept of cash flow hedging to eliminate interest risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense that are sensitive to changes in market interest rates. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps).

The following table shows the contractual amounts and fair values of derivatives designated as cash flow hedging instruments.

	Contractual amount	Contractual amount	Fair value	Fair value
MCZK	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Interest rate swaps	12,254	19,526	(510)	(684)
Cross currency swaps	6,377	8,047	156	(9)

	Fair value	Fair value
MCZK	31.12.2005	31.12.2004
Hedged instruments		
Available-for-sale securities	79	56
Loans and receivables from clients	161	143
Debt securities issued	(13)	(1)
The remaining part of formerly hedged financial instruments		
Available-for-sale securities	43	62
Loans and receivables from clients	192	275
Debt securities issued	59	79

In line with a change in group strategy in the area of hedge accounting, the Group terminated the fair value hedge accounting for selected financial instruments in December 2003. In connection with this change, the Group still reports the remaining fair value of those instruments, which is amortized until maturity.

Currency risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Group’s exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the profit and loss account.

The Group established a system of currency risk limits based on its net currency exposure in individual currencies. The Group has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD). For remaining currencies are valid limits ranging from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

The Group's position in foreign currencies is as follows:

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2005								
Cash and balances with central banks	2,082	104	33	8	6	-	14	2,247
Financial assets held for trading	3,789	-	-	-	-	-	-	3,789
Loans and receivables from banks	33,239	1,522	174	39	1	3	1,230	36,208
Loans and receivables from customers	62,025	30,759	718	98	1,342	-	10	94,952
Financial investments	35,464	10,199	782	-	-	4,271	-	50,716
Property, plant and equipment	836	-	-	-	-	-	-	836
Intangible assets	256	-	-	-	-	-	-	256
Deferred tax asset	191	-	-	-	-	-	-	191
Other assets	2,994	165	4	-	2	1	-	3,166
Deposits from banks	15,438	9,333	1,668	228	135	1,217	211	28,230
Deposits from customers	98,954	17,613	3,221	164	587	1,714	343	122,596
Debt securities issued	16,901	179	192	-	-	-	-	17,272
Financial liabilities held for trading	3,070	-	-	-	-	-	-	3,070
Provisions	457	-	-	-	-	-	-	457
Deferred tax liability	87	-	-	-	-	-	-	87
Other liabilities	3,951	250	15	-	-	-	1	4,217
Subordinated liabilities	-	679	-	-	-	-	-	679
Equity	15,753	-	-	-	-	-	-	15,753

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2004								
Cash and balances with central banks	426	118	26	6	7	-	10	593
Financial assets held for trading	3,434	-	-	-	-	-	-	3,434
Loans and receivables from banks	18,550	368	2,040	93	4	66	107	21,228
Loans and receivables from customers	52,019	31,361	800	57	1,943	-	8	86,188
Financial investments	37,615	10,034	753	-	-	2,308	-	50,710
Property, plant and equipment	910	-	-	-	-	-	-	910
Intangible assets	241	2	5	-	-	-	-	248
Deferred tax asset	36	-	-	-	-	-	-	36
Other assets	1,572	247	6	-	2	-	2	1,829
Deposits from banks	11,143	6,789	1,271	1	-	4,674	163	24,041
Deposits from customers	88,520	15,399	3,546	187	1,416	812	198	110,078
Debt securities issued	10,275	270	187	-	-	-	-	10,372
Financial liabilities held for trading	2,113	443	85	-	-	-	-	2,641
Provisions	498	-	-	-	-	-	-	498
Deferred tax liability	20	-	-	-	-	-	-	20
Other liabilities	1,821	383	36	-	647	-	-	2,887
Subordinated liabilities	-	713	-	-	-	-	-	713
Equity	13,566	-	-	-	-	-	-	13,566

Equity risk

Equity risk is the risk of a movement in the prices of equity instruments held in the Group's portfolio and financial derivatives derived from these instruments. The main source of this risk is trading with equity instruments, although some equity risk also arises as a result of the Group's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods of managing this risk are disclosed above.

Liquidity risk

Liquidity risk arises as a result of the type of financing of the Group's activities and management of its positions. It includes both the risk that the Group is unable to finance its assets using instruments with appropriate maturity and the risk that the Group is unable to dispose of its assets for an appropriate price within the necessary time period.

The Group has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans accepted and including subordinated loans, as well as equity. This diversification makes the Group flexible and limits its dependency on one financing source. The Group regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy, which is approved by the Bank's board of directors. The Group also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Residual maturity of assets and liabilities of the Group

MCZK	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2005										
Cash and balances with central banks	471	-	-	-	-	-	-	-	1,776	2,247
Financial assets held for trading	-	2	578	-	296	61	39	26	2,787	3,789
Loans and receivables from banks	33,188	479	2,281	5	-	12	-	218	25	36,208
Loans and receivables from customers	3,196	6,368	20,977	10,475	6,462	8,203	6,203	29,215	3,853	94,952
Financial investments	584	2,175	3,599	2,393	3,663	4,754	4,664	25,936	2,948	50,716
Property, plant and equipment	-	-	-	-	-	-	-	-	836	836
Intangible assets	-	-	-	-	-	-	-	-	256	256
Deferred tax asset	-	-	191	-	-	-	-	-	-	191
Other assets	-	69	1,175	-	-	-	-	-	1,922	3,166
Total	**37,439**	**9,093**	**28,801**	**12,873**	**10,421**	**13,030**	**10,906**	**55,395**	**14,403**	**192,361**
Deposits from banks	18,619	3,342	2,368	183	-	2,342	-	1,361	15	28,230
Deposits from customers	92,169	3,391	15,204	4,590	2,311	2,310	2,308	313	-	122,596
Debt securities issued	73	488	107	-	905	10,927	3,030	1,742	-	17,272
Financial liabilities held for trading	345	-	-	-	-	-	-	-	2,725	3,070
Provisions	-	-	-	-	-	-	-	-	457	457
Deferred tax liability	-	-	87	-	-	-	-	-	-	87
Other liabilities	-	262	-	-	-	-	-	-	3,954	4,217
Subordinated liabilities	-	-	-	-	-	-	679	-	-	679
Equity	-	-	-	-	-	-	-	-	15,753	15,753
Total	**111,206**	**7,483**	**17,766**	**4,773**	**3,216**	**15,579**	**6,017**	**3,416**	**22,905**	**192,361**
Gap	**(73,767)**	**1,610**	**11,035**	**8,100**	**7,205**	**(2,549)**	**4,889**	**51,979**	**(8,502)**	**-**
Cumulative gap	**(73,767)**	**(72,157)**	**(61,122)**	**(53,022)**	**(45,817)**	**(48,366)**	**(43,477)**	**8,502**	**-**	**-**

MCZK	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2004										
Cash and balances with central banks	499	-	-	-	-	-	-	-	94	593
Financial assets held for trading	-	-	787	-	369	-	25	101	2,152	3,434
Loans and receivables from banks	16,898	1,117	2,948	6	-	30	-	229	-	21,228
Loans and receivables from customers	3,106	7,396	15,699	7,004	6,360	5,289	9,078	27,141	5,115	86,188
Financial investments	4,401	6,905	6,048	4,472	2,401	2,874	4,302	19,224	83	50,710
Property, plant and equipment	-	-	-	-	-	-	-	-	910	910
Intangible assets	-	-	-	-	-	-	-	-	248	248
Deferred tax asset	-	-	36	-	-	-	-	-	-	36
Other assets	-	117	1,227	-	-		-	-	485	1,829
Total	**24,904**	**15,535**	**26,745**	**11,482**	**9,130**	**8,193**	**13,405**	**46,695**	**9,087**	**165,176**
Deposits from banks	8,951	3,930	5,554	644	1,056	285	2,379	1,242	-	24,041
Deposits from customers	78,192	3,822	9,450	7,221	2,450	2,438	2,438	330	3,737	110,078
Debt securities issued	-	296	-	1,304	-	271	8,858	3	-	10,732
Financial liabilities held for trading	780	-	-	-	-	-	-	-	1,861	2,641
Provisions	-	-	-	-	-	-	-	-	498	498
Deferred tax liability	-	-	20	-	-	-	-	-	-	20
Other liabilities	-	195	-	-	-	-	-	-	2,691	4,086
Subordinated liabilities	-	-	-	-	-	-	-	713	-	713
Equity	-	-	-	-	-	-	-	-	13,566	13,566
Total	**87,923**	**8,243**	**15,024**	**9,169**	**3,506**	**2,994**	**13,675**	**2,288**	**22,374**	**165,176**
Gap	**(63,019)**	**7,292**	**11,721**	**2,313**	**5,624**	**5,199**	**(270)**	**44,407**	**(13,267)**	**-**
Cumulative gap	**(63,019)**	**(55,727)**	**(44,006)**	**(41,693)**	**(36,069)**	**(30,870)**	**(31,140)**	**13,267**	**-**	**-**

37. CREDIT RISK MANAGEMENT

The Group is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

Credit risk is managed at both the level of the individual client (transaction) and the portfolio level.

The credit risk management division is organizationally independent of the trade divisions and is accountable to the member of the Board of Directors responsible for risk management.

(a) Credit risk management at individual client level

The credit risk at client level is managed by analysing the client's financial position and setting limits on the credit exposure. The analysis is focused on the client's standing in the relevant market, rating of the client's financial statements, prediction of future liquidity, etc. The result of this analysis reflects, among other things, the probability of the client default and takes into account both quantitative and qualitative factors. The financial situation analysis and setting the credit limit are performed before the credit is granted to the client and then regularly during the following credit relationship with the client.

The internal rating system comprises 27 rating levels. This system assesses not only the overdue period, but also the financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash flow structure), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc.

If an external rating of the debtor prepared by a renowned rating agency is available, the rating results are also taken into account in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.

For receivables from individuals, an internal rating is not set by the Bank. The ability of the client to fulfil loan conditions is judged based on a standardized system of credit scoring.

As an additional source of information for assessing a client's financial standing, the Bank uses information from credit registries, mainly the CBCB–Czech Banking

Credit Bureau, a.s. and the CNB Central Credit Registry.

In accordance with its credit risk management strategy, the Bank requires collateral for all provided credit before the credit is granted (according to the client's financial standing). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, a bank guarantee from a reputable bank, guarantee from a highly creditworthy person, real estate, assignment of high quality receivables. The Bank's assessment of the net realizable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist department. The net realizable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realize the collateral if and when necessary.

(b) Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting, including analyses and monitoring of trends in certain credit sub-portfolios.

The Bank monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Bank has created a system of internal limits for certain countries, sectors and economically connected groups of debtors and regularly monitors its credit exposure in different segments.

(c) Classification of loans and receivables, impairment and provisions

The Group is regularly pursuing categorization of its receivables arising from financial activities in accordance with regulation No. 9/2002 of the CNB, as amended by regulation No. 6/2004.

The Group regularly evaluates whether impairments of receivables have occurred. If such impairment is identified, the Group creates provisions for impairment in accordance with IFRS.

Impairment of individual loans

The Group recognizes the impairment of an individual loan if the loan's carrying amount decreases and the Group does not write off such amount, or its part, adequate to the loss from the loan's carrying amount. The Group assesses impairment of each watched, substandard, doubtful and loss loan.

The Group calculates the individual impairment in the amount of the loss resulting from decrease of the loan's carrying amount, i.e. the impairment loss is equal to the difference between the carrying amount (reduced by the materially acceptable value of collateral) and the discounted value of estimated future cash flows.

Impairment of loans portfolio

The Bank recognizes impairment of the standard loans portfolio if it identifies a decrease in the portfolio carrying amount as a result of events indicating a decrease of expected future cash flows from this portfolio.

Provisions are assigned to individual portfolios, not to individual loan cases.

The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering the time delay between the impairment event and the moment when the Bank obtains information on the impairment event (i.e. the moment when the loan is classified individually).

Provisions for off-balance sheet items

The Bank creates provisions for selected off-balance sheet items, namely:

(i) Provisions for the off-balance sheet items of the Bank's clients for whom there are currently individual balance sheet receivables fulfilling the conditions for being included into the classified loans category and the Bank creates provisions for those particular loans.

Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off-balance sheet items of the Bank's clients for whom the Bank does not presently record any balance sheet receivable in a given period, but for which, in the case that of such receivable did exist, the conditions for being included into the classified loans would be fulfilled.

(iii) Provisions for selected off-balance sheet items that are ranked into the portfolios. The Bank recognizes such provisions in the same way as in creating provisions for the loans portfolio.

(d) Recovery of receivables

The Bank has established a department to deal with recovery of loans (separately for private clients and corporate clients) in respect of receivables considered to be at risk. These departments aim to achieve one or more of the following goals: a) "revitalization" of the credit relationship, restructuring and potential reclassification to standard receivables, b) full repayment of the loan, c) minimization of the loss from the loan (realization of collateral, sale of receivable with a discount, etc.), and d) prevention of further losses from the loan (comparing future expenses with the probable future revenues).

38. OPERATIONAL RISK AND OTHER RISKS

Operational risk represents the risk of a loss due to the absence or failure of internal processes, human or system error, or external events, including legal risks.

The Group has developed a complex system of internal rules and regulations that modify and define the working processes and related control activities.

The system of internal rules and regulation includes a "Disaster Recovery Plan" and a "Business Continuity Plan", which address the major operational risks. The validity of these documents is reviewed regularly by both internal and external auditors. The Bank also verified the effectiveness of these plans during actual recoveries from failures that occurred, for example in August 2002 when the Bank was affected by floods.

The obligations of employees and management together with related control activities are precisely defined in the internal rules and regulations.

The Bank limits its operational risk in the payment and settlement systems by observing the following principles:

- transactions that result in a cash inflow or outflow (payment system and clearing transactions, settlement of interbank transactions, loan administration) are subject to the four eyes principle (data is entered by one person and authorized by a second),
- daily nostro accounts reconciliation,
- daily and monthly internal accounts reconciliation,
- recording, processing and escalation of client complaints resulting from processing mistakes.

Within its Basel II project, the Bank plans to implement a complex system for monitoring and managing its operational risks. It aims to use standardized methods for operational risk management as at the date of implementing Basel II.

39. TRANSACTIONS WITH RELATED PARTIES

Entities are considered to be related entities if one entity is able to control the activities of the other or is able to exercise significant influence over the financial or operational policy of the other entity.
As at 31 December 2005 the Group was controlled by Bayerische Hypo und Vereinsbank AG, Munich (HVB AG), which, through Bank Austria Creditanstalt AG, Vienna, held a 77.5% stake in the Bank.
In its normal course of business, the Bank enters into transactions with related entities. These transactions represent mainly loans, deposits and other types of transactions and are concluded under normal trade conditions and at normal market prices.

As related parties there were identified namely affiliated companies within HVB/BACA Group, subsidiaries and associated companies, Board members and other management of the Bank.

MCZK	31.12.2005	31.12.2004
Assets		
Loans and receivables from banks	4,103	1,950
thereof:		
Bank Austria Creditanstalt AG	1,340	1,518
HVB Bank Serbia a Cerna Gora	2,206	-
Loans and receivables from customers	5,790	6,080
thereof:		
BA/CA Leasing GmbH	3,882	4,415
Board of Directors	-	2
Management	37	18
Financial investment	1,403	-
HVB Jelzalogbank, Hungary	1,403	-
Total	**11,996**	**8,560**
Liabilities		
Deposits from banks	5,620	9,129
thereof:		
Bank Austria Creditanstalt AG	3,007	7,838
Bayerische Hypo-und Vereinsbank AG	2,268	1,268
Deposits from customers	496	298
thereof:		
BA/CA Leasing GmbH	213	132
Board of Directors	14	7
Management	41	6
Subordinated liabilities	679	713
Bank Austria Creditanstalt AG	679	713
Total	**8,593**	**11,669**

MCZK	2005	2004
Revenues		
Interest income and similar income	226	277
Fee and commission income	139	76
Total	**365**	**363**
Expenses		
Interest expense and similar charges	500	338
Fee and commission expense	27	19
General administrative expenses	2	69
Total	**529**	**426**

40. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The estimate of fair values (see Note 3(b)) is made on the basis of actual market prices, if available. In many cases, the market value of a group of financial instruments is not available. In such circumstances, the fair values are based on the management estimates, discounted cash flow models or other commonly used valuation methods. Many from the methods mentioned above are characterized by considerable uncertainty; the fair value estimates cannot be always considered as market values and in many cases would not be obtained in selling certain financial instruments. Changes of initial assumptions used in determining of fair value can significantly impact the calculated value.

The following table analyses the carrying values and fair values of financial assets and liabilities which are not presented in the balance sheet at their fair values:

MCZK	31.12.2005 Carrying amount	31.12.2005 Fair value	31.12.2004 Carrying amount	31.12.2004 Fair value
Financial assets				
Loans and receivables from banks	36,208	36,213	21,228	21,178
Loans and receivables from customers	94,952	95,829	86,188	86,356
Financial investments				
Securities held to maturity	14,232	15,029	15,792	15,792
Financial liabilities				
Deposits from banks	28,230	28,237	24,041	24,142
Deposits from customers	122,596	122,436	110,078	110,077
Debt securities issued	17,272	17,626	10,732	10,809
Subordinated liabilities	679	679	713	710

41. SUBSEQUENT EVENTS

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Group's financial statements as at 31 December 2005.

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL REPORT

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Auditor's report to the shareholders of HVB Bank Czech Republic a.s.

We have audited the accompanying consolidated financial statements of HVB Bank Czech Republic a.s. for the year ended 31 December 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of HVB Bank Czech Republic a.s. as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the E.U.

Prague
27 April 2006

KPMG Česká republika Audit

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

Pavel Závitkovský
Licence number 69

DATA FROM THE FINANCIAL STATEMENTS OF THE ENTITIES NOT INCLUDED IN THE CONSOLIDATION

Data from the financial statements of the entities not included in the consolidation

CAE PRAHA a.s.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2005	31 Dec. 2004
Registered capital	100,000	100,000
Equity	73,671	74,396
Total assets	73,834	74,546
Net profit/loss	-725	-561

HVB Bank and its consolidation unit hold a 100% share in the registered capital of this company. The company is currently inactive, and is set to be wound up in the course of 2006.

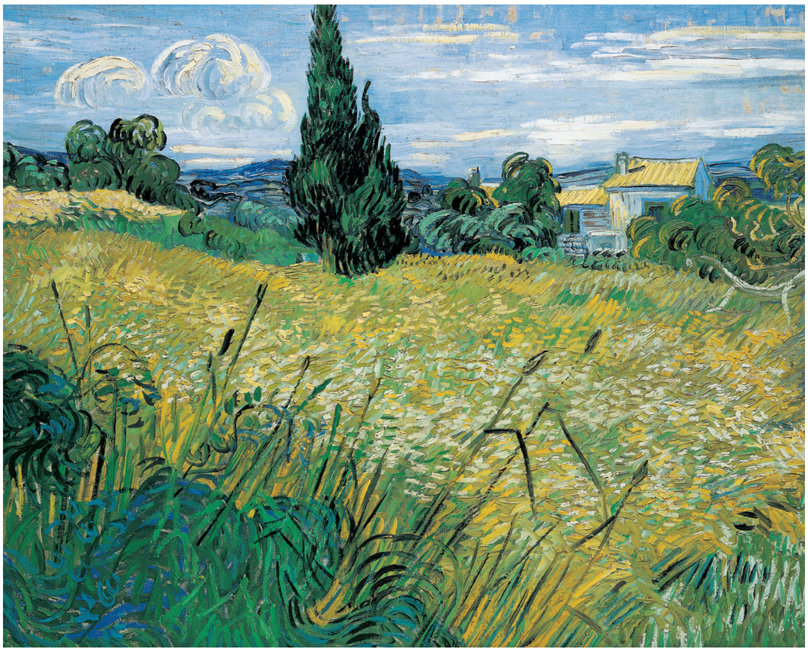
On 13 June 2005, HVB Bank decided to reduce the registered capital of the company to CZK 4,396. This reduction of the registered capital was entered into the Commercial Register on 28 March 2006.

CBCB–CZECH BANKING CREDIT BUREAU, A.S.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2005	31 Dec. 2004
Registered capital	1,200	1,200
Equity	2,984	2,110
Total assets	14,754	9,766
Net profit/loss	1,737	908

HVB Bank and its consolidation unit hold a 20% share in the registered capital of this company.
The company's main business activity is to operate a banking client information register.



Vincent van Gogh (1853 – 1890) / *Green Wheat, 1889*