



Annual Report HVB Bank 2006



ANNUAL REPORT 2006

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FINANCIAL HIGHLIGHTS (IFRS AUDITED, UNCONSOLIDATED)		
HVB Bank Czech Republic a.s.	1 Jan – 30 Sep 2006	1 Jan – 31 Dec 2005
	In CZK millions	In CZK millions
Operating performance		
Net interest income	2,360	2,730
Net fee and commission income	1,549	2,060
General administrative expenses	(1,596)	(2,569)
Profit from ordinary activities before tax	2,578	2,349
Net profit for the year	2,110	1,856
Key ratios		
Return on equity after taxes	17.4%	12.8%
Return on assets after taxes	1.7%	1.2%
Cost-income ratio	36.4%	50.9%
Balance sheet figures		
Total assets	179,344	165,387
Loans and receivables from customers	106,701	93,883
Deposits from customers	104,161	96,034
Issued capital	5,125	5,125
Other regulatory indicators compliant with regulations of the CNB		
Tier 1	14,836	12,897
Total capital	15,190	13,394
Risk-weighted assets (banking portfolio)	129,448	115,750
Capital adequacy ratio	11.1%	10.9%
Number of employees at end of period	954	1,081
Branch offices	24	24

(The results are for the accounting period 1 January 2006 to 30 September 2006.
The 2005 accounting period cannot be used to compare certain data.)



Statement of the Managing Board

Dear clients and business partners,

The Managing Board of HVB Bank Czech Republic a.s. (hereinafter "HVB Bank") is pleased to present its annual report for the period of 1 January 2006 until 30 September 2006.

MACROECONOMIC ENVIRONMENT IN 2006

The Czech economy maintained its dynamic growth during 2006, although the structure of that growth changed in comparison to the previous year. Demand growth was driven especially by private consumption and investments, while the earlier positive influence of exports weakened. The foreign trade balance posted a surplus for the second year in a row, coming in even slightly higher than in 2005. That was affected solely by the positive trend in price developments. The economy's expansion was supported especially by record-breaking growth in industrial production and a related increase in the employment rate. By contrast, productivity growth across the entire economy was slower than in the past.

The Czech crown appreciated by an average 5% relative to the currencies of the major trading partners, although the payment balance developed less favourably than in the past. The Czech National Bank followed the global trend of tightening monetary policy and increased its repo rate in two increments to 2.5%. Nevertheless, the Czech Republic remained the country with the lowest official interest rate in the entire EU. Indeed, the interest rate spread reached a full percentage point relative to

the euro zone. The low interest rates kept the banking sector's year-on-year credit expansion above 20%.

As was expected, the business environment did not change significantly in a year of parliamentary elections. Nevertheless, the political stalemate and delay in establishing a government further delayed the preparation of economic reforms, and that may reduce the economy's future growth potential. That same situation also held up discussions on the timetable for adopting the euro. The election cycle and complicated post-election situation were accompanied by deterioration in the public funds imbalance, and that is most likely to continue in 2007.

PROFIT FOR 2006 WILL AGAIN BE RECORD-BREAKING

In accordance with International Financial Reporting Standards, HVB Bank Czech Republic a.s. generated profit after tax of CZK 2.110 billion for the first nine months of the year (i.e. through 30 September 2006). This represents 13.7% growth compared to the entirety of 2005, when the net profit after tax totalled CZK 1.856 billion. As this amount does not include the results for the last quarter of 2006, we can expect that the profit for 2006 will again be record-breaking.

Return on equity after tax as at 30 September 2006 is 17.4% (31 December 2005: 12.8%). The cost/income ratio improved from 50.9% to 36.4%. Through nine months, HVB Bank increased lending to clients by 13.7% to CZK 107 billion. Similarly, the amount of deposits from clients grew by 8.5% to CZK 104 billion.

With its total assets reaching CZK 179 billion (gaining by 8.4% from CZK 165 billion as at the end of 2005), HVB Bank Czech Republic is the fourth-largest bank in the Czech Republic. HVB Bank's potential for further growth derives especially from the adequacy of its capital base.

As at 30 September 2006, HVB Bank's total assets were CZK 179 billion, which represents 8.4% growth against CZK 165 billion at the end of 2005.

On the assets side in the balance sheet, receivables due from banks decreased by 2.9% compared to the end of 2005 to CZK 34 billion (31 December 2005: CZK 35 billion). Receivables due from customers rose by 13.7% to CZK 107 billion (31 December 2005: CZK 94 billion).

On the liabilities side, the volume of payables due to banks dropped by 4.4% to CZK 27 billion (31 December 2005: CZK 28 billion). Payables due to clients grew by 8.5% to CZK 104 billion (31 December 2005: CZK 96 billion). Payables from debt securities increased by 28.2% to CZK 24 billion (31 December 2005: CZK 19 billion).

CORPORATE CLIENTS

The year 2006 was again a very successful one for the corporate division. As in the past, we continued in growing our operating income and profit contributions across all of our business areas. Overall, comparing January–September of 2006 to the same period in 2005, the corporate division managed to increase its operating income by 8%, average volume of loans by 12%, and average deposits volume by 6%. 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 comprehensive, tailor-made services. We continue effectively to tap 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 have successfully expanded our services to Czech-owned companies. Last year, we stepped up business mediation involving other banks within HVB Group (and also within the whole UniCredit Group). We have been building on the migration of foreign firms into the Czech Republic, as well as on the expansion of Czech companies abroad. In this, we were the most active bank of our Group within CEE.

In 2006, the market teams were expanded by adding new relationship managers focused on small and medium-sized enterprises (SMEs), and that became the fastest growing segment within the corporate division.

For Trade Finance, 2006 was the most successful year ever. We achieved excellent results in letters of credit, bank guarantees, financing of trade receivables and export projects. The total volume of factoring transactions financed through the subsidiary company HVB Factoring, s.r.o. increased by 103% against the previous year and totalled CZK 1.78 billion through 30 September 2006.

During 2006, we successfully defended and even strengthened our prominent market position in commercial real estate finance, as we participated in a large number of major real estate transactions executed in all four real estate segments (office, retail, warehouse and residential). Last year, the commercial real estate portfolio grew by 27%, as the total of committed real estate loans reached some CZK 40 billion. This growth marked the biggest step up in the portfolio in recent years.

In the area of Structured Finance and Syndicated Lending, we maintained our leading position in the segment of acquisition and leveraged finance. We successfully originated a number of large transactions, the most important of which was to finance AGROFERT Group's takeover of the German chemical producer SKW Piesteritz. That deal was one of the biggest LBO transactions executed in the domestic market last year.

PRIVATE AND BUSINESS CLIENTS

The year 2006 stands among the most successful ever for HVB Bank's private and business clients segment. Despite austerity measures and extensive changes in distribution implemented in 2006, this division managed to maintain its earnings growth from previous years. Acquisition of new clients persisted in the pace from previous years, and the structure of new clients was well oriented toward the target segments. This success resulted in the division's significant year-on-year profit growth of more than CZK 230 million before tax.

Moreover, these excellent results were achieved during the period of preparing for the merger of HVB Bank with Živnostenská banka. This merger will provide the Private and Business Clients division with significant synergy effects in the coming months in both cost and income terms.

The Bank again launched several interesting and innovative products into the market. In the securities field, clients were offered additional variants of their favourite structured bonds. These included the short-term bond HVB SBD Energy Cake 2007 and the three-year bond HVB SBD EUROPEAN BANKS 2009, along with the zero coupon bonds HZL ZERO 07 and HVB ZERO/11. HVB Bank also introduced new domestic and foreign funds through Pioneer Investments, which is a part of the UniCredit group.

The Bank today provides a wide range of investment products (including also third-party products). These allow HVB Bank to execute its business strategy that focuses on providing true advisory services to clients in the investments field. That means finding those products that best meet the needs and profiles of clients, as opposed to just hard selling of products.

A traditional strength in the retail banking area is the Bank's mortgage financing under the name Majordomus. The volume of mortgage loans provided reached CZK 4 billion and again exceeded the established targets. Last

year, Majordomus focused on strengthening its position in small developer financing and introduced a new mortgage product, the “Majordomus developer loan”, which is suitable for financing the construction of smaller-sized residential projects.

In the credit cards area, the Bank, along with its partner Winterthur, launched the “Winterthur Club” card with a unique concept linked to pension insurance. Such retail chains as Benzina, Droxi and Exim Tour are participating in this program. Sales of the RENOMÉ card, which involves partners such as Bafa, Fokus Optik, Reserve, Klenoty Aurum and Blažek, also continued to develop successfully.

Expansion in the business clients segment, which the Bank regards as very promising, continued successfully. The client base grew by 10% compared to the previous year. Considering the importance of this segment, the Bank improved its credit products and offered faster and improved access to funds in the form of a standardised credit of up to CZK 5 million. Clients also were provided a new internet banking product, BusinessNet.

In 2006, HVB Bank further developed its successful model for freelance professionals. This model is based on a high level of services and tailor-made products, as well as active co-operation with individual groups of professionals that includes helping to determine their future needs. Lawyers, in particular, constitute a group showing significant growth.

The use of internet banking grew significantly in the past year, and it is now actively used by more than one-third of private and corporate clients. In line with this trend, the Bank innovated and implemented a new-generation internet banking system. It provides users comprehensive management for all of their financial operations, including for securities and credit cards.

TREASURY

The International Markets Division has long been an important source of the Bank’s profitability, and that is seen again in last year’s results.

In 2006, the division did particularly well in pursuing its long-term strategy that focuses on providing comprehensive treasury services. With its innovative approach and individualised solutions for clients’ needs, the division managed to strengthen its position in the corporate clients segment as well as in the highly specialised institutional investors segment.

The clients are provided with services covering the foreign currency, money market, bond and stock market segments, as well as securities custody and depository services and such “next generation” products as commodity and interest-rate derivatives.

Traditionally, the area of assets and liabilities management contributes substantially to the division’s

income. While maintaining optimal measures of structural interest and liquidity risk borne by the Bank, it also brings additional interest income over the long term. Working in close co-operation with the client businesses, it was possible to use the Bank’s sources efficiently and to provide for its re-financing needs on the most effective basis possible (for example, through issuing mortgage-backed securities or structured bonds).

CREDIT RISK MANAGEMENT

HVB Bank continued during 2006 to pursue its strategy of cautious credit risk management. Despite steady growth of the Bank’s credit exposure, its credit portfolio maintains its high quality as measured by the creditworthiness structure of loan receivables. The net creation of loan loss provisions and adjustments in 2006 remained significantly below expectations, and that had a positive impact on HVB Bank’s overall profitability for the year.

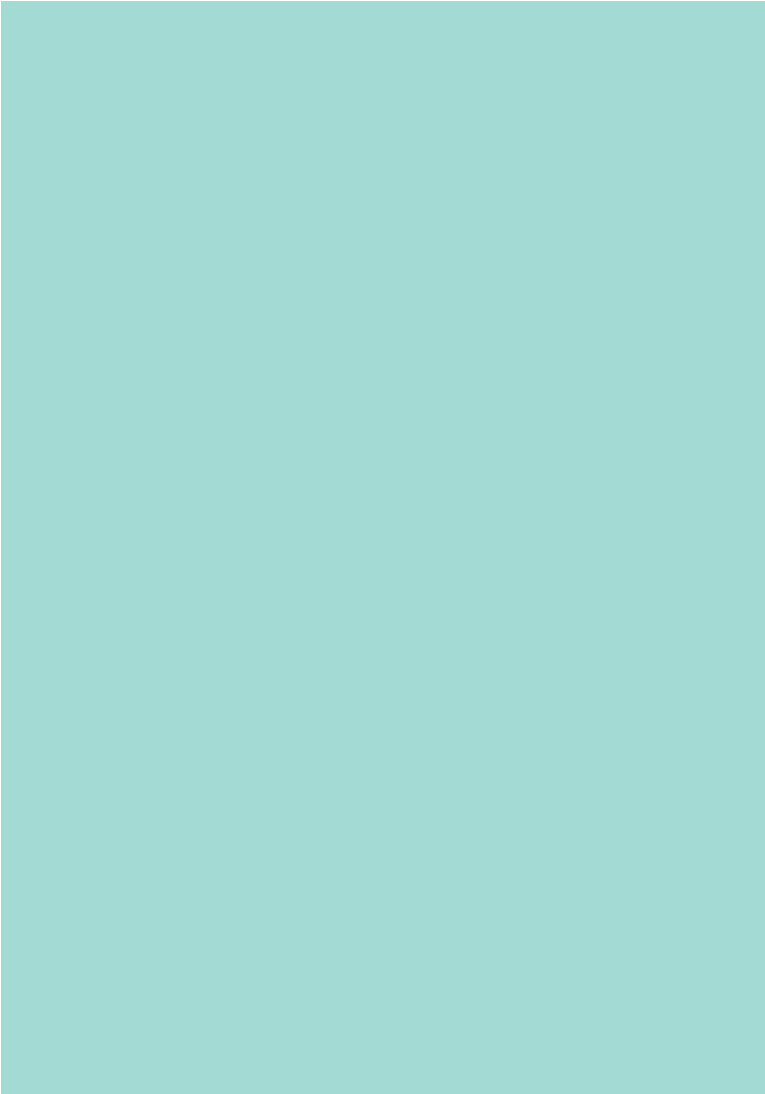
The Credit Risk Management Division co-operated actively with the Bank’s business divisions in achieving their business acquisition efforts, and particularly by streamlining the lending process in the retail segment and that for small and medium-sized enterprises. New rating and scoring tools for quantifying credit risk were implemented in 2006 and the existing tools were adjusted. A new behavioural rating for individuals was implemented, and this allows the Bank to establish and update the probability of default for these clients. Throughout 2006, the Bank was also intensely preparing to integrate its credit risk management procedures with those of Živnostenská banka and to implement the new regulatory concept for calculating capital requirements under Basel II.

BANK’S FUTURE

During 2006, HVB Bank was preparing for the planned merger with Živnostenská banka, which is to be completed in 2007. The merger of the two banks will create the fourth-largest Czech bank – UniCredit Bank. This bank will have total assets of more than CZK 200 billion (EUR 7.4 billion), 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 Managing Board would like to thank all the staff of HVB Bank Czech Republic a.s. for their hard work and exceptional dedication in meeting the established goals. The year 2006 was made even more demanding by the concurrent activities required to successfully complete the merger of HVB Bank and Živnostenská banka. The results for 2006 demonstrate that the growth trend the Bank recorded in previous years, and which also was possible due to the efforts of the its employees, continues.



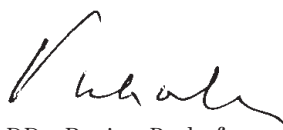
Report of the Supervisory Board

The Supervisory Board of HVB Bank Czech Republic a.s. was regularly informed of the progress of the Bank's business in the period 1 January 2006 – 30 September 2006 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 30 September 2006 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, s.r.o.

The Supervisory Board endorses the findings of the auditor's report on the financial statements as at 30 September 2006.

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 2006 business year.



DDr. Regina Prehofer

EXTRAORDINARY FINANCIAL STATEMENTS (NON-CONSOLIDATED)



INCOME STATEMENT

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006

INCOME STATEMENT			
		1.1.-30.9.06	1.1.-31.12.05
	Note	MCZK	MCZK
Interest income and similar income	4	4,267	5,067
Interest expense and similar charges	4	(1,907)	(2,337)
Net interest income and similar income		2,360	2,730
Dividend income	5	229	230
Fee and commission income	6	1,813	2,360
Fee and commission expense	6	(264)	(300)
Net fee and commission income		1,549	2,060
Net trading income	7	195	89
Net income from financial investments	10	(119)	59
Other operating income	9	104	140
General administrative expenses	8	(1,596)	(2,569)
Impairment of loans and receivables	14	(25)	(158)
Other operating expenses	9	(119)	(232)
Profit before income tax		2,578	2,349
Current income tax	26	(487)	(649)
Deferred income tax	26	19	156
Profit for the period		2,110	1,856

Extraordinary financial statements
(non-consolidated)

BALANCE SHEET
AS AT 30 SEPTEMBER 2006

		30.9.2006	31.12.2005
	Note	MCZK	MCZK
ASSETS			
Cash in hand and balances with central banks	11	519	2,171
Financial assets held for trading	12	3,739	3,789
Receivables from banks	13	34,403	35,440
Receivables from customers	14	106,701	93,883
Financial investments	15	32,367	28,180
Property, plant and equipment	16	230	265
Intangible assets	17	122	178
Deferred tax asset	26	236	183
Other assets	18	1,027	1,298
Total assets		179,344	165,387
LIABILITIES			
Deposits from banks	20	27,030	28,271
Deposits from customers	21	104,161	96,034
Debt securities issued	22	24,335	18,987
Financial liabilities held for trading	23	3,176	3,070
Provisions	24	400	441
Deferred tax liabilities	26	-	37
Other liabilities	25	2,394	2,731
Subordinated liabilities	27	663	679
Total liabilities		162,159	150,250
SHAREHOLDERS' EQUITY			
Issued capital	28	5,125	5,125
Share premium	28	1,997	1,997
Reserve funds	30	1,933	1,840
Reserves from revaluation of financial instruments		24	86
Retained earnings	30	8,106	6,089
Total shareholders' equity		17,185	15,137
Total liabilities and shareholders' equity		179,344	165,387

STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006

STATEMENT OF CHANGES IN EQUITY								
	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	Equity
MCZK								
Balance at 1.1.2005	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 2005							1,856	1,856
Balance at 31.12.2005	5,125	1,997	827	1,013	(340)	426	6,089	15,137
Change in revaluation of available-for-sale securities						(204)		
Change in fair value of derivatives in cash flow hedging					142			
Unrealized gains/losses booked into equity					142	(204)		(62)
Transfer to statutory reserve fund			93				(93)	-
Net profit for the period 1.1.2006 - 30.9.2006							2,110	2,110
Balance at 30.9.2006	5,125	1,997	920	1,013	(198)	222	8,106	17,185

Extraordinary financial statements
(non-consolidated)

CASH FLOW STATEMENT

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006

CASH FLOW STATEMENT		
	1.1.-30.9.06	1.1.-31.12.05
	MCZK	MCZK
Net profit for the period	2 110	1 856
<i>Adjustments for non-cash items</i>		
Impairment of loans and receivables	25	158
Impairment of intangible assets and property, plant and equipment	(7)	86
Impairment of other assets	–	8
Impairment of participation interests	2	(16)
Creation and release of other provisions	(40)	73
Depreciation of property, plant and equipment and intangible fixed assets	131	207
Changes in accruals	(224)	115
Deferred tax	19	156
Operating profit before change in operating assets and liabilities	2 016	2 643
Financial assets held for trading	44	(384)
Loans and receivables from banks	1 035	(15 432)
Loans and receivables from customers	(12 792)	(9 015)
Other assets	184	(786)
Deposits from banks	(1 283)	4 310
Deposits from customers	8 096	8 503
Financial liabilities held for trading	106	429
Other liabilities	55	706
Net cash flows from operating activities	(2 539)	(9 026)
Change in financial investments	(4 239)	4 422
Proceeds from sale of property, plant and equipment and intangible fixed assets	14	38
Acquisition of property, plant and equipment and intangible fixed assets	(115)	(543)
Net cash flows from investing activities	(4 340)	3 917
Debt securities issued	5 227	6 730
Net cash flows from financing activities	5 227	6 730
Cash and cash equivalents at 1 January	2 171	550
Net cash flows from operating activities	(2 539)	(9 026)
Net cash flows from investing activities	(4 340)	3 917
Net cash flows from financing activities	5 227	6 730
Cash and cash equivalents at 30 September	519	2 171
Income tax paid	(539)	(679)
Interest received	4 322	5 163
Interest paid	(1 701)	(2 283)
Dividends received	229	230

Notes to the Extraordinary 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. ("the Bank"). 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 currencies for domestic and foreign clients, mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follows:

- 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, travel 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,
 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;
- rental of safe-deposit boxes.

2. BASIS FOR PREPARATION

As at 30 September 2006 the Bank was controlled by Bayerische Hypo- und Vereinsbank AG, Munich ("HVB"), which had a 77.5% share in the Bank through Bank Austria Creditanstalt AG, Vienna ("BACA"). As at 17 December 2005 UniCredito Italiano S.p.A., Milan ("UCI") acquired a 93.93% share in HVB. UCI has a 100% share in Živnostenská banka, a.s. in the Czech Republic. As a result of the inclusion of HVB Group in UCI Group the Bank and Živnostenská banka, a.s. will be merged. The decisive day of the merger is 1 October 2006. These extraordinary financial statements have been prepared in accordance with Section 17 of Act 563/1991 Coll. on Accounting, as at the day preceding the decisive day, i.e. 30 September 2006.

The extraordinary financial statements have been prepared for the accounting period from 1 January 2006 to 30 September 2006, i.e. nine months. Information for the year 2005 in the income statement and cash flow statement is not comparable with the data from the nine-month period ended as at 30 September 2006.

The extraordinary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in wording accepted by the European Union.

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

These extraordinary financial statements are the non-consolidated extraordinary financial statements. The Bank also prepares the consolidated financial statements, which form a part of the Bank's annual report as at 30 September 2006.

The extraordinary 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(b), part (iv). Recognized assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. 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 stated in the domestic currency 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 in debt instruments and shares, certain purchased loans and derivative contracts that are not designated hedging instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

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 value 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 value of the assets are recognized in equity.

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 including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including relevant 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 "Net trading income".

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 "Net income 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 "Net income 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 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 factually or legally executes direct or indirect controlling interest on guidance or operation of the company (that means the Bank's ability to participate in

financial and operational guidance of the company and to gain benefits from their activities). This participation interest results from the share in the Registered Capital or from contract or articles of association regardless of the total amount of participation interest.

Substantial interest means participation interest, where the Bank factually or legally executes direct or indirect substantial interest on guidance or operation of the company (that means the Bank's ability to participate on financial and operational guidance of the company without executing controlling interest). This participation interest results from the share in the registered capital (more than 20%) or from contract or articles of association regardless of the total amount of the participation interest.

Controlling and substantial interests are valued by acquisition price less losses arising from impairment of these participation interests.

Participation interests are shown within "Financial investments".

(d) Derivatives

(i) Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognition of 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,
- 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 recorded 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" or "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 "Reserve 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 recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement at the same moment as the hedged item affects the net profit or loss.

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

Investments 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.

Investments borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized in the balance sheet.

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 in the balance sheet on a net basis.

(g) Impairment

Assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. 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 that are identified as being individually impaired based on regular reviews of the outstanding balances, to reduce 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 objective evidence 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 rating of the underlying customers and late payments of interest or penalties. Historical loss experience is the basis for calculation of expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation

of the loss. This concept enables recognition only of those losses that occurred in a 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, 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 write down, the write-down or 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 "Net income 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, equipment and intangible fixed assets

Property, plant, equipment and intangible assets are assets which are held in order to pursue bank activities and which may be used for a period over 1 year.

Property, plant, equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated using the straight line method over their estimated useful lives.

The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

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

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

Low value assets with acquisition price lower than CZK 40,000 with useful life more than 1 year are depreciated over 2 years.

(i) Provisions

Provision means a probable outflow of an uncertain amount and 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%),
- 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 asset or liability. These form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions 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 in "Dividends income" 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 consumer 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, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies with corporate clients, government institutions etc.

Investment banking includes capital market activities including underwriting of investments for clients, investment consultancy, mergers and acquisition consultancy.

Other includes 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 which are already approved and will have an impact in the future on the Bank's financial statements.

IFRS 7 Financial investments: 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 partly *IAS 32 Financial investments: Disclosures* and is applicable to all entities that prepare financial statements in accordance with IFRS. This standard brings additional requirements on the publication of financial instruments particularly in the area of risk

management procedures and other qualitative and quantitative information.

Amendment to *IAS 1 Presentation of Financial Statements* 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 into individual portfolios 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 already effective standards, which were not used in the preparation of the current financial statements, to be immaterial.

4. NET INTEREST INCOME AND SIMILAR INCOME

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Interest income and similar income		
Balances with the central bank	309	304
Loans and receivables from banks	345	498
Loans and receivables from customers	2,958	3,278
Financial investments	699	966
Net income from fair value hedging of loans and deposits	(44)	21
Interest income and similar income	4,267	5,067
Interest expense and similar charges		
Repo with the central bank	(1)	(1)
Deposits from banks	(591)	(918)
Deposits from customers	(692)	(833)
Debt securities issued	(655)	(556)
Subordinated liabilities	(16)	(17)
Net loss from fair value hedging of debt securities issued	48	(12)
Interest expense and similar charges	(1,907)	(2,337)
Net interest income and similar income	2,360	2,730

5. DIVIDEND INCOME

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Dividend income		
From subsidiaries	63	39
From participation certificates	166	191
Total dividend income	229	230

6. NET FEE AND COMMISSION INCOME

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Fee and commission income from securities transactions	47	75
Management, administration, deposit and custody services	83	99
Loans	193	230
Payment services	455	620
FX transactions	710	947
Payment cards	296	352
Other	29	37
Fee and commission income	1,813	2,360
Fee and commission expense from securities transactions	-	(2)
Management, administration, deposit and custody services	(29)	(29)
Loans	(45)	(69)
Payment services	(17)	(15)
Payment cards	(173)	(185)
Fee and commission expense	(264)	(300)
Net fee and commission income	1,549	2,060

Net fee and commission income from clearing 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 revaluing transactions denominated in foreign currency. FX commission is included in “Net fee and commission income” as this income represents significant continuous income from cash transactions and currency exchange transactions with customers of the Bank.

7. NET TRADING INCOME

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Net realized and unrealized loss from securities held for trading	39	40
Net realized and unrealized gain from derivatives held for trading	25	(71)
Net realized and unrealized gain from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	131	120
Net trading income	195	89

8. GENERAL ADMINISTRATIVE EXPENSES

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Personnel expenses		
Wages and salaries paid to employees	(502)	(884)
Social and health insurance	(179)	(306)
	(681)	(1,190)
Including wages and salaries paid to:		
Members of the Board of Directors	(10)	(24)
Other executives	(58)	(74)
	(68)	(98)
Other administrative expenses		
Rent and building maintenance	(268)	(356)
Information technologies	(171)	(232)
Promotion and marketing	(77)	(195)
Materials	(74)	(88)
Expense for audit, legal and tax advisory	(29)	(50)
Payment services	(85)	(18)
Services	(79)	(137)
Other	(8)	(10)
	(791)	(1,086)
Depreciation of property, plant and equipment	(60)	(112)
Depreciation of intangible fixed assets	(71)	(95)
Impairment loss from tangible and intangible assets	(4)	(86)
Release of impairment loss from tangible and intangible assets	11	-
	(124)	(293)
Total general administrative expenses	(1,596)	(2,569)

Social and health insurance includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 5 (1.1.-31.12.2005: MCZK 9).

Information about bonuses tied to equity is included in Note 29.

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

	1.1.-30.9.06	1.1.-31.12.05
Employees	1 014	1 209
Members of the Board of Directors	4	4
Members of the Supervisory Board	9	9
Other executives	28	30

9. OTHER OPERATING INCOME AND EXPENSES

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Income from written-off and ceded receivables	9	14
Income from rent	14	9
Release of other provisions	63	70
Release of impairment of other assets	1	2
Release of provisions for off-balance sheet items	4	23
Use of other provisions	1	-
Other	12	22
Total other operating income	104	140
Deposits and transactions insurance	(53)	(57)
Creation of other provisions	-	(55)
Impairment of other assets	(1)	(9)
Creation of provisions for off-balance sheet items	(30)	(71)
Other expenses for employees	(20)	(31)
Other	(15)	(9)
Total other operating expenses	(119)	(232)

10. NET INCOME FROM FINANCIAL INVESTMENTS

	1.1.-30.9.06	1.1.-31.12.05
MCZK		
Net gain/loss from available-for-sale and held to maturity securities	-	29
Net gain/loss from hedging against risk of changes in fair value of available-for-sale securities	3	(3)
Net gain/loss from securities at fair value through profit and loss	(120)	17
Impairment of participation interest	(2)	16
Net income from financial investments	(119)	59

11. CASH IN HAND AND BALANCES WITH CENTRAL BANKS

	30.9.2006	31.12.2005
MCZK		
Cash in hand	469	469
Obligatory minimum reserves	9	1,699
Other balances at central banks	41	3
Total	519	2,171

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

The obligatory minimum reserves represent deposits whose average monthly value is determined in accordance with Czech National Bank (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.

12. FINANCIAL ASSETS HELD FOR TRADING

	30.9.2006	31.12.2005
MCZK		
Bonds and other securities with a fixed rate of return held for trading	767	1,002
Shares and other securities with a variable rate of return held for trading	1	3
Fair value of financial derivatives held for trading	2,971	2,784
Total financial assets held for trading	3,739	3,789

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

	30.9.2006	31.12.2005
MCZK		
Issued by government sector	767	1,002
Total	767	1,002
Thereof:		
Listed	177	428
Unlisted	590	574

(b) Analysis of shares and other securities held for trading

	30.9.2006	31.12.2005
MCZK		
Issued by financial institutions	-	3
Issued by non-financial institutions	1	-
Total	1	3

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

	30.9.2006	31.12.2005
MCZK		
Interest rate contracts	1,094	1,670
Currency contracts	429	306
Equity contracts	1,448	808
Total	2,971	2,784

For the Bank's business strategy related to financial assets held for trading see Note 34.

13. RECEIVABLES FROM BANKS

(a) Analysis of receivables from banks by type

	30.9.2006	31.12.2005
MCZK		
Current accounts at other banks	2,428	276
Receivables from banks	22,937	28,460
Term deposits	9,038	6,704
Total receivables from banks	34,403	35,440
Impairment losses of receivables from banks	-	-
Net receivables from banks	34,403	35,440

(b) Subordinated loans from banks

The Bank provided a subordinated loan to another bank in 2004 in the amount of TEUR 7,500. The loan totalled MCZK 213 as at 30 September 2006 (31 December 2005: MCZK 218). 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 receivables from banks by geographical sector

	30.9.2006	31.12.2005
MCZK		
Czech Republic	25,437	29,273
European Union	7,167	3,534
Others	1,799	2,633
Total receivables from banks	34,403	35,440

14. RECEIVABLES FROM CUSTOMERS

(a) Analysis of receivables from customers by type

	30.9.2006	31.12.2005
MCZK		
Loans to clients	107,758	94,909
Receivables from promissory notes	71	88
Total receivables from customers	107,829	94,997
Impairment losses of receivables from customers	(1,128)	(1,114)
Net receivables from customers	106,701	93,883

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 17 (2005: MCZK 18). Included in these amounts are loans that have not been adjusted for interest accruals in the amount of MCZK 313 (2005: MCZK 284). In case of applying accrued principle on interest income from these loans the Bank would recognize MCZK 10 (2005: MCZK 11) as interest income.

(b) Classification of receivables from customers

	30.9.2006	31.12.2005
MCZK		
Standard	105,025	91,100
Watched	1,508	2,403
Substandard	448	749
Doubtful	194	155
Loss	654	590
Total receivables from customers	107,829	94,997

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 (days after maturity, financial performance, payment discipline, etc.). The Bank assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables carrying amount and the present value of estimated future cash flow.

(c) Analysis of receivables from customers by sector

	30.9.2006	31.12.2005
MCZK		
Financial institutions	12,494	13,810
Non-financial institutions	80,533	68,802
Government sector	540	1,643
Non-profit organizations	307	178
Self-employed	759	693
Resident individuals	7,104	6,972
Non-residents	6,092	2,899
Total receivables from customers	107,829	94,997

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

	30.9.2006	31.12.2005
MCZK		
Personal guarantee	20	427
Bank and similar guarantee	10,095	12,198
Mortgage	33,862	26,792
Corporate guarantee	768	4,322
Other types of security	–	285
Security held by the Bank	7,382	8,374
Unsecured	55,702	42,599
Total receivables from customers	107,829	94,997

(e) Analysis of receivables from customers by business activity

	30.9.2006	31.12.2005
MCZK		
Realty services	35,319	28,730
Financial services	13,701	11,152
Wholesale	13,704	13,357
Household services	7,574	7,339
Retail	3,971	3,286
Leasing	1,928	2,785
Others	31,632	28,348
Total receivables from customers	107,829	94,997

(f) Impairment of receivables from customers

	30.9.2006	31.12.2005
MCZK		
Impairment of individual receivables from customers	(583)	(616)
Impairment of portfolios of standard receivables from customers	(545)	(498)
Total impairment of receivables from customers	(1,128)	(1,114)

Balance as at 1 January 2005		(1,058)
Creation during the current year	(259)	
Release during the current year	101	
Net impact on Profit and loss		(158)
Receivables written off		95
FX differences		7
Balance of impairment of receivables from customers as at 31 December 2005		(1,114)
Balance as at 1 January 2006		(1,114)
Creation during the current year	(281)	
Release during the current year	256	
Net impact on Profit and loss		(25)
Receivables written off		8
FX differences		3
Balance of impairment of receivables from customers as at 30 September 2006		(1,128)

15. FINANCIAL INVESTMENTS

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

MCZK	30.9.2006	31.12.2005
Available-for-sale securities	26,406	20,373
Held-to-maturity securities	–	1,204
Financial assets at fair value through profit and loss not held for sale	5,528	6,098
Participation interests	433	505
Total financial investments	32,367	28,180

Financial investments include bonds that were provided as collateral with the market value of MCZK 1,224 (31 December 2005: MCZK 1,250).

(b) Analysis of available-for-sale securities

MCZK	30.9.2006	31.12.2005
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	10,162	8,019
Issued by non-financial institutions	2,363	2,246
Issued by government sector	13,871	10,101
Total	26,396	20,366

Shares and other securities with a variable rate of return		
Issued by financial institutions	3	–
Issued by non-financial institutions	7	7
Total	10	7
Total available-for-sale securities	26,406	20,373
thereof:		
Listed	22,882	20,021
Unlisted	3,524	352

(c) Analysis of held-to-maturity securities

MCZK	30.9.2006	31.12.2005
Bonds and other securities with a fixed rate of return		
Issued by non-financial institutions	–	1,204
Total held-to-maturity securities	–	1,204

All securities held to maturity are listed on public markets.

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

MCZK	30.9.2006	31.12.2005
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	2,161	2,420
Issued by non-financial institutions	532	548
Issued by government sector	274	262
Total	2,967	3,230
Shares and other securities with a variable rate of return		
Issued by financial institutions	2,561	2,868
Total	2,561	2,868
Total of securities at fair value through profit and loss	5,528	6,098
Thereof:		
Listed	2,929	3,187
Unlisted	2,599	2,911

(e) Analysis of participation interests

Name	Registered office	Business activity	Date of Acquisition	Acquisition price	Net book value	Share of the Bank	
						30.9.2006	31.12.2005
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. in the process of liquidation	Prague	lease of real estate	27.6.2003	78	2	100%	100%
CBCB - Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%
Total				509.24	433.24	-	-

As at 30 September 2006 the amount of impairment of participation interests totalled MCZK 6 (31 December 2005: MCZK 4).

CAE PRAHA a.s. is in the process of liquidation and decreased its equity by MCZK 70 in 2006. Liquidation of the company is expected in 2007.

16. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plan and equipment

	Land and buildings	Equipment	Furniture and fittings	Other non-oper. 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
At 1 January 2006	920	683	259	1	5	1,868
Additions	-	33	5	-	35	73
Disposals	-	(87)	(5)	-	(39)	(131)
At 30 September 2006	920	629	259	1	1	1,810
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)
At 1 January 2006	(798)	(587)	(218)	-	-	(1,603)
Charge for the year	(15)	(33)	(12)	-	-	(60)
Disposals	-	74	9	-	-	83
Impairment losses	(4)	-	-	-	-	(4)
Release of impairment losses	4	-	-	-	-	4
At 30 September 2006	(813)	(546)	(221)	-	-	(1,580)
Net book value						
At 31 December 2005	122	96	41	1	5	265
At 30 September 2006	107	83	38	1	1	230

The accumulated depreciation and impairment include impairment of building totaling MCZK 89 (31 December 2005: MCZK 89).

17. 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
At 1 January 2006	619	36	12	667
Additions	20	15	7	42
Disposals	(125)	(25)	(3)	(153)
At 30 September 2006	514	26	16	556
Depreciation and impairment				
At 1 January 2005	(358)	-	(5)	(363)
Charge for the year	(93)	-	(2)	(95)
Disposals	55	-	-	55
Impairment losses	(86)	-	-	(86)
At 31 December 2005	(482)	-	(7)	(489)
At 1 January 2006	(482)	-	(7)	(489)
Charge for the year	(69)	-	(2)	(71)
Disposals	117	-	2	119
Impairment losses	7	-	-	7
At 30 September 2006	(427)	-	(7)	(434)
Net book value				
At 31 December 2005	137	36	5	178
At 30 September 2006	87	26	9	122

As a result of the change in the current system brought about by the merger with Živnostenská banka, a.s., the Bank decreased the impairment loss of software to MCZK 79 (31 December 2005: MCZK 86).

18. OTHER ASSETS

MCZK	30.9.2006	31.12.2005
Prepaid expense and accrued income	35	53
Trade receivables	83	127
Positive fair value of hedging derivatives	450	432
Receivables from securities	165	95
Suspense accounts	238	546
Other	70	59
Total other assets	1,041	1,312
Impairment of other assets	(14)	(14)
Net other assets	1,027	1,298

(a) Impairment of other assets

MCZK	30.9.2006	31.12.2005
Balance at 1 January	(14)	(7)
Created during the current year	(1)	(9)
Used during the current year	-	1
Release of allowances no longer considered necessary	1	1
Balance of impairment of other assets	(14)	(14)

19. IMPAIRMENT OF ASSETS TOTAL

MCZK	Receivables from clients (Note 14)	Financial investments (Note 15)	Tangible and intangible assets (Note 16,17)	Other assets (Note 18)	Total
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)
Balance as at 1 January 2006	(1 114)	(4)	(175)	(14)	(1,307)
Creation during the current year	(281)	(2)	(4)	(1)	(288)
Release during the current year	256	-	11	1	268
Write-offs and others	11	-	-	-	11
Impairment loss as at 30 September 2006	(1,128)	(6)	(168)	(14)	(1,316)

20. DEPOSITS FROM BANKS

Analysis of deposits from banks by type

MCZK	30.9.2006	31.12.2005
Current accounts	1,269	1,700
Bank loans	12,925	16,906
Term deposits	12,836	9,665
Total deposits from banks	27,030	28,271

(b) Analysis of deposits from clients by sector

MCZK	30.9.2006	31.12.2005
Financial institutions	9,166	8,874
Non-financial institutions	49,790	48,475
Government sector	6,909	3,283
Non-profit organizations	1,030	834
Self-employed	12,330	10,943
Resident individuals	20,133	19,574
Non-residents	4,795	4,051
Other	8	-
Total deposits from customers	104,161	96,034

21. DEPOSITS FROM CUSTOMERS

(a) Analysis of deposits from customers by type

MCZK	30.9.2006	31.12.2005
Current accounts	49,326	47,852
Loans	3,391	-
Term deposits	30,061	28,059
Issued depository notes	11,705	14,003
Savings deposits	2,105	2,202
Payments in transfer	7,573	3,915
Other	-	3
Total deposits from customers	104,161	96,034

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 clients" rather than "Debt securities issued".

22. DEBT SECURITIES ISSUED

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

MCZK	30.9.2006	31.12.2005
Mortgage bonds	19,911	15,920
Structured bonds	3,016	2,201
Zero coupon bonds	1,363	788
Other issued bonds	45	78
Net book value	24,335	18,987

The Bank has purchased its own debt securities for the purpose of trading or sale in the total amount of MCZK 12 (31 December 2005: MCZK 948). These debt securities decrease the amount of „Debt securities issued“.

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	30.9.2006 MCZK	31.12.2005 MCZK
4 February 2002	4 February 2009	CZK	6,00%	10,442	9,793
19 August 2004	19 August 2012	CZK	6,00%	1,527	1,465
15 December 2004	15 December 2006	CZK	1,86%	47	47
15 December 2004	15 December 2006	CZK	1,66%	37	37
5 October 2005	5 October 2015	CZK	4,50%	3,746	1,524
15 November 2005	15 November 2010	CZK	3,50%	4,004	2,956
23 November 2005	15 November 2025	CZK	5,00%	108	98
Total				19,911	15,920

23. FINANCIAL LIABILITIES HELD FOR TRADING

Financial liabilities held for trading include only the negative fair value of financial derivatives held for trading. For the Bank's business strategy, see Note 34 (a).

	30.9.2006	31.12.2005
MCZK		
Interest rate contracts	1,149	1,719
Currency contracts	337	202
Equity contracts	1,440	804
Liabilities from short sales of securities	250	345
Total financial liabilities held for trading	3,176	3,070

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

24. PROVISIONS

Provisions include the following items:

	30.9.2006	31.12.2005
MCZK		
Provisions for off-balance sheet credit items	347	321
Other provisions		
Claims and litigations	23	25
Tax risk	–	62
Other	30	33
Total provisions	400	441

(a) Provisions for off-balance sheet credit items

	30.9.2006	31.12.2005
MCZK		
Balance at 1 January	321	273
Created during the current year	30	71
Released	(4)	(23)
Balance of provisions	347	321

(b) Other provisions

	Claims and litigations	Tax risk	Tax due provision	Other	Total
MCZK					
Balance 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 provisions at 31 December 2005	25	62	-	33	120
Balance at 1 January 2006	25	62	-	33	120
Creation during the current year	-	-	-	30	30
Use during the current year	(1)	-	-	-	(1)
Release of provisions no longer considered necessary	(1)	(62)	-	(33)	(96)
Balance of provisions at 30 September 2006	23	-	-	30	53

As at 31 December 2005 the Bank created a provision of MCZK 62 due to ambiguity of the tax laws and their interpretation and tax review by the authority being in progress. This provision was released in 2006 based on the results of the tax review.

The creation of other provisions in the amount of MCZK 30 and their release in the amount of MCZK 33 represents general operating costs in terms of "Wages and Salaries".

25. OTHER LIABILITIES

	30.9.2006	31.12.2005
MCZK		
Deferred income and accrued expenses	320	267
Trade payables	184	166
Negative fair value of hedging derivatives	756	1,012
Taxes payable	49	101
Estimated payables	246	353
Securities payables (dealing for clients)	445	116
Unsettled securities dealing	196	55
Suspense accounts	129	510
Other	69	151
Total other liabilities	2,394	2,731

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

	30.9.2006	31.12.2005
MCZK		
Current year profit (loss) before tax	2,578	2,349
Income tax calculated using tax rate 24% (2005: 26%)	619	611
Effect of the difference between Czech Accounting Standards used for tax base calculation and IFRS	34	6
Effect of previous years and tax rate changes	(79)	26
Foreign income tax effect	(75)	(122)
Nontaxable income	(90)	(127)
Tax non-deductible expense	78	251
Change in deferred tax	(19)	(156)
Other	-	4
Total income tax	468	493

The effective tax rate of the Bank is 18% (2005: 21%).

26. INCOME TAX**(a) Tax in profit and loss**

	30.9.2006	31.12.2005
MCZK		
Current year income tax	550	634
Income tax for previous period	(63)	15
Deferred tax	(19)	(156)
Total income tax	468	493

(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	30.9.2006 Deferred tax asset	Deferred tax liability	31.12.2005 Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	6	–	6	–
Social and health insurance from bonuses	16	–	24	–
Impairment of loans and receivables	168	–	120	–
Fixed assets net book value differences	9	–	24	–
Other	3	–	9	–
Deferred tax liability/asset	202	–	183	–
Net deferred tax liability/asset recognized in PL	202	–	183	–
Revaluation reserve Available-for-sale assets	34	–	–	37
Net deferred tax liability/asset recognized in equity	34	–	–	37

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 30 September 2006 based on the Bank's current and expected future level of taxable profits.

27. SUBORDINATED LIABILITIES

MCZK	30.9.2006	31.12.2005
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	663	679
Total	663	679

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 the range from 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).

28. ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 30 September 2006 and 31 December 2005 amounted to MCZK 5,125.

(a) The shareholders as at 30 September 2006 and 31 December 2005

Name	Registered office	Share nominal value (MCZK)	Share premium (MCZK)	Share on equity (%)
Bank Austria Creditanstalt AG, Vienna	Austria	5,125	1,997	100
Total		5,125	1,997	100

(b) Issued capital analysis

	30.9.2006 Number of shares	30.9.2006 MCZK	31.12.2005 Number of shares	31.12.2005 MCZK
Common share at CZK 16,320,000	100	1,632	100	1,632
Common share at CZK 13,375,000	200	2,675	200	2,675
Common share at CZK 10,000	74,000	740	74,000	740
Common share at CZK 7,771,600	10	78	10	78
Total		5,125		5,125

Shares are transferable with the general meeting's approval.

The Bank had no treasury shares as at 30 September 2006 and 31 December 2005.

29. BONUSES TIED TO EQUITY

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

30. RESERVE FUNDS AND RETAINED EARNINGS

The split of reserve funds is as follows:

MCZK	30.9.2006	31.12.2005
Legal reserve fund	920	827
Other reserve funds	1,013	1,013
Reserve funds total	1,933	1,840
Retained earnings	8,106	6,089

The Bank creates, in accordance with the law, a legal reserve fund (part of the item "Retained earnings"). The legal 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 legal reserve fund can only be used to cover incurred losses and use of the legal reserve fund is under the control of the board of directors.

The Board of Directors is entitled to create funds allocated from profit to cover the Bank's general risks or other funds. These are not required by law. Other funds allocated from profit are managed by the Bank's Board of Directors.

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

(a) Resale commitments

	30.9.2006	31.12.2005
MCZK		
Receivables from banks	21,297	26,019
Fair value of securities received	21,057	25,904
Receivables from clients	179	677
Fair value of securities received	221	856

(b) Repurchase commitments

	30.9.2006	31.12.2005
MCZK		
Deposits from banks	8,659	12,422
Fair value of given securities (Financial assets held for trading)	–	54
Fair value of given securities (Financial investments)	8,500	12,550
Deposits from clients	3,391	–
Fair value of given securities (Financial assets held for trading)	3,419	–

32. 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 operations 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 30 September 2006 and created appropriate provisions for litigation and claims (see Note 24). 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 any 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 can not 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 anytime without stating reasons. On the other hand irrevocable credit commitments represent the Bank's liabilities to provide loans or guarantees and the fulfilment of these liabilities 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 a similar risk as do loans, so the Bank creates reserves for these commitments using a similar algorithm as when creating loan loss provisions (see Note 35).

Letters of credit represent written irrevocable liabilities of the Bank 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's) request. The Bank creates reserves for these financial instruments using a similar algorithm as when creating loan loss provisions (see Note 35).

The Bank has created reserves for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 30 September 2006 the total amount of these reserves amounted to MCZK 347 (31 December 2005: MCZK 321) (see Note 24 (a)).

	30.9.2006	31.12.2005
MCZK		
Irrevocable letters of credit and financial guarantees	14,154	11,836
Other irrevocable contingent liabilities (unused credit commitments)	50,361	48,163
Total	64,515	59,999

Value taken into administration and management

	30.9.2006	31.12.2005
MCZK		
Bonds	87,285	75,414
Shares	197,973	185,700
Depository notes	11,716	14,009
Total	296,974	275,123

(b) Contingent assets

As at 30 September 2006 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 2,425 (TEUR 85,609) and maturing in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,541 (TEUR 54,390) and maturing in December 2018. 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)

	Contractual amounts		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Hedging instruments				
Interest rate swap contracts	46,627	38,805	(334)	(736)
Cross currency swap contracts	7,252	6,377	28	156
Trading instruments				
Forward rate agreements (FRA)	30,000	43,650	4	-
Interest rate swap contracts	70,551	78,046	(101)	(78)
Forward foreign exchange contracts			(109)	(74)
Purchase	22,890	15,159	-	-
Sale	23,013	13,214	-	-
Option contracts			8	4
Purchase	20,735	13,945	-	-
Sale	20,742	13,945	-	-
Cross currency swap contracts	20,645	15,870	201	178

Listed financial derivatives

	Contractual amounts		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Trading instruments				
Interest rate futures	722	790	42	29

Residual maturity of financial derivatives

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

	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
MCZK									
As at 30 September 2006									
Hedging instruments									
Interest rate swap contracts	655	45	12,727	3,408	10,551	1,885	4 177	13,179	46,627
Cross currency swap contracts	–	–	–	1,417	3,863	–	1,972	–	7,252
Trading instruments									
Forward rate agreements (FRA)	–	–	24,000	6,000	–	–	–	–	30,000
Interest rate swaps	–	1,526	18,694	13,768	2,635	5,120	4,277	24,531	70,551
Foreign exchange contracts (Purchase)	10,390	7,225	4,529	613	133	–	–	–	22,890
Foreign exchange contracts (Sale)	10,467	7,255	4,555	606	130	–	–	–	23,013
Option contracts (Purchase)	717	387	1,237	4,289	8,356	2,531	2,931	287	20,735
Option contracts (Sale)	717	387	1,237	4,289	8,363	2,531	2,931	287	20,742
Interest rate futures	–	722	–	–	–	–	–	–	722
Cross currency swap contracts	–	–	3,146	8,780	–	4,270	–	4,449	20,645

	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
MCZK									
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

33. SEGMENT REPORTING

Primary segment reporting format is based on client's business.

(a) Business segments

	Retail banking/ Small and Medium Companies	Corporate Banking	Investment Banking	Other	Total
MCZK					
As at 30 September 2006					
Net interest and dividend income	633	1,428	379	149	2,589
Other net income	379	1,096	147	1	1,623
Depreciation of property, plant and equipment	(36)	(12)	(6)	(70)	(124)
Impairment and provisions	(19)	(15)	(6)	–	(40)
Segment expenses	(796)	(675)	(175)	176	(1,470)
Profit before tax	161	1,822	339	256	2,578
Income tax	–	–	–	(468)	(468)
Result of segment	161	1,822	339	(212)	2,110
Segment assets	11,713	97,323	68,915	1,393	179,344
Segment liabilities	59,536	60,326	39,142	3,155	162,159

	Retail banking/ Small and Medium Companies	Corporate Banking	Investment Banking	Other	Total
MCZK					
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

(b) Geographical segments

The Bank's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In the period from 1 January 2006 to 30 September 2006 and in 2005 the Bank generated the main part of its revenues from activities in the Czech Republic and the EU.

34. 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 business 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; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 34 (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

Below are described selected risks to which the Bank is exposed through its non-trading activities, principles of managing positions resulting from these activities and also 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, which flow from its open positions in market, credit, equity and money market instruments and transactions, which are sensitive to changes in financial market conditions.

The Bank's risk management concentrates on the management of 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 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 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.

	As at 30.9.2006	Average 1.1. – 30.9. 2006	As at 31.12.2005	Average 1.1. – 31.12. 2005
MCZK				
VaR of interest rate instruments	31	36	44	36
VaR of currency instruments	1.2	1.3	0.4	1.3
VaR of equity instruments	0.5	0.9	0.6	0.8

Interest rate 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, as a result of 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 30 September 2006 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 CZK and EUR. 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 aimed 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. represents the sensitivity of instruments towards interest rate risks.

The Bank set up the interest rate risk limits to limit fluctuation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

The Bank carries out weekly interest rate stress testing by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Bank's financial results. The Bank has set the 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 estimate of effective interest rate ("EIR"):

	EIR	Up to 1 month	1-3 m.	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe- cified	Total
MCZK											
As at 30 September 2006											
Cash in hand and balances with central banks	0.00	–	–	–	–	–	–	–	–	519	519
Financial assets held for trading	2.91	36	–	730	–	–	–	–	–	2,973	3,739
Receivables from banks	2.38	31,788	1,433	1,073	5	–	–	–	–	104	34,403
Receivables from customers	4.26	18,352	21,960	27,385	6,059	8,228	3,992	2,708	6,604	11,413	106,701
Financial investments	4.73	7,896	3,009	18,153	280	–	5	5	13	3,006	32,367
Deposits from banks	3.09	21,642	5,157	231	–	–	–	–	–	–	27,030
Deposits from customers	2.20	87,853	4,925	1,513	16	10	2	3	45	9,794	104,161
Debt securities issued	4.43	3,867	3,580	12,770	1,125	1,878	699	259	157	–	24,335
Financial liabilities held for trading	0.00	–	–	250	–	–	–	–	–	2,926	3,176
Subordinated liabilities	3.37	–	–	663	–	–	–	–	–	–	663

		Up to	1-3	3 m.	1-2	2-3	3-4	4-5	Over	Unspe-	
MCZK	EIR	1 month	m. to	to 1 year	years	years	years	years	5 years	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
Receivables from banks	2.14	32,420	1,245	1,745	5	–	–	–	–	25	35,440
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

The Bank's information system does not allow exact documentation of the effective interest rate for all types of financial instruments. For selected instruments the Bank calculated best estimates.

Hedge accounting

As part of its market risk management strategy, the Bank hedges against interest rate risk. Based on the hedging strategy, the Bank uses both fair value hedges and cash flow hedges.

Fair value hedge

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 designed as fair value hedging instruments.

	Contractual amount		Fair value	
MCZK	30. 9. 2006	31. 12. 2005	30. 9. 2006	31. 12. 2005
Interest rate swaps	17,510	26,551	(72)	(226)
Cross currency swaps	–	–	–	–

Cash flow hedge

The Bank uses the concept of cash flow hedge 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 of market interest rates. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps). The following table shows the contracting and fair values of derivatives designated as cash flow hedging instruments.

	Contractual amount		Fair value	
MCZK	30. 9. 2006	31. 12. 2005	30. 9. 2006	31. 12. 2005
Interest rate swaps	29,117	12,254	(262)	(510)
Cross currency swaps	7,252	6,377	28	156

	Fair value	
MCZK	30. 9. 2006	31. 12. 2005
Hedged instruments		
Available for sale securities	64	79
Receivables from clients	28	161
Debt securities issued	26	(13)
The remaining part of formerly hedged financial instruments		
Available for sale securities	10	43
Receivables from clients	138	192
Debt securities issued	45	59

In line with the 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 currency 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 set the 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 particular currency.

The position of the Bank in foreign currencies is as follows:

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 30 September 2006								
Cash in hand and balances with central banks	367	92	33	7	5	–	15	519
Financial assets held for trading	3,739	–	–	–	–	–	–	3,739
Receivables from banks	29,507	2,624	676	–	153	179	1,264	34,403
Receivables from customers	66,709	37,649	937	293	1,110	–	3	106,701
Financial investments	17,192	10,699	699	–	–	3,777	–	32,367
Property, plant and equipment	230	–	–	–	–	–	–	230
Intangible assets	122	–	–	–	–	–	–	122
Deferred tax asset	236	–	–	–	–	–	–	236
Other assets	959	60	6	–	–	1	1	1,027
Deposits from banks	13,337	11,260	1,612	16	45	708	52	27,030
Deposits from customers	79,533	18,396	3,311	117	479	1,884	441	104,161
Debt securities issued	24,026	161	148	–	–	–	–	24,335
Financial liabilities held for trading	3,176	–	–	–	–	–	–	3,176
Provisions	400	–	–	–	–	–	–	400
Deferred tax liability	–	–	–	–	–	–	–	–
Other liabilities	1,777	601	13	–	–	–	3	2,394
Subordinated liabilities	–	663	–	–	–	–	–	663
Equity	17,185	–	–	–	–	–	–	17,185

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2005								
Cash in hand and balances with central banks	2,006	104	33	8	6	–	14	2,171
Financial assets held for trading	3,789	–	–	–	–	–	–	3,789
Receivables from banks	32,471	1,522	174	39	1	3	1,230	35,440
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	15,145	–	–	–	–	–	–	15,137

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 in 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. The methods used to manage these risks are described above.

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 including subordinated loans and 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

	Up to 1 month	1-3 months	3 months - 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe- cified	Total
MCZK										
As at 30 September 2006										
Cash in hand and balances with central banks	510	–	–	–	–	–	–	–	9	519
Financial assets held for trading	7	–	620	–	–	30	–	110	2,972	3,739
Receivables from banks	30,638	2,022	1,371	5	46	–	4	212	105	34,403
Receivables from customers	1,778	5,542	30,076	8,342	13,586	7,558	6,219	30,979	2,621	106,701
Financial investments	1,087	1,053	5,192	2,127	2 553	2,608	2,767	11,976	3,004	32,367
Property, plant and equipment	–	–	–	–	–	–	–	–	230	230
Intangible assets	–	–	–	–	–	–	–	–	122	122
Deferred tax asset	–	–	236	–	–	–	–	–	–	236
Other assets	–	–	–	–	–	–	–	–	1,027	1,027
Total	34,020	8,617	37,495	10,474	16,185	10,196	8,990	43,277	10,090	179,344
Deposits from banks	21,642	1,713	231	–	2,325	–	1,119	–	–	27,030
Deposits from customers	97,632	4,924	1,519	21	10	2	5	48	–	104,161
Debt securities issued	154	193	653	1,125	12,628	699	3,484	5,399	–	24,335
Financial liabilities held for trading	250	–	–	–	–	–	–	–	2,926	3,176
Provisions	–	–	–	–	–	–	–	–	400	400
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	–	–	2,394	2,394
Subordinated liabilities	–	–	–	–	–	663	–	–	–	663
Equity	–	–	–	–	–	–	–	–	17,185	17,185
Total	119,678	6,830	2,403	1,146	14,963	1,364	4,608	5,447	22,905	179,344
Gap	(85,658)	1,787	35,092	9,328	1,222	8,832	4,382	37,830	(12,815)	–
Cumulative gap	(85,658)	(83,871)	(48,779)	(39,451)	(38,229)	(29,397)	(25,015)	12,815	–	–
As at 31 December 2005										
Cash in hand 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
Receivables from banks	32,420	479	2,281	5	–	12	–	218	25	35,440
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	22,449	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	–	–

35. 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 two levels: level of the individual client (transaction) and 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 analyzing the client's financial standing and setting limits on the credit extended. 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's defaulting and takes into account both quantitative and qualitative factors. The financial standing analysis is carried out and the credit limit set before credit is granted to 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, the ability of the client to fulfil his obligation is determined using a standardised system of credit scoring of risk-relevant characteristics (credit application scoring). The Bank simultaneously sets and updates regularly the probability of individual client default by using the method of behavioural 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, a guarantee from a highly reputable non-banking entity,

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, branches and economically connected groups of debtors and regularly monitors its involvement in different segments.

(c) Classification of 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 confirms whether or not there is permanent decrease of the balance sheet value of receivables. In case that Bank identifies such a decrease, it creates provisions for each receivable or to the portfolio of receivables according to IFRS.

Impairment of individual loans

The Bank recognises 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 the carrying amount for each watched, substandard, doubtful and loss loan receivable.

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

Impairment of portfolio of loans

The Bank recognizes impairment losses of the standard loans portfolio if it identifies a decrease of portfolio carrying amount as a result of events, which indicates 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 time delay between the impairment event and the moment when the Bank obtains information on the impairment event (i.e. when the receivable is excluded from the portfolio of standard receivables and the decrease in the value is considered in accordance with the common practice used for single receivables; that is, a provision for the concrete receivable is created).

Provisions for the off-balance sheet items

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

- (i) Provisions to the off-balance sheet items at the Bank’s clients, to whom there is currently presented a particular balance sheet receivable which fulfilled the conditions for ranking into the classified loans category and the Bank creates the provisions for the particular loan.

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

- (ii) Provisions to the selected off-balance sheet items at the Bank’s clients, to whom the Bank does not present (record) any balance sheet receivable in a given period, however, in case of existence of such receivable the conditions for ranking into the classified loans would be fulfilled.
- (iii) Provisions to the selected off-balance sheet items that are ranked into the portfolios. The Bank recognizes such provisions the same way as in creation of impairment of a portfolio of loans.

(d) Recovery of receivables

The Bank has established a department to deal with the recovery of loans (separately for private clients and corporate clients) in respect of receivables considered to be at risk. This department aims 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.),

- d) prevention of further losses from the loan (comparison of future income and expenses).

36. 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 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 authorizing and authorized by a second),
- daily nostro accounts reconciliation,
- daily and monthly internal accounts reconciliation,
- evidence, processing and escalation of client complaints resulting from processing mistakes.

Within the 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 implementation of Basel II.

37. RELATED PARTIES TRANSACTIONS

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. 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 UCI/HVB/BACA Group, subsidiaries and associated companies, Board members and other management of the Bank.

	30. 9. 2006	31. 12. 2005
MCZK		
Assets		
Receivables from banks	8,857	4,853
thereof:		
Bank Austria Creditanstalt AG	4,808	1,340
HVB Banka Serbia a Cerna Gora	1,277	2,206
Unicredito Italiano, Milano	1,000	150
Živnostenská banka, a.s.	762	600
Receivables from customers	7,314	6,490
thereof:		
BA/CA Leasing GmbH	4,539	3,882
HVB Reality CZ, s.r.o.	454	492
HVB Factoring s.r.o.	198	208
Board of Directors	-	-
Management	24	37
Financial investments	1,215	1,403
HVB Jelzalogbank, Hungary	1,215	1,403
Total	17,386	12,746
Liabilities		
Deposits from banks	10,304	5,651
thereof:		
Bank Austria Creditanstalt AG	2,222	3,007
Bayerische Hypo-und Vereinsbank AG	7,529	2,268
HYPO stavební spořitelna a.s.	2	31
Živnostenská banka, a.s.	500	-
Deposits from customers	651	548
thereof:		
BA/CA Leasing GmbH	370	213
HVB Reality CZ, s.r.o.	30	52
HVB Factoring s.r.o.	-	-
CAE PRAHA a.s.		
in the process of liquidation	2	-
Board of directors	18	14
Management	43	41
Debt securities issued	1,731	1,715
HYPO stavební spořitelna a.s.	1,674	1,715
Živnostenská banka, a.s.	57	-
Subordinated liabilities	663	679
Bank Austria Creditanstalt AG	663	679
Total	13,349	8,593

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Revenues		
Interest income and similar income	266	322
Fee and commission expense	48	145
Total	314	467
Expenses		
Interest expenses and similar charges	134	500
Fee and commission expense	16	27
General administrative expenses	1	2
Total	151	529

38. 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 management estimates, discounted cash flows models or other commonly used valuation methods. Many of the methods mentioned above are characterized by considerable level of uncertainty; the fair value estimates cannot be always considered as market values and in many cases these might not be obtained in selling certain financial instruments. Changes of initial assumptions used for determining fair value could have significant impact in such circumstances.

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

	30.9.2006		31.12.2005	
	Carrying amount	Fair value	Carrying amount	Fair value
MCZK				
Financial assets				
Receivables from banks	34,403	34,402	35,440	35,445
Receivables from customers	106,701	106,861	93,883	94,579
Financial investments				
Securities held to maturity	-	-	1,204	1,203
Financial liabilities				
Deposits from banks	27,030	27,029	28,271	28,278
Deposits from customers	104,161	104,167	96,034	96,036
Debt securities issued	24,335	23,809	18,987	19,341
Subordinated liabilities	663	663	679	679

39. 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 30 September 2006.

**AUDITOR'S REPORT
ON THE EXTRAORDINARY 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.

Financial statements

On the basis of our audit, on 30 January 2007 we issued an auditor's report on the extraordinary consolidated financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying extraordinary consolidated financial statements of HVB Bank Czech Republic a.s. as of 30 September 2006. These extraordinary consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these extraordinary 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 extraordinary consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the extraordinary 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 extraordinary consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the extraordinary 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 30 September 2006, and expenses, revenues and the results of its operations for the nine-month period 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."

Annual report

We have audited the consistency of the annual report with the audited extraordinary consolidated financial statements. This annual report is the responsibility of Company's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited extraordinary 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 that the information disclosed in the annual report describing matters that all also presented in the extraordinary consolidated financial statements is, in all material respects, consistent with the audited extraordinary consolidated financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.



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

Prague
30 January 2007

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.

The issuer fulfils all of its obligations duly and in a timely manner. No changes have occurred that could be of material significance in evaluating the issuer’s solvency.

In carrying out its activities, the issuer is governed by Czech legal regulations.

1.2 PERSONS RESPONSIBLE FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND AUTHORISED AUDITORS

The issuer's financial statements for the period of nine months from 1 January 2006 until 30 September 2006 and for the year 2005 were audited.

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

Membership in professional
organisation: Chamber of Auditors
of the Czech Republic

1.3 ADMINISTRATIVE, MANAGING AND SUPERVISORY BODIES

THE COMPANY'S BODIES ARE THE:

- a) General Meeting,
- b) Supervisory Board,
- c) Managing Board.

The General Meeting is the company's supreme body. It consists of all attending shareholders and their representatives. The shareholders execute their rights at the company's General Meeting.

The following activities are the General Meeting's exclusive competence:

- a) changing the company's Articles of Association;
- b) deciding on an increase or decrease of the registered capital and issuance of bonds;
- c) deciding on a change of the kind or a sort of shares, on a change of rights related to a specific kind of shares, and on restricting the transferability of the registered shares and separately transferable rights;
- d) deciding on the registration of shares (public tradability) under the respective law and on

- cancellation of their registration;
- e) deciding on consolidation, transfer of the assets to an individual shareholder or on division or a change of legal form;
- f) deciding on winding-up of the company with liquidation;
- g) electing and dismissing members of the Supervisory Board, with the exception of members of the Supervisory Board elected and dismissed by the company's employees;
- h) approving the financial statements and consolidated financial statements – in cases anticipated by the law – or the interim financial statements, deciding on distributing profits or settling losses and on the amount of dividends;
- i) approving the transfer of shares and pledging of shares as collateral;
- j) approving a control contract, contract for transfer of profit, silent company contract and changes in these;
- k) approving the report on activities of the Supervisory Board;
- l) deciding to conclude a contract for sale of the enterprise or its part, or for lease of the enterprise, or deciding to conclude any such contract with a controlled entity;
- m) approving the remuneration to the members of the Managing Board and the Supervisory Board;
- n) deciding on all issues that are entrusted by the law or the Articles of Association to the exclusive competence of the General Meeting, as well as on all issues that the Managing Board or the Supervisory Board submit to the General Meeting to decide.

1.4 MANAGING BOARD OF HVB BANK

The Managing Board has three members who exercise their functions personally. Members of the Managing Board are elected by the Supervisory Board for the period of 5 years. The Supervisory Board may at any time dismiss any of the members of the

Managing Board, irrespective of their term of office. Only persons meeting the conditions of the Commercial Code, Banking Act and Securities Act may be appointed members of the Managing Board. Members of the Managing Board are management employees under § 2 letter c) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.

ING. DAVID GRUND

Chairman of the Managing Board
and Chief Executive Officer
Domicile: K lukám 702, Šestajovice
Born: 24 February 1955

DR. PETER KOERNER

Member of the Managing Board
and Executive Director
Domicile: Pötzleinsdorfer Höhe 33,
A - 1180 Vienna, Austria
Born: 18 May 1959
From 16 February 2005, statutory
executive of HVB Factoring, s.r.o.

CHRISTIAN SUPPANZ

Member of the Managing Board
and Executive Director
Domicile: Meidlinger Hauptstrasse
7-9/2/53, 1120 Vienna, Austria
Born: 27 December 1950
From 1 July 2005, statutory
executive of HVB Reality CZ, s.r.o.

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

1.5 SUPERVISORY BOARD OF HVB BANK

The Supervisory Board has nine members of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Commercial Code. Members of the Supervisory Board exercise their functions personally.

Members of the Supervisory Board are elected for the period of 5 years and may be re-elected.

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
 37 years of experience in treasury

Membership in bodies of other
 companies:
 HVB Bank Slovakia a.s., Slovakia –
 Supervisory Board
 HVB Splitska banka d.d., Croatia –
 Supervisory Board
 HVB Bank Biochim AD, Bulgaria –
 Supervisory Board
 HVB Bank Hungary Rt, Hungary –
 Supervisory Board
 Bank Austria Cayman Islands Ltd.,
 Cayman Islands – Supervisory
 Board

JAROSLAVA LAUROVÁ

Member of the Supervisory Board
 Domicile: Amforová 1886, Prague 5
 Born: 2 September 1959
 Date of appointment to the office:
 3 June 2003
 Law Faculty, Charles University,
 Prague
 24 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
 21 years of experience in
 commercial banking, internal audit
 and quality management

Membership in bodies of other
 companies:
 HVB Bank Slovakia a.s., Slovakia –
 Supervisory Board

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
 26 years of experience in economy

Membership in bodies of other
 companies:
 Bank Austria Creditanstalt AG,
 Austria – Managing Board
 HVB Splitska banka d.d., Croatia –
 Supervisory Board
 HVB Bank Hungary Rt, Hungary –
 Managing Board
 HVB Bank Biochim AD, Bulgaria –
 Supervisory Board
 Bank BPH Spolka Akcyjna, Poland –
 Supervisory Board
 AWT International Trade AG,
 Austria – Supervisory Board
 Bank Austria Creditanstalt Leasing
 GmbH, Austria – Supervisory Board
 BA-CA Private Equity, Austria –
 Supervisory Board
 CA IB Corporate Finance Beratungs
 Ges.m.b.H., Austria – Supervisory
 Board

WED Wiener
 Entwicklungsgesellschaft für den
 Donauram Aktiengesellschaft, Austria
 – Supervisory Board
 Investkredit Bank AG, Austria –
 Supervisory Board
 Oesterreichische Kontrollbank
 Aktiengesellschaft m.b.H., Austria –
 Supervisory Board
 Österreichische Hotel- und
 toursusbank Gesellschaft m.b.H.,
 Austria – Supervisory Board
 DCM DECOMetal International
 Trading GmbH, Austria –
 Supervisory Board
 Österreichische Bundesbahnen-
 Holding Aktiengesellschaft, Austria
 – Supervisory Board
 ÖBB-Immobilienmanagement
 Gesellschaft mbH, Austria –
 Supervisory Board

PAVEL ŠLAMBOR

Member of the Supervisory Board
 Domicile: Černošická 614, Prague 5
 – Lipence
 Born: 12 March 1972
 Technical University, Prague
 12 years of experience in banking

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
 12 years of experience in banking

Membership in bodies of other
 companies:
 HVB Splitska banka d.d., Croatia –
 Supervisory Board
 HVB Bank Slovakia a.s., Slovakia –
 Supervisory Board
 HVB Bank Biochim AD, Bulgaria –
 Supervisory Board
 HVB Banka Srbija i Crna Gora A.D.,
 Serbia and Montenegro – Managing
 Board
 Bank Austria Creditanstalt d.d.,
 Slovenia – Supervisory Board
 HVB Bank Romania S.A., Romania
 – Supervisory Board
 HVB Bank Romania S.A., Romania
 – Administrative Board
 HVB Central Profit Banka d.d.,
 Bosnia and Herzegovina –
 Supervisory Board
 Hebros Bank AD, Bulgaria –
 Supervisory Board

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
 23 years of experience in banking
 Membership in bodies of other
 companies:
 HVB Bank Hungary Rt, Hungary –
 Supervisory Board

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:
 10 June 2005
 University of Vienna
 13 years of experience in banking
 Membership in bodies of other
 companies:
 HVB Splitska banka d.d., Croatia –
 Supervisory Board

HVB Bank Hungary Rt, Hungary – Supervisory Board
HVB Bank Slovakia a.s., Slovakia – Supervisory Board

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 other than his or her activities for the issuer as stated above.

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 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.

CONFLICTS OF INTEREST AT THE LEVEL OF ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES:

The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. HVB Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest.

1.6 OTHER MANAGERS OF THE BANK

ING. JAROSLAV ŽAHOUREK
Retail Distribution Department
From 20 June 2005
Technical University, Prague
12 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
12 years of experience in banking
Domicile: Revoluční 25, Prague 1
Born: 9 December 1961

ING. JIŘÍ DOUBRAVSKÝ, MBA
Retail Distribution Dept. – SMEs
From 1 September 2002
West Bohemia University, Faculty of Economics, Plzeň
12 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
15 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
20 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
21 years of experience in foreign trade
Domicile: Choceradská 3120/8, Prague 4
Born: 25 January 1956

ING. MICHAL STUHLÍK
Custody Department
From 1 March 2005
Technical University, Prague
11 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
10 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
18 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
10 years of experience in credit risk management and project management
Domicile: Grünentorg 23/15, Vienna
Born: 15 February 1967

ING. MIROSLAV ŠULAI, MBA
Financial Department
From 1 October 2001
Technical University, Prague
City University of Washington
16 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. TOMAŠ HOLÍK
Controlling Department
From 4 April 2002
University of Economics, Prague
10 years of experience in controlling and market risk monitoring
Domicile: Mirovická 25/1101,

Prague 8
Born: 1 May 1971

ING. JANA RIEBOVÁ
Human Resources Department
From 1 November 2002
Institute of Chemical Technology,
Prague
16 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
10 years of experience in marketing
Domicile: Brusnicová 413, Květnice
Born: 27 March 1971

MGR. TIBOR KUZMÍK
Legal Department
From 1 July 2003
Faculty of Law, Charles University,
Prague
13 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
13 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
12 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
8 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
9 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
11 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
8 years of experience in credit risk
analysis and management
Domicile: Hvězdoslavova 506/9,
Prague 4
Born: 26 September 1974

ING. MILAN ŘIHA
Dept. Market Risk Measurement
From 1 October 2003
Technical University, Prague
14 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
13 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
13 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
12 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
7 years of experience in compliance
Domicile: Churáňovská 2692/9,
Prague 5
Born: 27 August 1973

ING. JAN TRONÍČEK
Private Banking and Securities
Dept.
From 1 July 2006
University of Economics, Prague
5 years of experience in banking
Domicile: K Haltýři 689/18, Prague 8
Born: 30 August 1971

ING. PAVEL PAVLÍČEK
Trading Department
From 1 August 2006
University of Economics, Prague
14 years of experience in banking
Domicile: Eliášova 50, Prague 6
Born: 18 September 1967

1.7 DIVIDENDS AND DIRECTORS FEES

HVB Bank Czech Republic did not pay any dividend to its shareholder in 2006. Neither were directors fees paid during the period.

1.8 SCOPE OF 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) operating a 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 its 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 in 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) engaging in financial brokerage;
- l) providing depository services;
- m) providing foreign currency exchange services (purchase of foreign currencies);
- n) providing banking information;
- o) trading foreign currencies and gold on its own behalf or on behalf of clients;
- 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

The sole shareholder of HVB Bank Czech Republic a.s. is Bank Austria Creditanstalt AG, having its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Republic of Austria.

Share capital: EUR 1,069,000,000

The ownership interest in HVB Bank's share capital is 100%.

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

- (a) 100 unlisted, registered book-entry common shares, each with a nominal value of CZK 16,320,000;
- (b) 200 unlisted, registered book-entry common shares, each with a nominal value of CZK 13,375,000;
- (c) 74,000 unlisted, registered book-entry common shares, each with a nominal value of CZK 10,000; and
- (d) 10 unlisted, registered 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.

HVB Bank neither acquired nor holds any of its own shares.

Republic. BA-CA is present in 11 CEE countries with some 1,000 branches, 17,800 employees and more than 4.5 million clients.

One of the most successful shares

BA-CA's shares are traded on the stock exchanges in Vienna and in Warsaw. Since the initial public offering of BA-CA's shares on the Vienna Stock Exchange in July 2003, their price has doubled, thus outperforming both the Austrian ATX stock exchange index and the DJ Eurostoxx/Banks index.

Best bank

BA-CA has repeatedly been recognised with awards from such leading international professional journals, such as "The Banker" and "Euromoney":

"Bank of the Year in CEE" – The Banker, September 2004

"Bank of the Year in Austria" – The Banker, September 2004

"Best Bank in CEE" – Euromoney, July 2004

"Best Custodian in CEE" – Euromoney, July 2004

"Best Bank in Austria" – Euromoney, July 2004

In accordance with the Articles of Association, the main shareholder may only influence HVB Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. HVB Bank is not a party to a controlling contract or a contract for transfer of profit.

The character of the control by the controlling entity, which is Bank Austria Creditanstalt AG, results from the directly owned portion of the issuer's shares. To prevent the misuse of the control and controlling influence of the controlling entity, HVB Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the report on relations between the controlled entity and other entities controlled by the same controlling entity (report on relations between the related entities).

No agreements that could lead to a change of control over the issuer are known.

INFORMATION ABOUT THE MAIN SHAREHOLDER

BANK AUSTRIA CREDITANSTALT

Number one on the Austrian market

Bank Austria Creditanstalt (BA-CA), a member of UniCredit Group, is the largest financial institution in Austria. This modern and dynamic universal bank has its seat in Vienna. With its 400 branches and 25% market share, BA-CA provides its Austrian customers with high-quality services that are, moreover, supported by the experience of the international financial group.

Key player in Central and Eastern Europe

Within the HVB Group and now within UniCredit Group, BA-CA is responsible for activities in Central and Eastern Europe (CEE). It has been pursuing a strategic expansion policy in this region since the early 1990s. Today, BA-CA operates the most extensive bank network in the region, and this includes HVB Bank Czech

2.2 OVERVIEW OF CHANGES IN OWNER'S EQUITY

(All data as at 31 December, except for 2006) CZK 000	30.9.2006 (IFRS))	2005 (IFRS)	2004 (IFRS)	2003 (CAS)
Registered capital	5,124,716	5,124,716	5,124,716	5,124,716
Share premium	1 996,920	1,996,920	1,996,920	1,996,920
Mandatory reserve funds and risk funds	919,666	826,866	733,548	648,218
Other reserve funds and other funds from profit	1,013,319	1,013,319	1,013,319	1,014,169
Revaluation gains (losses)	24,081	85,520	-93,168	0
Retained earnings from previous years	5,996,562	4,233,293	2,654,847	1,698,698
Profit for accounting period	2,109,793	1,856,070	1,671,895	1,706,605
Total shareholder's equity	17,185,057	15,136,704	13,102,077	12,189,326

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 29 September 2006, totals CZK 22,374,981,115.

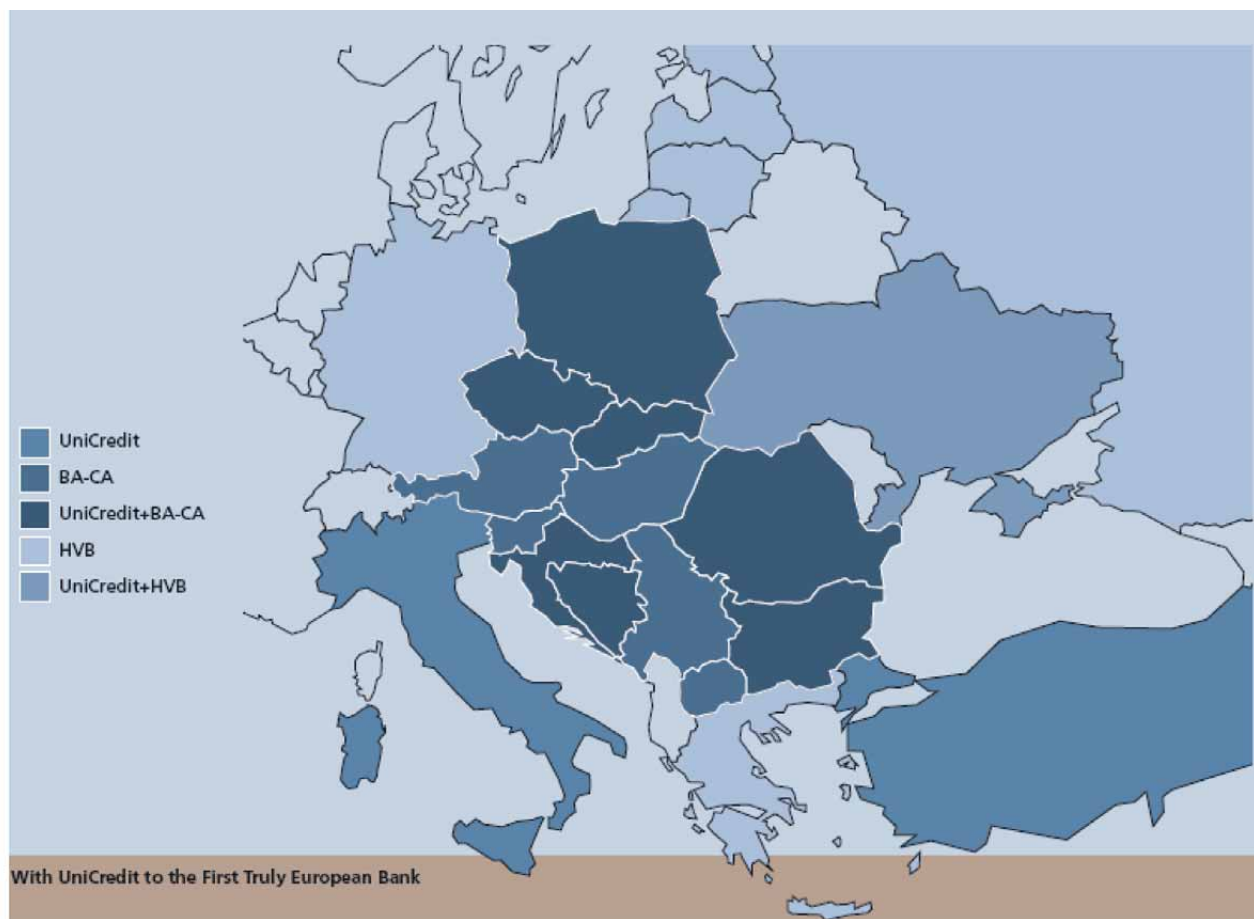
2.4 GROUP STRUCTURE

On 17 November 2005, UniCredit S.p.A., Genoa (UniCredit) acquired 93.93% of the shares of Bayerische Hypo und Vereinsbank AG, Munich (HVB) by increasing the registered capital and exchanging shares. As a result of this transaction, the entire HVB Group, of which Bank Austria Creditanstalt AG Vienna (BA-CA AG) is a member, became a new member of UniCredit Group.

UniCredit's offer to HVB shareholders was accompanied by an offer and an alternative cash offer to BA-CA AG shareholders, and this was accepted by holders of 17.45% of shares. Therefore, UniCredit holds, directly or indirectly through HVB, 94.98% of shares in BA-CA AG.

Through its takeover of HVB Group, UniCredit Group acquired an ownership interest in shares of banks in 19 countries in Europe and overseas that have a particularly strong presence in CEE.

COMBINING THREE NETWORKS



Main shareholders of UniCredit (holding more than 2%)

UniCredit shareholders	Common shares	Share in %
1. Gruppo Munich Re	499,559,020	4.800%
2. Fondazione Cassa di Risparmio di Torino	491,744,753	4.725%
3. Fondazione Cassa di Risparmio Verona, Vicenza, Belluno e Ancona	491,718,824	4.725%
4. Carimonte Holding SpA	445,467,993	4.280%
5. Gruppo Allianz	309,206,344	2.971%

A/ HVB Bank shareholder

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

B/ Affiliated 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, Václavské náměstí 33/823, Postal Code 110 00	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. in liquidation (CA IB Securities)	Prague 5, nám. Kinských 602	HVB Bank Czech Republic a.s. (100%)
HVB Reality CZ, s.r.o.	Prague 1, Revoluční 17/764	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 Austria	Business segment CEE	Business segment Corporates and Markets
Bank Austria Creditanstalt AG, Vienna Registered capital: EUR 1,069,000,000.00 Share: 77.5%	Bank Austria Creditanstalt d.d. Ljubljana, Ljubljana Registered capital: SIT 30,227,990,000.00 Share: 99.98%	Banca Comerciala HVB Tiriac S.A. Registered capital: RON 186,981,931.20 Share: 50.05%
Asset Management GmbH, Vienna Registered capital: EUR 7,507,572.09 Share: 100%	HVB Bank Biochim AD, Sofia Registered capital: BGN 186,838,150.54 Share: 99.80%	Hebros Bank AD Registered capital: BGN 93,641,000.00 Share: 99.91%
Bankprivat AG, Vienna Registered capital: EUR 11,766,000.00 Share: 100%	HVB Bank Czech Republic a.s., Prague Registered capital: CZK 5,124,716,000.00 Share: 100%	Mezzanin Finanzierungs AG Registered capital: EUR 30,161,889.39 Share: 56.67%
Capital Invest die Kapitalanlagegesellschaft der Bank Austria/ Creditanstalt Gruppe GmGH, Viennna Registered capital. EUR 9,146,819.78 Share: 100%	HVB Bank Hungary Rt., Budapest Registered capital: HUF 104,438,000,000.00 Share: 100%	Nova Banjalucka Banka AD Registered capital: BAM 19,673,527.24 Share: 90.93%
Schoellerbank Aktiengesellschaft, Vienna Registered capital: EUR 114,585,000.00 Share: 100%	HVB Bank Slovakia S.A., Bratislava Registered capital: SKK 7,930,024,000.00 Share: 100%	VISA-SERVICE Kreditkarten Aktiengesellschaft Registered capital: EUR 26,439,785.75 Share: 50.10%
Bank Austria Creditanstalt Real Invest GmbH Registered capital: EUR 86,371,016.63 Share: 94.95%	„HVB Banka Srbija i Crna Gora“ A.D. Beograd Registered capital: CSD 4,171,141,000.00 Share: 99.84%	
Bank Austria Creditanstalt Wohnbaubank AG Registered capital: EUR 42,800,495.59 Share: 100.00%	HVB Central Profit Banka d.d., Sarajevo Registered capital: BAM 100,391,042.30 Share: 80.87%	
Pioneer Investments Austria GmbH Registered capital: EUR 9,310,849.70 Share: 100.00%		

2.5 INFORMATION ON TRENDS

Since the date of presenting the last financial statements, for the year ending 31 December 2005, there have occurred no substantial negative change to the issuer's outlook.

In the second half of 2005, HVB Group merged with the Italian UniCredit Group. In 2007, the planned merger of HVB Bank and Živnostenská banka should be finalised. As a result of the merger, the fourth largest Czech bank

will be created having total assets of more than CZK 200 billion (EUR 7.4 billion), some 66 branches and more than 180,000 clients. The new bank will be a member of UniCredit Group, the largest bank group in the CEE region.

2.6 PROFIT PROGNOSSES OR ESTIMATES

The issuer has decided not to include a profit prognosis or estimate in either the prospectus or the annual report.

2.7 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	29,172,567	19,509,912	7,437,530	2,225,125
Supervisory Board	3,940,868	2,533,621	1,390,000	17,247

2.8 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.

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

The system for remunerating the Bank's managers is aimed at supporting in an optimal way the fulfilment of the company's business objectives and ensuring its long-term stability. The remuneration system consists of: the basic salaries policy, the "Management by Objectives (MBO)" variable remuneration system, and the benefits system.

Principles of remunerating the Bank's managers: basic salaries are defined based on the value of the position within the internal classification system, key capabilities of each employee and market comparison with other entities on the financial and banking markets in the Czech Republic.

MBO is based on the employees' performance objectives that are set individually using measurable parameters and their regular evaluation. MBO includes the so-called "solidarity factor" that adjusts the resulting variable

component of salaries depending on the fulfilment of the company's business objectives.

The variable component of the managers' incomes constitutes 25–50% of their fixed remuneration.

Benefits are defined in accordance with the priorities of the company's human resource strategy and with the classification of the position in a pre-defined category of benefits.

Members of the Supervisory Board are not entitled to remuneration for executing their office. Those members of the Supervisory Board who are also employees are entitled only to remuneration arising from the employment contract (see table in paragraph 2.7. on page 61).

The principles stated above were created in accordance with the parent company's principles for remunerating management employees of the CEE companies. All remuneration to the Bank's managers (fixed and variable) are approved by the Bank's Supervisory Board. For MBO, the approval is based on the control by the parent company's central controlling department for the given calendar year as to whether the measurable parameters have been fulfilled. The parent company's central human resources department proposes the remuneration of the Bank's managers to the Supervisory Board in accordance with the stated principles.

Remuneration to the Bank's foreign managers is provided by the parent company.

2.10 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, including VAT)

	On behalf of the issuer tax advisory	HYPO stavební spořitelna a.s.		On behalf of the consolidated unit		Celkem
		audit	tax advisory	audit	tax advisory	
KPMG	1,212,967.00	14,535,100.00	0.00	1,524,723.00	1,212,976.00	17,272,790.00
PRK Tax Consulting, s.r.o.	0.00	0.00	680,238.00	0.00	680,238.00	680,238.00
Total	1,212,967.00	14,535,100.00	680,238.00	1,524,723.00	1,893,205.00	17,953,028.00

For better explanatory value, this table shows costs for the accounting period and not remuneration paid.

2.11 MAJOR INVESTMENTS (IN CZK 000)

Data on major investments (in CZK 000)					
Type of investment	2006/09	2005/12	2005/6	2004	2003
Securities	24,995,933	29,114,360	35,431,012	34,035,049	27,056,739
thereof:					
State zero-coupon bonds and other securities for trading	38,104	1,222,016	2,480,878	1,559,931	7,890,557
State zero-coupon bonds and other securities for sale	6,805,647	3,631,500	7,528,388	9,333,195	2,302,814
Debt securities for trading	2,692,631	3,009,225	3,098,419	958,956	1,088,492
Debt securities for sale	12,524,924	16,734,646	17,265,196	16,881,722	14,586,070
Debt securities held to maturity	0	1,204,303	2,435,634	2,543,035	751,306
Shares, participation certificates and other interests for trading	2,564,878	2,871,281	2,180,383	2,316,096	44
Shares, participation certificates and other interests for sale	7,480	7,478	7,478	7,478	3,000
Controlling interests	362,029	433,671	434,396	434,396	434,216
Substantial interests	240	240	240	240	240
Information technologies	76,890	166,003	205,693	176,255	140,518

All data, except for the year 2006, are as at 31 December of the relevant year and stated in CZK thousands. With the exception of financial investments, all of HVB's investments are of an operating 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.

2.12 MAJOR FUTURE INVESTMENTS OTHER THAN FINANCIAL INVESTMENTS (PLANNED FOR 2007)

(in CZK 000)	
Investments into information technologies	235,016,000
Other investments (other than financial investments)	78,604,000
Total	313,620,000

2.13 GUARANTEES PROVIDED BY THE ISSUER – DATA AS AT 30 SEPTEMBER 2006

(in CZK 000)	30.9.2006
Guarantees provided	12,484,009
Guarantees provided under opened L/Cs	753,132
Guarantees provided under confirmation of L/Cs	916,895
Total	14,154,036

2.14 REVENUES IN THE LAST FOUR ACCOUNTING PERIODS

(in CZK 000)	30.9.2006	31.12.2005	31.12.2004	31.12.2003
Interest income and similar income	4,266,057	5,066,968	4,676,427	4,436,802
Income from shares and participation interests	229,456	230,064	90,000	124,007
Commission and fee income	1,813,342	2,360,030	2,207,888	1,052,972
Total gross income	6,308,855	7,657,062	6,974,315	5,613,781

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.

2.15 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:	<p>State Support to Building Society Savings, and performance of the activities listed under § 9, para. 1 of Act No. 96/1993 Coll.:</p> <ul style="list-style-type: none"> – 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 Savings, and for loans specified in § 89, 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 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 their clearing in connection with the activities of a building society savings company; – k/ providing banking information; and – l/ carrying out financial brokerage.
Subscribed registered capital:	CZK 500,000,000
Amounts and types of reserves as at 30 September 2006:	<p>Other reserves: CZK 15,500,000</p> <p>Mandatory reserve fund: CZK 100,000,000</p>
Net profit for the period from 1 January to 30 September 2006:	CZK 126,603,288
HVB's ownership in the company's registered capital:	60% (fully paid up)
Income in 2006 from the ownership interest:	CZK 63,000,000

Company:	CBCB-Czech Banking Credit Bureau, a.s.
Registered office:	Na Příkopě 1096/21, 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 30 September 2006:	The company does not publish financial statements.
Net profit for the period from 1 January to 30 September 2006:	The company does not publish financial statements.
HVB's ownership in the company's registered capital	20% (fully paid up)
Income in 2006 from the ownership interest:	CZK 0
Company:	CAE PRAHA a.s. v likvidaci
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 4,396,000
Amounts and types of reserves as at 30 September 2006:	CZK 0
Loss for the period from 1 January to 30 September 2006:	CZK 1,641,000
HVB's ownership in the company's registered capital:	100% (fully paid up)
Income in 2006 from the ownership interest:	CZK 0
Company:	HVB Reality CZ, s.r.o.
Registered office:	Revoluční 17/764, Prague 1
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 570,212,000
Amounts and types of reserves as at 30 September 2006:	Mandatory reserve fund: CZK 2,659,598
Net profit for the period from 1 January to 30 September 2006:	CZK 10,820,193
HVB's ownership in the company's registered capital	100% (fully paid up)
Income in 2006 from the ownership interest:	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 an organisational and economic nature with natural persons and legal entities
Subscribed registered capital:	CZK 50,000,000
Amounts and types of reserves as at 30 September 2006:	Mandatory reserve fund: CZK 2,356
Net profit or the period from 1 January to 30 September 2006:	CZK 2,474,690
HVB's ownership in the company's registered capital:	100% (fully paid up)
Income in 2006 from the ownership interest:	CZK 0

2.16 ISSUER'S BUSINESS OUTLOOK THROUGH THE END OF THE 2007 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	2,590,385
Receivables from banks	30,000,000
Receivables from customers	118,913,990
Securities for trading	3,700,000
thereof: Fixed income securities	3,700,000
Variable income securities	
Securities portfolio – financial assets	33,428,436
Participation interests	430,958
thereof: Participation interests with substantial influence	240
Participation interests with controlling influence	430,718
Long-term financial investments	32,997,478
Intangible fixed assets	168,000
Tangible fixed assets (including leasing)	285,500
Receivables from shareholders and partners (subscribed unpaid capital)	0
Treasury shares to reduce registered capital	0
Other assets	1,688,000
Total assets	190,774,311
Liabilities and owner's equity	(estimates, in CZK 000)
Due to banks	27,317,632
Due to customers	109,519,246
Certificates of deposit issued	
Bonds issued	27,500,000
Reserves	388,000
Long-term loans of a special kind taken	643,500
Registered capital	5,124,716
Capital funds, reserve funds and other funds from profit	12,379,603
Other liabilities	7,901,614
Total liabilities and owner's equity	190,774,311
Profit and loss account	
Interest income (banks, clients, government bodies)	3,769,357
Commission and fee income (banks, clients, government bodies)	2,116,968
Gains from trading operations	72,000
General administrative expenses	-2,536,591
Other operating loss	70,168
Net creation of adjustments and reserves	-442,800
Extraordinary income	-79,475
Income tax	-683,014
Net profit/loss for the accounting period	2,286,613

2.17 GENERAL OUTLINE OF TRENDS IN THE ISSUER'S ACTIVITY FROM 30 SEPTEMBER 2006 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, credit cards 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	
	Project financing and structured financing
	International transactions
	Documentary transactions
	Financing commercial real estates
	Treasury & Custody services
	Deposits
	Retail banking services
	Payment cards
	Asset management
	E-business and Cash Management
	Acquiring
Private clients and business accounts	
	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

LAUNCHING NEW PRODUCTS OR ACTIVITIES

HVB Bank accedes to the Code of Conduct on Relations between Banks and Clients

HVB Bank was one of the first banks that decided on acceding to the Code of Conduct on Relations between Banks and Clients, and thus it openly undertook to adhere to Standard No. 19/2005 created by the Czech Banking Association. At the end of March, HVB Bank became the first bank in the Czech Republic to implement Standard No. 18/2005 – the Principles of Pre Contractual Information on Home Loans.

RENOMÉ programme

In this programme, we provide clients with new co-branded chip credit cards that bring clients above-standard benefits through the network of RENOMÉ partners – companies such as Baťa, Blažek, Reserved, Droxi, Klenoty Aurum, and Fokus Optik. Another great advantage of this card is that it is available to the clients of any bank in the Czech Republic, and not only to those of HVB Bank.

VISA Winterthur co-branded credit card

This card is intended for Winterthur's clients who have agreements for supplementary pension or life insurance. In addition to being exempt from paying monthly fees for card maintenance and the yearly fee, the client may also obtain a special bonus upon the card's issuance in the amount of CZK 300 and a pre-approved credit limit in an amount up to CZK 40,000 without needing to document income.

The VISA Winterthur credit card replaces the VISA CREDIT SUISSE card, as Credit Suisse Life & Pensions has been renamed to Winterthur.

The VISA Winterthur credit card offers quality complementary services, such as travel insurance ("Travel"), insurance against credit payment insolvency ("Credit"), and insurance against loss or misuse of the credit card ("Safe").

VISA Generali card

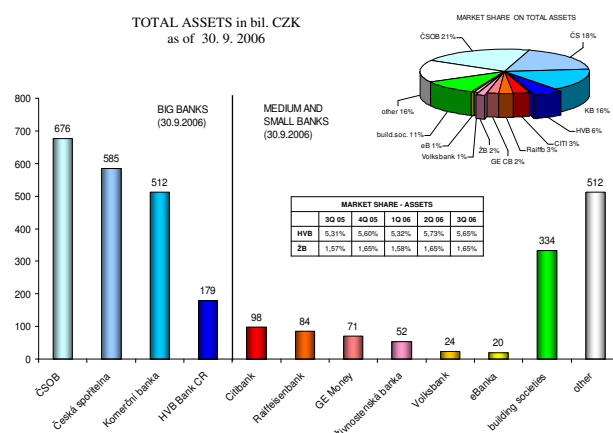
HVB Bank began co-operating with a strong new strategic partner, Generali Pojišťovna a.s., launching a new international chip card VISA Generali.

MAIN MARKETS

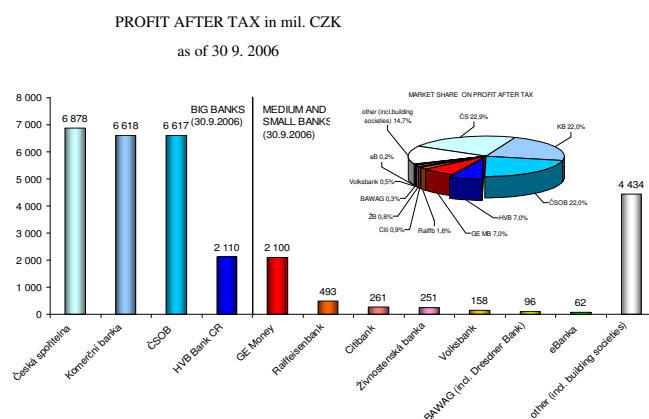
HVB Bank's business network covers the entire Czech Republic and consists of 24 branches in Prague, Mladá Boleslav, Plzeň, Karlovy Vary, České Budějovice, Chomutov, Ústí nad Labem, Jihlava, Liberec, Hradec Králové, Pardubice, Brno, Zlín, Olomouc and Ostrava.

DETAILED INFORMATION ON TYPES AND EXTENT OF HVB BANK'S INVESTMENT SERVICES provided up to 30 September 2006 can be found on the web pages of the issuer or the Bank.

3.2 COMPETITIVE POSITION OF THE ISSUER



Source: HVB



Source: HVB

Overview of 11 leading banks, ranked by total assets (EUR millions)				
	Total assets	Market share	Total issued capital (including reserves)	Net income after taxes
Banking sector overall	112,064		7,302	1,081
Name of Bank				
CSOB	23,849	21.3%	1,359	234
Česká spořitelna	20,655	18.4%	1,552	243
Komerční banka	18,063	16.1%	1,613	234
HVB Bank CR	6,330	5.6%	607	74
Citibank	3,462	3.1%	267	9
Raiffeisenbank	2,976	2.7%	141	17
GE Money Bank	2,493	2.2%	625	74
Živnostenská banka	1,853	1.7%	126	9
BAWAG (including Dresdner Bank)	978	0.9%	123	3
Volksbank	861	0.8%	60	6
eBanka	691	0.6%	44	2
Subtotal	82,211	73.4%	6,516	905
Other ¹	29,854	26.6%	1,221	157
TOTAL	112,064	100.0%	7,737	1,062

¹Other includes Českomoravská záruční a rozvojová banka, Česká exportní banka, mortgage banks, and branches of foreign banks (Commerz, ING, ABN AMRO, HSBC).

Source: HVB

3.3 RISK FACTORS

Risk factors are described in detail in the Notes to the extraordinary financial statements and consolidated extraordinary financial statements, specifically in notes 34 (Market risk management), 35 (Credit risk management) and 37 (Operational risk and other risks).

Risks in relation to the issuer

Credit risk

Credit risk involves risk from losses due to uncollectible accounts receivables or deterioration in clients' credit ratings. Credit risk may be divided into risks of counterparties' failures to meet their obligations, country risk, and risk of deteriorating credit rating.

Market risk

Market risk includes takes in the possibility of negative price developments due to unexpected changes in such underlying market parameters as interest rates, share prices, currency exchange rates and their volatility.

Liquidity risk

Liquidity risk encompasses the risk of having insufficient liquidity in the short term so that liquidity will be lacking to fulfil day-to-day payment obligations; structural liquidity risk relating to an imbalanced medium-term and long-term liquidity structure; and market liquidity risk, which is a risk that liquidity will be lacking in suitable financial instruments so that it may be impossible to close a position in the market or to do so only at inordinately high costs.

Operational risk

Operational risk arises primarily from inadequate or incorrect internal processes or systems, human error or external events. Legal risk is a part of operational risk.

Other risks

Other risks include business and strategy risks as well as regulatory, tax and real estate risks.

RISK FACTORS IN RELATION TO THE ISSUER

Risks in relation to the issuer

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 anticipated demands 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 speculating on the expected future development of financial markets.

The Bank's trading strategy is thus affected by speculation and market making and its goal is to maximise the net gains 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 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 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.

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 in the 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 that meets the accounting criteria for the application of hedge accounting.

Value at Risk

Value at Risk is 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.

Interest risk

The Bank is exposed to interest risk as a result of interest-bearing assets and liabilities with different

maturities 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 optimising the Bank's net interest revenue in accordance with the strategy approved by the Managing Board.

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 Managing Board. 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%), which is to say 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.

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 recognised at their carrying amounts (except held-to-maturity securities) and available-for-sale securities recognised at their fair values, with changes in fair value recognised in equity. Hedging instruments are derivatives (most commonly interest rate swaps and 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 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).

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.

Credit risk is managed at both the level of the individual client (transaction) and the portfolio level. The credit risk management division is organisationally independent of the trade divisions and is accountable to the member of the Managing Board responsible for finance and bank operations management.

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's 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.

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- 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.

Recovery of receivables

The Bank has established departments 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) "revitalisation" of the credit relationship, restructuring and potential reclassification to a standard receivable, b) full repayment of the loan, c) minimisation of the loss from the loan (realisation of collateral, sale of receivable at a discount, etc.), and d) prevention of further losses from the loan (which means judging the future expenses in comparison with the probable future revenues).

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 comprehensive system of internal rules and regulations that modify and define the working processes and related control activities.

The system of internal rules and regulations 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 authorised by a second);
- daily nostro accounts reconciliation;
- daily and monthly reconciliation of internal accounts falling under the competence of their relevant departments; and
- recording, processing and escalation of client complaints resulting from processing mistakes.

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

3.4 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.

3.5 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.

3.6 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.

3.7 LOANS OUTSTANDING AND OTHER LIABILITIES

A/ Overview of	
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	10 May 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 USD 50,000,000)
Interest rate	EIB POOL RATE**
Loan date	17 March 2003
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 30 September 2006 – converted into CZK at rates valid as at 29 September 2006 (disbursed amounts only)	CZK 3 610 088 581
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3.8. SIGNIFICANT CHANGE IN THE ISSUER'S FINANCIAL SITUATION

Since the date of presenting the audited financial statements for the year ended 31 December 2005, no significant change has occurred in the financial state of the issuer or the Group.

3.9. SIGNIFICANT CONTRACTS

The Bank has not concluded contracts that could cause an obligation or a claim to arise to any member of the Group that would be material as to the issuer's ability to fulfil its obligations to securities holders on the basis of the securities issued.

3.10. THIRD PARTIES' INFORMATION AND EXPERTS' DECLARATIONS AND DECLARATIONS ON ANY INTERESTS

The annual report does not include any declaration or report of an entity acting as an expert. Moreover, no information comes from a third party, unless expressly stated otherwise.

3.11. DOCUMENTS PRESENTED

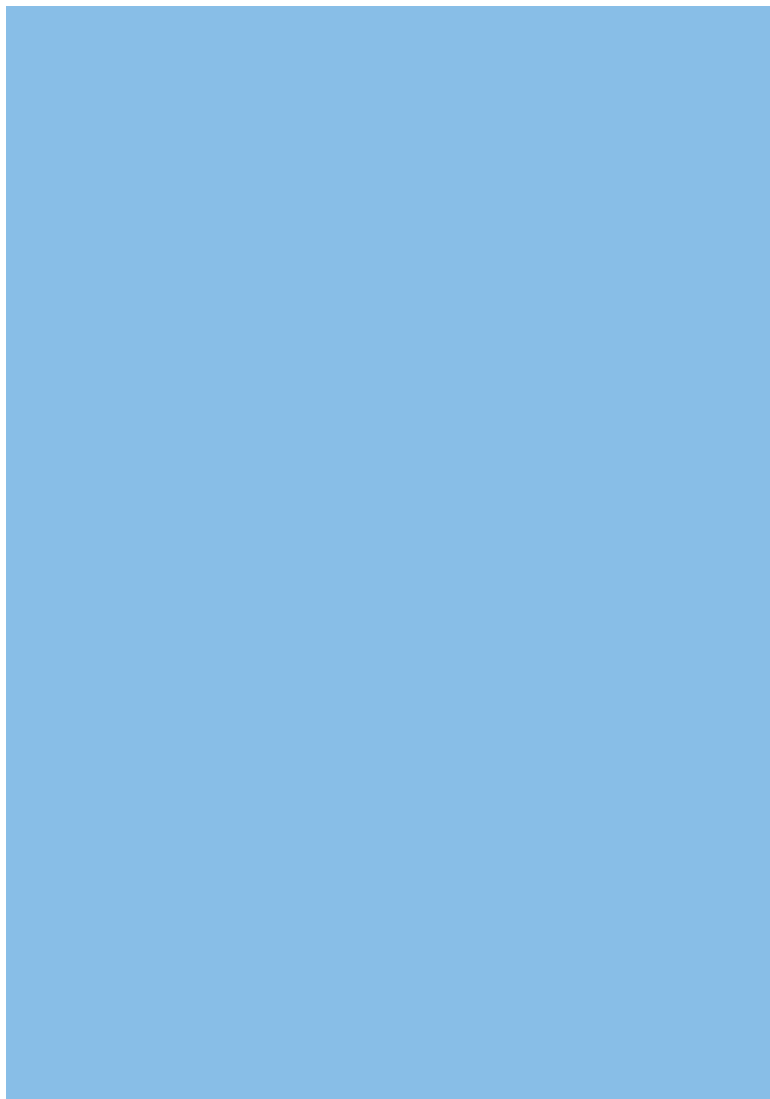
The full wording of the issuer's mandatory audited financial statements, including notes and auditor's reports, are available for inspection upon request during business hours at the issuer's registered office, as well as on the issuer's web site.

Also available at the same locations are other annual and semi-annual reports as well as quarterly mandatory information. Any other documents and materials mentioned in the prospectus related to the issuer, as well as the issuer's Foundation Deed and Articles of Association, are also available for inspection at the issuer's registered office.

4. STATEMENT ON 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"), as well as 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 period from 1 January 2006 to 30 September 2006, 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 contractual 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 as are the relations from bank guarantees. On the basis of an accepted counter-guarantee, the Bank issues a bank guarantee on behalf of a beneficiary (a third party). In the period under review, 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. IT CONTRACTS

Relations to the associated entities are also created by agreements that provide the controlled entity with services in the area 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. An agreement for Multicash application support was concluded, replacing an earlier oral agreement.

Furthermore, the controlled entity entered into a purchase agreement concerning the sale of computer

technology and software and a hardware lease agreement 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.

4. 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 aforementioned period, amendments newly stipulating the currency of rent payment were concluded with the associated entities, and furthermore sublease agreements and related amendments were 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.

5. BANKING TRANSACTION SERVICES S.R.O.

In the period under review, the controlled entity concluded two so-called Service Level Agreements with the associated entity Banking Transaction Services s.r.o. Based on these agreements, the controlled entity outsourced its activities related to processing of payment card transactions and back office operations.

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.

6. HVB Factoring s.r.o.

The controlling entity, controlled entity and HVB Factoring s.r.o. entered into a trilateral agreement for provision of know-how in regard to Business Planner software.

Furthermore, the controlled entity and HVB Factoring s.r.o. entered into amendments nos. 3, 4 and 5 to the Contract for a Loan and Other Banking Services provided in the form of multipurpose credit line.

The controlled entity and HVB Factoring s.r.o. entered into amendment no. 1 to the Contract for Provision of Services.

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. 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, and on the basis of these the controlling entity undertakes to participate in the risk of non-repayment of loans to be granted by the controlled entity to third parties.

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

The controlled entity entered into a mandate agreement with HYPO stavební spořitelna a.s. on the basis of which the controlled entity deals in investment instruments in the name of and at the account of HYPO stavební spořitelna a.s.

The controlled entity entered into the so-called Agreements on Effective Pooling with the controlling entity as well as with the associated entities HVB Bank Slovakia, a.s. and HVB Bank Hungary Zrt. to carry out cross-border cash pooling.

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

Further, the controlled entity trades on the interbank 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.





Managing Board, Supervisory Board

MEMBERS OF THE MANAGING BOARD AS AT 30 SEPTEMBER 2006:

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
27 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
22 years of experience in banking

DR. 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
29 years of experience in banking

MEMBERS OF THE MANAGING BOARD WHO RESIGNED FROM THEIR OFFICES DURING 2006:

ALFRED FÜSSELBERGER

Born: 21 March 1964
Member of the Managing Board and Executive Director
Date of appointment to the office: 1 July 2005
Date of resignation from the office: 31 August 2006
Ober-Grafendorf, Daniel Granstrasse 8, Austria
16 years of experience in banking

**MEMBERS OF THE SUPERVISORY
BOARD AS AT 30 SEPTEMBER 2006:**

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
37 years of experience in treasury

MAG. FRIEDRIKE 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
21 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
24 years of experience in banking law

HELMUT BERNKOPF

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

HARALD VERTNEG

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

DDR. REGINA PREHOFER

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

ING. PAVEL ŠLAMBOR

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

ROBERT ZADRAŽIL

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

**MEMBERS OF THE SUPERVISORY
BOARD WHO RESIGNED FROM
THEIR OFFICES DURING 2006:**

HELENA ŠRÁMKOVÁ

Born: 18 May 1954
Date of appointment to the office:
11 March 2002
Date of resignation from the office:
22 June 2006
Liškova 633/8, 140 00 Prague 4
Secondary School of Economics,
Prague
16 years of experience in banking
and payments

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

Českokobratrské nám. 1321
293 01 Mladá Boleslav
Tel.: 326 721 837
Fax: 326 721 845 •

OLMOUC

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

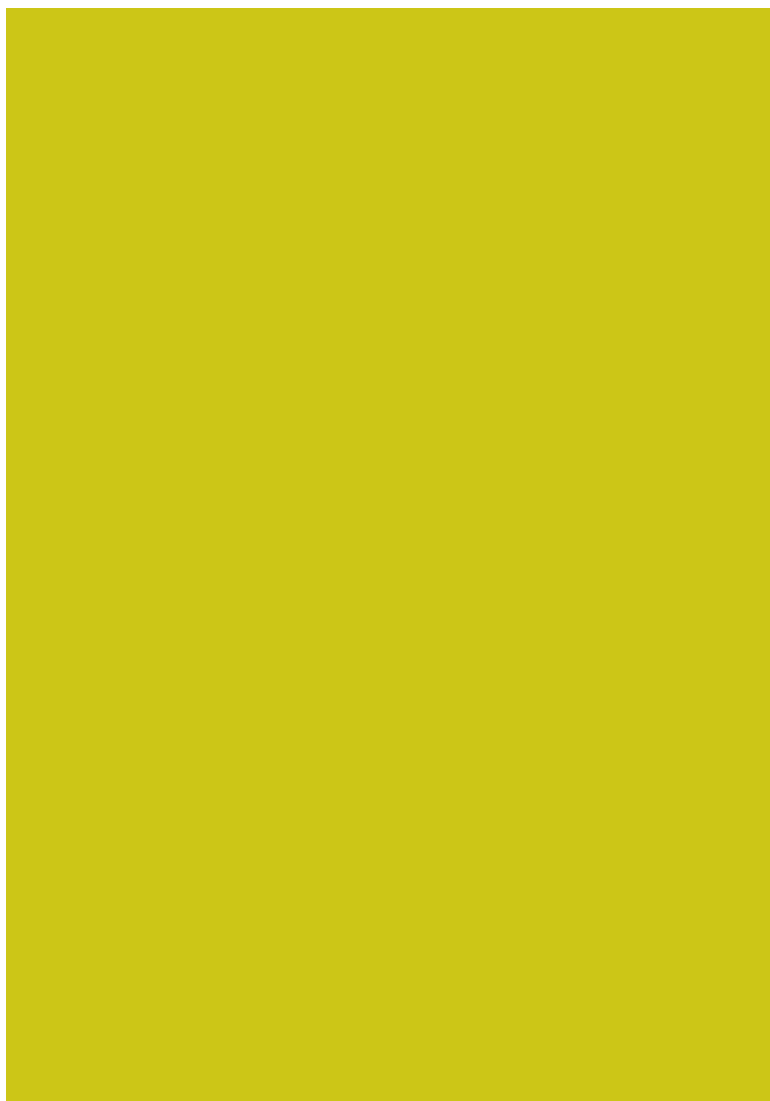
nám. Republiky/Riegrova 1
304 48 Plzeň
Tel.: 377 196 111
Fax: 377 196 245 •

ÚSTÍ NAD LABEM

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

ZLÍN

Lešetín II. 210
760 01 Zlín
Tel.: 221 114 300
Fax: 221 154 301



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%.

As at 30 September 2006, 38,277 contracts, in the target amount of CZK 6.2 billion had been concluded and recognized, including the increased contract amounts. HYPO stavební spořitelna a.s. is step by step meeting its objectives in its credit-related activities. In particular, the company began successfully to offer bridging loans.

Building society savings continues to be regarded by the customers as an advantageous product.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(CZK 000):	30 Sep 2006	31 Dec 2005
Registered capital	500,000	500,000
Equity	812,903	934,064
Total assets	29,094,180	28,760,530
Net profit/loss	126,603	119,955

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):	30 Sep 2006	31 Dec 2005
Registered capital	570,212	570,212
Equity	73,046	62,226
Total assets	539,278	580,173
Net profit/loss	10,820	42,151

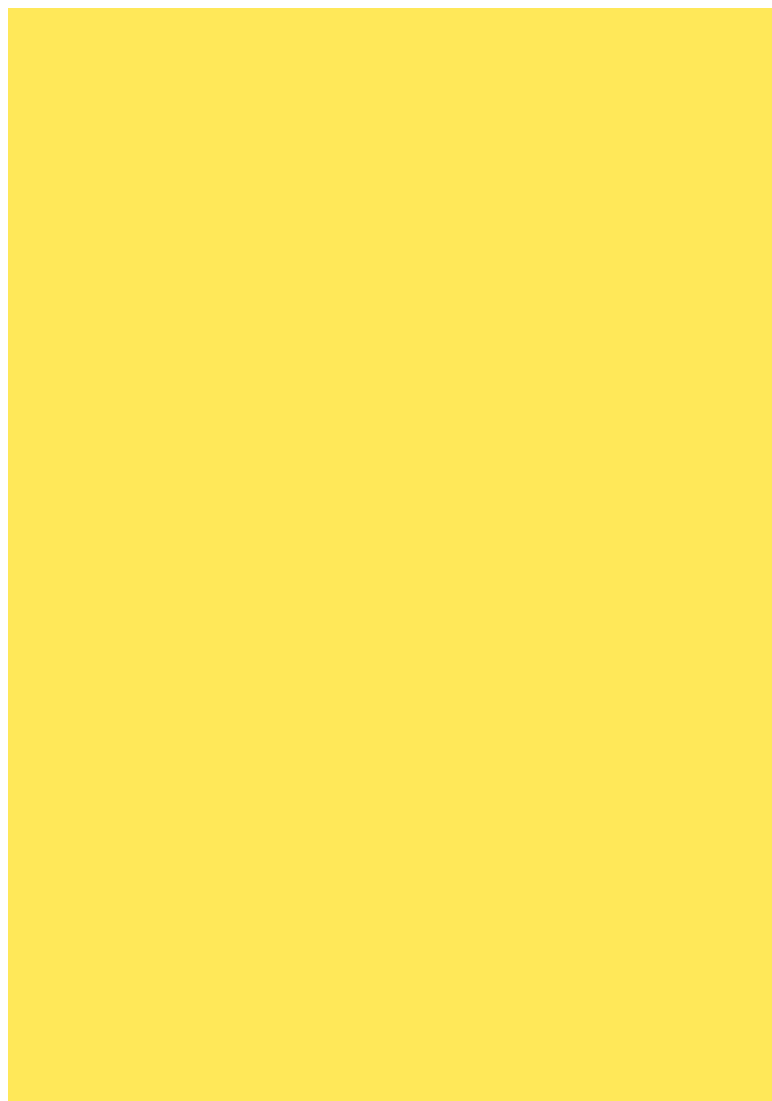
HVB FACTORING S.R.O.

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 accounts receivable.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(CZK 000):	30 Sep 2006	31 Dec 2005
Registered capital	50,000	50,000
Equity	52,508	50,033
Total assets	905,713	584,181
Net profit/loss	2,475	10

**KEY FINANCIAL INDICATORS
ON CONSOLIDATED BASIS**



KEY FINANCIAL INDICATORS ON CONSOLIDATED BASIS (IFRS AUDITED)

(The results are for the accounting period January 2006 – 30 September 2006. The 2005 accounting period cannot be used to compare certain data.)

		1.1.-30.9.06	1.1.-31.12.05
A. Capital and capital adequacy			
Capital adequacy ratio	%	11.2	11.0
Tier 1	CZK million	15,158	13,194
Tier 2	CZK million	567	716
Tier 3 employed	CZK million	–	–
Items deductible from the total of Tier 1 and Tier 2	CZK million	213	218
Total capital	CZK million	15,512	13,692
Capital requirements in accordance with specific regulations:			
Capital requirement A	CZK million	10,535	9,408
Capital requirement B	CZK million	579	592
Capital requirement for credit risk of trading portfolio	CZK million	195	281
Capital requirement for exposure risk of trading portfolio	CZK million	–	–
Capital requirement for general interest rate risk	CZK million	242	248
Capital requirements for general equity risk	CZK million	2	2
Capital requirement for foreign exchange risk	CZK million	140	62
Capital requirement for commodities risk	CZK million	–	–
B. Key ratios			
Return on average equity after tax	%	13.4	13.7
Return on average assets after tax	%	1.1	1.1
Assets per employee	CZK million	179.9	143.2
General administrative expenses per employee	CZK million	1.5	2.0
Net profit per employee	CZK million	1.9	1.5

Key financial indicators on consolidated basis

**EXTRAORDINARY CONSOLIDATED
FINANCIAL STATEMENTS**



CONSOLIDATED INCOME STATEMENT **FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006**

CONSOLIDATED INCOME STATEMENT			
		1.1.-30.9.2006	1.1.-31.12.2005
	Note	MCZK	MCZK
Interest income and similar income	5	5,078	6,063
Interest expense and similar charges	5	(2,558)	(3,138)
Net interest income and similar income		2,520	2,925
Dividend income	6	166	191
Fee and commission income	7	2,032	2,728
Fee and commission expense	7	(357)	(500)
Net fee and commission income		1,675	2,228
Net trading income	8	195	88
Net income from financial investments	11	(119)	42
Other operating income	10	110	214
General administrative expenses	9	(1,717)	(2,762)
Impairment of loans and receivables	16	(44)	(199)
Other operating expenses	10	(130)	(264)
Profit before income tax		2,656	2,463
Current income tax	27	(487)	(648)
Deferred income tax	27	19	147
Profit for the period		2,188	1,962
Majority interest		2,137	1,914
Minority interest		51	48

**CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2006**

		30.9.2006	31.12.2005
	Note	MCZK	MCZK
ASSETS			
Cash in hand and balances with central banks	12	691	2,247
Financial assets held for trading	13	3,739	3,789
Receivables from banks	14	34,847	36,208
Receivables from customers	15	107,997	94,952
Financial investments	16	56,366	50,716
Property, plant and equipment	17	786	836
Intangible assets	18	198	256
Deferred tax asset	27	244	191
Other assets	19	2,044	3,166
Total assets		206,912	192,361
LIABILITIES			
Deposits from banks	21	27,196	28,230
Deposits from customers	22	130,901	122,596
Debt securities issued	23	22,660	17,272
Financial liabilities held for trading	24	3,176	3,070
Provisions	25	416	457
Deferred tax liability	27	8	87
Other liabilities	26	4,197	4,217
Subordinated liabilities	28	663	679
Total liabilities		189,217	176,608
SHAREHOLDERS' EQUITY			
Issued capital	29	5,125	5,125
Share premium	29	1,997	1,997
Reserve funds	31	1,933	1,840
Reserves from revaluation of financial instruments		19	165
Retained earnings	31	8,296	6,252
Total shareholders' equity		17,370	15,379
Minority interest		325	374
Total shareholders' equity and minority interest		17,695	15,753
Total liabilities, shareholders' equity and minority interest		206,912	192,361

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY										
	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of available hedging instruments	Reserves from revaluation of available for-sale securities	Retained earnings	Shareholders' equity without minority interest	Minority interest	Shareholders' equity and minority interest
MCZK										
Balance at 1.1.2005	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 31.12.2005	5,125	1,997	827	1,013	(340)	505	6,252	15,379	374	15,753
Change in revaluation of available-for-sale securities						(288)			(58)	
Change in fair value of derivatives in cash flow hedging					142					
Unrealized gains/losses booked into equity					142	(288)		(146)	(58)	(204)
Transfer to statutory reserve fund			93				(93)	-		
Dividends paid								-	(42)	(42)
Net profit for the period 1.1.2006 - 30.9.2006							2,137	2,137	51	2,188
Balance at 30.9.2006	5,125	1,997	920	1,013	(198)	217	8,296	17,370	325	17,695

CONSOLIDATED CASH FLOW STATEMENT **FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2006**

CONSOLIDATED CASH FLOW STATEMENT		
	1.1.-30.9.2006	1.1.-31.12.2005
Note	MCZK	MCZK
Net profit for the period	2,188	1,962
<i>Adjustments for non-cash items</i>		
Impairment of loans and receivables	44	199
Impairment of intangible assets and property, plant and equipment	(7)	86
Impairment of other assets	1	6
Impairment of participation interests	2	(1)
Creation and release of other provisions	(40)	20
Depreciation of property, plant and equipment and intangible fixed assets	160	246
Changes in accruals	(159)	83
Deferred tax	19	147
Operating profit before change in operating assets and liabilities	2,208	2,748
Financial assets held for trading	44	(384)
Loans and receivables from banks	1,359	(14,979)
Loans and receivables from customers	(13,138)	(8,856)
Other assets	1,035	(1,377)
Deposits from banks	(1,076)	4,323
Deposits from customers	8,274	12,533
Financial liabilities held for trading	106	429
Other liabilities	372	1,275
Net cash flows from operating activities	(816)	(4,288)
Change in financial investments	(5,752)	(6)
Proceeds from sale of property, plant and equipment and intangible fixed assets	14	39
Acquisition of property, plant and equipment and intangible fixed assets	(183)	(457)
Net cash flows from investing activities	(5,921)	(424)
Dividends paid	-	-
Dividends paid to minority shareholders	(42)	(26)
Debt securities issued	5,223	6,392
Repaid subordinated liabilities	-	-
Net cash flows from financing activities	5,181	6,366
Cash and cash equivalents at 1 January	2,247	593
Net cash flows from operating activities	(816)	(4,288)
Net cash flows from investing activities	(5,921)	(424)
Net cash flows from financing activities	5,181	6,366
Cash and cash equivalents at the end of the period	691	2,247
Income tax paid	(538)	(664)
Interests received	5,184	6,126
Interests paid	(2,403)	(3,084)
Dividends received	166	191

Notes to the Extraordinary 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” 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 currencies, mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follows:

- 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, travel 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
 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;

- rental 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 resolve housing needs in situations where the members have not yet the right to receive loans from building savings schemes;
- realty services;
- factoring (purchasing, financing and management of receivables);
- operating bank register.

2. BASIS OF PREPARATION

As at 30 September 2006 the Bank was controlled by Bayerische Hypo- und Vereinsbank AG, Munich (“HVB”), which had a 77.5% share in the Bank through Bank Austria Creditanstalt AG, Vienna (“BACA”). As at 17 December 2005 UniCredito Italiano S.p.A., Milan (“UCI”) acquired a 93.93% share in HVB. UCI has a 100% share in Živnostenská banka, a.s. in the Czech Republic. As a result of the inclusion of HVB Group in UCI Group the Bank and Živnostenská banka, a.s. will be merged. The decisive day of the merger is 1 October 2006. These extraordinary financial statements have been prepared in accordance with Section 17 of Act 563/1991 Coll. on Accounting, as at the day preceding the decisive day, i.e. 30 September 2006.

The extraordinary financial statements have been prepared for the accounting period from 1 January 2006 to 30 September 2006, i.e. nine months. Information for the year 2005 in the income statement and cash flow statement is not comparable with the data from the nine-month period ended as at 30 September 2006.

The extraordinary financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in wording accepted by the European Union.

All presented amounts are in millions of CZK (MCZK), unless stated otherwise. Numbers in brackets represent 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 extraordinary 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 by virtue of hedged risk. 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. An entity is controlled if the Bank is able to directly or indirectly influence the management or operation of the entity in order to obtain economic benefits. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the control commences until the date that the 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 (i.e. the Bank is able to participate in the management of the entities’ financial and operating policies without being able to exercise a controlling influence). The consolidated financial statements include the Bank’s shares on total recognized gains and losses of associated companies on an equity accounted basis from the date that the significant influence commences until the date that the significant influence ceases.

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 non-realized 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 Group's participation interest on the entity against investments into 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 "Net trading income".

(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.

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 including the aliquot part of discount or share premiums less impairment losses. Share 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 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 “Net trading income”.

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 “Net income 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 “Net income 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 recognition of 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” or “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 recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement at the same moment as the hedged item affects the net profit or loss.

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 recognised 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

Investments 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.

Investments borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized in the balance sheet.

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

Assets are assessed at each balance sheet date to determine whether there is any objective evidence of

impairment. 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 objective evidence 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 rating of the underlying customers and late payments of interest or penalties. Historical loss experience is the basis for calculation of expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition only of those losses that occurred in a 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, 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, 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 “Net income 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, equipment and intangible assets are assets which are held in order to pursue bank activities and which may be used for a period over 1 year.

Property, plant, equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated using the straight line method over their estimated useful lives.

The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

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

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

Low value assets with acquisition price lower than CZK 40,000 with useful life more than 1 year are depreciated over 2 years.

(i) Provisions

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%),
- 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 Group for providing financial services other than those related to the origination of financial asset or liability. These form a part of the effective interest income/expense. Fees and commissions arise 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 in "Dividends income" 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.

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 capital market activities including underwriting of investments for clients, investment consultancy, mergers and acquisition consultancy.

Other includes 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 investments: 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 partly *IAS 32*

Financial investments: Disclosures and is applicable to all entities that prepare financial statements in accordance with IFRS. This standard brings additional requirements on the publication of financial instruments particularly in the area of risk management procedures and other qualitative and quantitative information.

The Group's management considers the impact of other already effective standards, which were not used in the preparation of the current financial statements, to be immaterial.

4. CONSOLIDATED COMPANIES

The consolidated financial statements include the following subsidiaries included in the consolidated Group:

	Registered	Business	Date of	Acquisition	Share of	the Group
Name	office	activity	acquisition	price	30.9.2006	31.12.2005
HYPO stavební spořitelna a.s.	Prague	building savings	24.6.1994	360	60%	60%
HVB Factoring s.r.o.	Prague	factoring	26.10.2004	50	100%	100%
HVB Reality CZ, s.r.o.	Prague	realty services	30.12.2004	21	100%	100%

5. NET INTEREST AND SIMILAR INCOME

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Interest income and similar income:		
Balances with the central bank	319	366
Loans and receivables from banks	354	503
Loans and receivables from customers	3,026	3,356
Financial investments	1,423	1,817
Net income from fair value hedging of loans and deposits	(44)	21
Interest income and similar income	5 078	6,063
Interest expense and similar charges:		
Deposits from banks	(597)	(924)
Deposits from customers	(1,389)	(1,695)
Debt securities issued	(604)	(490)
Subordinated liabilities	(16)	(17)
Net loss from fair value hedging of debt securities issued	48	(12)
Interest expense and similar charges	(2,558)	(3,138)
Net interest and similar income	(2,520)	(2,925)

6. DIVIDENDS INCOME

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Dividends income		
From participation certificates	166	191
Total	166	191

7. NET FEE AND COMMISSION INCOME

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Fee and commission income from		
Securities transactions	47	75
Management, administration, deposit and custody services	83	99
Loans	194	230
Payment services	455	614
FX transactions	710	947
Payment cards	296	352
Operations connected with the provision of building savings	215	369
Other	32	42
Fee and commission income	2,032	2,728
Fee and commission expense from		
Securities transactions	-	(1)
Management, administration, deposit and custody services	(29)	(29)
Loans	(46)	(69)
Payment services	(17)	(16)
Payment cards	(173)	(185)
Operations connected with the provision of building savings	(92)	(200)
Fee and commission expenses	(357)	(500)
Total	1,675	2,228

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 Group and the official CNB FX rate, which is required by the Accounting Act when revaluing 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.

8. NET TRADING INCOME

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Net realized and unrealized gain/loss from securities held for trading	39	40
Net realized and unrealized gain/loss from derivatives held for trading	25	(71)
Net realized and unrealized gain/loss from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	131	119
Total gain from trading	195	88

9. GENERAL ADMINISTRATIVE EXPENSES

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Personnel expenses		
Wages and salaries paid to employees	(544)	(945)
Social and health insurance	(191)	(325)
	(735)	(1,270)
Including wages and salaries paid to:		
Members of the Board of directors	(10)	(24)
Other executives	(58)	(74)
	(68)	(98)
Other administrative expenses		
Rent and building maintenance	(224)	(308)
Information technologies	(171)	(232)
Promotion and marketing	(104)	(226)
Materials	(85)	(91)
Expense for audit, legal and tax advisory	(32)	(56)
System of payments	(85)	(18)
Services	(120)	(219)
Other	(8)	(10)
	(829)	(1,160)
Depreciation of property, plant and equipment	(77)	(138)
Depreciation of intangible fixed assets	(83)	(108)
Impairment loss from tangible and intangible assets	(4)	(86)
Release of impairment loss from tangible and intangible assets	11	-
	(153)	(332)
Total general administrative expenses	(1,717)	(2,762)

Social and health insurance includes employees' pension supplementary insurance paid by the Group in the amount of MCZK 5 (1.1.-31.12.2005: MCZK 9).

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

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

	1.1.-30.9.2006	1.1.-31.12.2005
Employees	1,150	1,343
Members of the Board of Directors	4	4
Members of the Supervisory Board	9	9
Other executives	28	30

10. OTHER OPERATING INCOME AND EXPENSES

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Income from ceded and written-off receivables	9	23
Income from rent	14	26
Release of other provisions	63	83
Release of impairment of other assets	1	3
Release of impairment of tangible assets	–	16
Release of reserves for off-balance sheet items	4	23
Use of other provisions	1	–
Other	18	40
Total other operating income	110	214
Deposits and transactions insurance	(62)	(68)
Creation of other provisions	–	(55)
Impairment of other assets	(1)	(9)
Creation of reserves for off-balance sheet items	(30)	(71)
Other expenses for employees	(20)	(31)
Write-off of other assets	(1)	(16)
Other	(16)	(14)
Total other operating expenses	(130)	(264)

11. NET INCOME FROM FINANCIAL INVESTMENTS

	1.1.-30.9.2006	1.1.-31.12.2005
MCZK		
Net gain/loss from available-for-sale and held to maturity securities	–	29
Net gain/loss from hedging against risk of changes in fair value of available-for-sale securities	3	(3)
Net gain/loss from securities at fair value through profit and loss	(120)	17
Impairment of participation interest	(2)	(1)
Total gain from financial investments	(119)	42

12. CASH IN HAND AND BALANCES WITH CENTRAL BANK

	30.9.2006	31.12.2005
MCZK		
Cash in hand	470	471
Obligatory minimum reserves	180	1,773
Other balances at central banks	41	3
Total	691	2,247

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

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

13. FINANCIAL ASSETS HELD FOR TRADING

	30.9.2006	31.12.2005
MCZK		
Bonds and other securities with a fixed rate of return held for trading	767	1,002
Shares and other securities with a variable rate of return held for trading	1	3
Fair value of financial derivatives held for trading	2,971	2,784
Total	3,739	3,789

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

	30.9.2006	31.12.2005
MCZK		
Issued by government sector	767	1,002
Total	767	1,002
Thereof:		
Listed	177	428
Unlisted	590	574

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

	30.9.2006	31.12.2005
MCZK		
Issued by financial institutions	–	3
Issued by non-financial institutions	1	--
Total	1	3

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

	30.9.2006	31.12.2005
MCZK		
Interest rate contracts	1,094	1,670
Currency contracts	429	306
Equity contracts	1,448	808
Total	2,971	2,784

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

14. RECEIVABLES FROM BANKS

(a) Analysis of receivables from banks by type

	30.9.2006	31.12.2005
MCZK		
Current accounts at other banks	2,433	294
Loans and receivables from banks	23,056	29,210
Term deposits	9,358	6,704
Total receivables from banks	34,847	36,208
Impairment losses of receivables from banks	–	–
Net receivables from banks	34,847	36,208

(b) Subordinated 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 213 as at 30 September 2006 (31 December 2005: MCZK 218). 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 receivables from banks by geographical sector

	30.9.2006	31.12.2005
MCZK		
Czech Republic	25,881	30,041
European Union	7,167	3,534
Others	1,799	2,633
Total receivables from banks	34,847	36,208

15. RECEIVABLES FROM CUSTOMERS

(a) Analysis of receivables from customers by type

	30.9.2006	31.12.2005
MCZK		
Loans to clients	109,203	96,108
Receivables from promissory notes	71	88
Total receivables from customers	109,274	96,196
Impairment losses of receivables from customers	(1,277)	(1,244)
Net receivables from customers	107,997	94,952

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 17 (31 December 2005: MCZK 18). Included in these amounts are loans that have not been adjusted for interest accruals in the amount of MCZK 313 (31 December 2005: MCZK 284). In case of applying accrued principle on interest income from these loans the Bank would recognize MCZK 10 (31 December 2005: MCZK 11) as interest income.

(b) Classification of receivables from customers

	30.9.2006	31.12.2005
MCZK		
Standard	106,261	92,097
Watch	1,553	2,440
Substandard	468	773
Doubtful	200	188
Loss	792	698
Total receivables from customers	109,274	96,196

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 there is indication of impairment of loans and receivables. If

such indication has been identified, the amount of the loss is measured as the difference between the receivables carrying amount and the present value of estimated future cash flow.

(c) Analysis of receivables from customers by sector

	30.9.2006	31.12.2005
MCZK		
Financial institutions	12,296	13,602
Non-financial institutions	80,090	68,314
Government sector	542	1,645
Non-profit organizations	307	178
Self-employed	759	693
Resident individuals	9,188	8,865
Non-residents	6,092	2,899
Total loans and receivables from customers	109,274	96,196

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

	30.9.2006	31.12.2005
MCZK		
Personal guarantee	20	427
Bank and similar guarantee	10,095	12,198
Mortgage	33,338	26,148
Corporate guarantee	768	4,322
Other types of security	1,358	1,654
Security held by the Bank	7,652	8,547
Unsecured	56,043	42,900
Total receivables from customers	109,274	96,196

(e) Analysis of receivables from customers by business activity

	30.9.2006	31.12.2005
MCZK		
Realty services	34,872	28,238
Financial services	13,503	10,944
Wholesale	13,704	13,357
Household services	7,574	7,339
Retail	3,971	3,286
Leasing	1,928	2,785
Others	33,722	30,247
Total receivables from customers	109,274	96,196

(f) Impairment of receivables from customers

	30.9.2006	31.12.2005
MCZK		
Impairment of individual receivables from customers	(732)	(746)
Impairment of portfolios of standard receivables from customers	(545)	(498)
Total impairment of receivables from customers	(1,277)	(1,244)

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

Balance as at 1 January 2006		(1,244)
Creation during the current year	(314)	
Release during the current year	270	
Net impact on profit and loss		(44)
Receivables written off		8
FX differences		3
Balance of impairment of receivables from customers as at 30 September 2006		(1,277)

16. FINANCIAL INVESTMENTS

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

	30.9.2006	31.12.2005
MCZK		
Available-for-sale securities	37,820	30,312
Held-to-maturity securities	13,016	14,232
Financial assets at fair value through profit and loss	5,528	6,098
Non-consolidated subsidiaries and associated companies	2	74
Total	56,366	50,716

(b) Analysis of available-for-sale securities

	30.9.2006	31.12.2005
MCZK		
Bonds and other securities with a fixed rate of return:		
Issued by financial institutions	10,374	8,019
Issued by non-financial institutions	2,363	2,246
Issued by government sector	25,073	20,040
Total	37,810	30,305
Shares and other securities with a variable rate of return:		
Issued by financial institutions	3	-
Issued by non-financial institutions	7	7
Total	10	7
Total available-for-sale securities	37,820	30,312
Thereof:		
Listed	34,296	29,960
Unlisted	3,524	352

(c) Analysis of held-to-maturity securities

	30.9.2006	31.12.2005
MCZK		
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	1,810	1,835
Issued by non-financial institutions	868	2,073
Issued by government sector	10,338	10,324
Total	13,016	14,232

All securities held to maturity are listed on public markets.

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

	30.9.2006	31.12.2005
MCZK		
Bonds and securities with a fixed rate of return:		
Issued by financial institutions	2,161	2,420
Issued by non-financial institutions	532	548
Issued by government sector	274	262
Total	2,967	3,230
Shares and other securities with a variable rate of return:		
Issued by financial institutions	2,561	2,868
Total	2,561	2,868
Total of securities at fair value through profit and loss	5,528	6,098
Thereof:		
Listed	2,929	3,187
Unlisted	2,599	2,911

(e) Non-consolidated subsidiaries and associated companies

Name	Registered office	Business activity	Date of acquisition	Acquisition price	Net book value	Share of the Bank 30.9.2006	31.12.2005
CAE PRAHA a.s. in the process of liquidation	Prague	lease of real estate	27.6.2003	78	2	100%	100%
CBCB - Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%

As at 30 September 2006 the amount of impairment of participation interests totalled MCZK 6 (31 December 2005: 4 MCZK).

CAE PRAHA a.s. is in the process of liquidation and decreased its equity by MCZK 70 in 2006. In the opinion of the Group's management, the consolidation of the financial statements of the subsidiary CAE PRAHA a.s. in the process of liquidation would not have a material impact on the consolidated financial statements, therefore the management of the Group decided not to include this company into the consolidated group. The company is currently not performing any business activity. Liquidation of the company is expected in 2007.

CBCB - Czech Banking Credit Bureau, a.s. operates a banking client information register and enables banks to inform each other about bank connection, identification about owners of accounts and about matters concerning their clients' payment prospects and creditworthiness.

17. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

	Land and buildings	Equipment	Furniture and fittings	Other non-oper. property	Fixed assets not yet in use	Total
MCZK						
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
At 1 January 2006	2,011	733	268	1	5	3,018
Additions	1	34	5	-	35	75
Disposals	-	(92)	(5)	-	(39)	(136)
At 30 September 2006	2,012	675	268	1	1	2,957
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 impairment losses	16	-	-	-	-	16
Other	-	(1)	1	-	-	-
At 31 December 2005	(1,332)	(626)	(224)	-	-	(2,182)
At 1 January 2006	(1,332)	(626)	(224)	-	-	(2,182)
Charge for the year	(29)	(36)	(12)	-	-	(77)
Disposals	-	79	9	-	-	88
Impairment losses	(4)	-	-	-	-	(4)
Release of impairment losses	4	-	-	-	-	4
At 30 September 2006	(1,361)	(583)	(227)	-	-	(2,171)
Net book value						
At 31 December 2005	679	107	44	1	5	836
At 30 September 2006	651	92	41	1	1	786

The accumulated depreciation and impairment include impairment of building totalling MCZK 456 (31 December 2005: MCZK 456).

18. INTANGIBLE ASSETS

Movements in intangible fixed assets

	Software	Software acquisition	Other	Total
MCZK				
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
At 1 January 2006	840	41	12	893
Additions	35	15	8	58
Disposals	(131)	(30)	(3)	(164)
At 30 September 2006	744	26	17	787
Depreciation and impairment				
At 1 January 2005	(493)	-	(5)	(498)
Charge for the year	(106)	-	(2)	(108)
Disposals	(55)	-	-	(55)
Impairment losses	86	-	-	86
At 31 December 2005	(630)	-	(7)	(637)
At 1 January 2006	(630)	-	(7)	(637)
Charge for the year	(81)	-	(2)	(83)
Disposals	122	-	2	124
Impairment losses	7	-	-	7
At 30 September 2006	(582)	-	(7)	(589)
Net book value				
At 31 December 2005	210	41	5	256
At 30 September 2006	162	26	10	198

As a result of the change in the current system brought about by the merger with Živnostenská banka, a.s., the Bank decreased the impairment loss of software by MCZK 7 to MCZK 79 (31 December 2005: MCZK 86).

19. OTHER ASSETS

	30.9.2006	31.12.2005
MCZK		
Prepaid expense and accrued income	54	81
Trade receivables	117	191
Factoring receivables	905	581
Fair value of hedging derivatives	450	432
Receivables from securities	165	95
Expected state subsidy	40	1 175
Suspense accounts	238	546
Other	92	81
Total other assets	2,061	3,182
Impairment of other assets	(17)	(16)
Net other assets	2,044	3,166

The expected claims by the subsidiary for a state subsidy from the Ministry of Finance was calculated based on the volume of the client's deposits with an

enforced claim for state subsidy and it is limited to CZK 4,500 (or CZK 3,000) per individual. The calculated amount is presented in the balance sheet as "Deposits from customers" (see Note 22). The expected value of subsidiary's claims for a state subsidy as at 30 September 2006 is significantly lower compared to 31 December 2005 as the subsidiary (building society) applies for this state subsidy once at the end of the calendar year.

(a) Impairment of other assets

	30.9.2006	31.12.2005
MCZK		
Balance as at 1 January	(16)	(10)
Created during the current year	(2)	(9)
Used during the current year	-	1
Release of allowances no longer considered necessary	1	2
Balance of impairment of other assets	(17)	(16)

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 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)
Balance as at 1 January 2006	(1,244)	(4)	(542)	(16)	(1,806)
Creation during the current year	(314)	(2)	(4)	(2)	(322)
Release during the current year	270	-	11	1	282
Write-offs and others	11	-	-	-	11
Impairment loss as at 30 September 2006	(1,277)	(6)	(535)	(17)	(1,835)

21. DEPOSITS FROM BANKS

Analysis of deposits from banks by type

	30.9.2006	31.12.2005
MCZK		
Current accounts	1,265	1,659
Bank loans	13,095	16,906
Term deposits	12,836	9,662
Total deposits from banks	27,196	28,230

22. DEPOSITS FROM CUSTOMERS

(a) Analysis of deposits from customers by type

	30.9.2006	31.12.2005
MCZK		
Current accounts	49,296	47,800
Loans	3,391	–
Term deposits	30,061	28,059
Issued depository notes	11,705	14,003
Payables from building savings scheme	26,730	25,439
Payables from expected state subsidy	40	1,175
Savings deposits	2,105	2,202
Payments in transfer	7,573	3,915
Other	–	3
Total deposits from customers	130,901	122,596

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 mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	30.9.2006 MCZK	31.12.2005 MCZK
4/2/2002	4/2/2009	CZK	6.00%	10,199	9,543
19/8/2004	19/8/2012	CZK	6.00%	95	–
15/12/2004	15/12/2006	CZK	1.86%	47	47
15/12/2004	15/12/2006	CZK	1.66%	37	37
5/10/2005	5/10/2015	CZK	4.50%	3,746	1,524
15/11/2005	15/11/2010	CZK	3.50%	4,004	2,956
23/11/2005	15/11/2025	CZK	5.00%	108	98
Total mortgage bonds issued				18,236	14,205

(b) Analysis of deposits from customers by sector

	30.9.2006	31.12.2005
MCZK		
Financial institutions	9,166	8,874
Non-financial institutions	49,831	48,493
Government sector	6,945	3,316
Non-profit organizations	1,038	840
Self-employed	13,330	10,943
Resident individuals	46,788	46,079
Non-residents	4,795	4,051
Other	8	
Total deposits from customers	130,901	122,596

23. DEBT SECURITIES ISSUED

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

	30.9.2006	31.12.2005
MCZK		
Mortgage bonds	18,236	14,205
Structured bonds	3,016	2,201
Zero coupon bonds	1,363	788
Other issued bonds	45	78
Net book value	22,660	17,272

The Group has purchased its own debt securities for the trading purpose in the total amount of MCZK 12 (31 December 2005: MCZK 948). These debt securities decrease the amount of "Debt securities issued".

24. FINANCIAL LIABILITIES HELD FOR TRADING

For the Group's business strategy, see Note 35.

	30.9.2006	31.12.2005
MCZK		
Interest rate contracts	1,149	1,719
Currency contracts	337	202
Equity contracts	1,440	804
Liabilities from short sales of securities	250	345
Total financial liabilities held for trading	3,176	3,070

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

25. PROVISIONS

Provisions include the following items:

	30.9.2006	31.12.2005
MCZK		
Provisions for off-balance sheet items	347	321
Other provisions		
Claims and litigations	39	41
Tax risk	-	62
Other	30	33
Total provisions	416	457

(a) Provisions for off-balance sheet items

	30.9.2006	31.12.2005
MCZK		
Balance as at 1 January	321	273
Creation during the current year	30	71
Release of provisions during the current year	(4)	(23)
Total provisions for off-balance sheet items	347	321

(b) Other provisions

	Claims and litigations	Tax risk	Current year tax	Other provisions	Total
MCZK					
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
Balance as at 1 January 2006	41	62	-	33	136
Creation during the current year	-	-	-	30	30
Use during the current year	(1)	-	-	-	(1)
Release of provisions no longer considered necessary	(1)	(62)	-	(33)	(96)
Balance of other provisions as at 30 September 2006	39	-	-	30	69

Due to ambiguity of the tax laws and their interpretation and tax review by the tax authority being in progress the Group had created a provision of MCZK 62. In 2006 this provision was released based on the results of a tax review performed by the tax authority.

The creation of other provisions in the amount of MCZK 30 and their release in the amount of MCZK 33 represents general operating costs in terms of "Wages and salaries".

26. OTHER LIABILITIES

	30.9.2006	31.12.2005
MCZK		
Deferred income and accrued expenses	370	280
Trade payables	701	520
Fair value of hedging derivatives	756	1,012
Taxes payable	51	102
Estimated payables	1,466	1,446
Securities payables (dealings for clients)	445	116
Unsettled securities dealing	196	55
Suspense accounts	129	510
Other	83	176
Total other liabilities	4,197	4,217

The creation of estimated payables for interest bonuses had an impact on the estimated payables as at 30 September 2006 and 31 December 2005. These interest advantages are credited in accordance with the subsidiary's business terms and conditions to the client's building saving accounts at the end of the saving cycle. As at 30 September 2006, an estimated payable was created for these future expenditures amounting to MCZK 300 (31 December 2005: MCZK 392).

The increased creation of the estimated payable to interest advantages (included within "Estimated payables") in 2006 was affected by changed coefficients for calculating the estimated item additional interest bonuses. The coefficient was changed based on evaluation of the development of claims and utilization of these bonuses in 2006. One of the main reasons for the change in the coefficients was the clients' behaviour. In a low interest rate environment, clients prefer profitable tariffs bearing higher interest offered by a subsidiary company and comply with terms for fulfilment of interest advantages.

27. INCOME TAX

(a) Tax in profit and loss

	30.9.2006	31.12.2005
MCZK		
Current year income tax	550	633
Income tax for previous period	(63)	15
Deferred tax	(19)	(147)
Total income tax	468	501

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

	30.9.2006	31.12.2005
MCZK		
Current year profit (loss) before tax	2,656	2,463
Income tax calculated using tax rate 24% (2005: 26%)	637	640
Effect of the difference in Czech Accounting Standards used for calculation of tax base and IFRS	34	6
Effect of previous years and tax rate changes	(79)	26
Foreign income tax effect	(75)	(122)
Nontaxable income	(116)	(188)
Tax non-deductible expense	85	271
Change in deferred tax	(19)	(147)
Other	1	15
Total income tax	468	501

The effective tax rate of the Group is 18% (2005: 20%).

(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	30.9.2006		31.12.2005	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	6	-	6	-
Social and health insurance from bonuses	16	-	33	-
Impairment of loans and receivables	168	-	120	-
Fixed assets net book value differences	17	5	32	5
Other	3	3	-	3
Net deferred tax liability/asset recognized in P/L	210	8	191	8
Revaluation reserve Available-for-sale assets	34	-	-	79
Net deferred tax liability/asset recognized in equity	34	-	-	79
Net deferred tax liability/asset in total	244	8	191	87

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 that it is highly probable that the Group will fully realize its deferred tax asset as at 30 September 2006 based on the Group's current and expected future level of taxable profits.

28. SUBORDINATED LIABILITIES

MCZK	30.9.2006	31.12.2005
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	663	679
Total subordinated liabilities	663	679

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 the range from 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 (ČNB).

29. ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 30 September 2006 and 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

	30.9.2006 Number of shares	30.9.2006 MCZK	31.12.2005 Number of shares	31.12.2005 MCZK
Common share at 16,320,000 CZK	100	1,632	100	1,632
Common share at 13,375,000 CZK	200	2,675	200	2,675
Common share at 10,000 CZK	74,000	740	74,000	740
Common share 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 had no treasury shares as at 30 September 2006 and 31 December 2005.

30. BONUSES TIED TO EQUITY

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

The Bank creates, in accordance with the law, a legal reserve fund (part of the item "Reserve funds"). The legal 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 legal reserve fund can only be used to cover incurred losses up to 20% of the registered capital. The use of the legal 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.

31. RESERVE FUNDS AND RETAINED EARNINGS

The split of reserve funds is as follows:

	30.9.2006	31.12.2005
MCZK		
Legal reserve fund	920	827
Other reserve funds	1,013	1,013
Reserve funds total	1,933	1,840
Retained earnings	8,296	6,252

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

(a) Resale commitments

	30.9.2006	31.12.2005
MCZK		
Receivables from banks	21,297	26,006
Fair value of securities received	21,057	25,904
Receivables from clients	179	677
Fair value of securities received	221	856

(b) Repurchase commitments

	30.9.2006	31.12.2005
MCZK		
Payables to banks	8,659	12,419
Fair value of given securities (Financial assets held for trading)	–	54
Fair value of given securities (Financial assets available-for-sale)	8,500	12,550
Payables to clients	3,391	–
Fair value of given securities (Financial assets held for trading)	3,419	–

33. 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 operations 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 30 September 2006 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 (UOHS) initiated an administrative procedure against the building societies on 2 April 2004. The procedure resulted in a decision where HYPO stavební spořitelna a.s. (HYST) was obliged to pay a fine amounting to MCZK 29, to refrain from implementing a forbidden and invalid agreement on exchange of information (data

about performance of building societies), to refrain from dealing in mutual accordance concerning setting of fees relating to building saving schemes, to correct the disparity between the fees for new and old accounts related to building saving schemes, and to set the fees for accounts connected with building saving schemes to the level that existed prior to 1 April 1999. HYST created a provision for the fine of MCZK 29, assessed by the first instance decision of the UOHS on 24 August 2004 but protested against this decision on 9 September 2004. Based on the decision of UOHS from 2 December 2005, the provision was reduced by MCZK 14. HYST protested against this decision on 20 December 2005. After the date of approval of these extraordinary consolidated financial statements, HYST decreased the provision by MCZK 10 based on the decision of UOHS dated on 19 December 2006. On 25 January 2007, an appeal was submitted to the chairman of UOHS.

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 an 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 anytime without stating reasons. On the other hand irrevocable credit commitments represent the Group's liabilities to provide loans or guarantees and the fulfilment of these liabilities 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 a 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 36).

Letters of credit represent written irrevocable liabilities 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's) request. The Group creates reserves for these financial instruments using a similar algorithm as when creating loan loss provisions (see Note 36).

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 30 September 2006 the total amount of these provisions amounted to MCZK 347 (31 December 2005: MCZK 321) (see Note 25 (a)).

	30.9.2006	31.12.2005
MCZK		
Irrevocable letters of credit and financial guarantees	14,154	11,836
Other irrevocable contingent liabilities (unused credit commitments)	50,494	48,232
Total	64,648	60,068

Values taken into administration and management

	30.9.2006	31.12.2005
MCZK		
Bonds	61,180	50,733
Shares	197,973	185,700
Depository notes	11,716	14,009
Total values taken into administration and management	270,869	250,442

(c) Financial derivatives

Financial derivatives from OTC market (OTC derivatives)

	Contractual amounts		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Hedging instruments				
Interest rate swap contracts	46,627	38,805	(334)	(736)
Cross currency swap contracts	7,252	6,377	28	156
Trading instruments				
Forward rate agreements (FRA)	30,000	43,650	4	-
Interest rate swap contracts	70,551	78,046	(101)	(78)
Forward foreign exchange contracts			(109)	(74)
Purchase	22,890	15,159	-	-
Sale	23,013	15,214	-	-
Option contracts			8	4
Purchase	20,735	13,945	-	-
Sale	20,742	13,945	-	-
Cross currency swap contracts	20,645	15,870	201	178

(b) Contingent assets

As at 30 September 2006 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 2,425 (TEUR 85,609) with maturity in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,541 (TEUR 54,390) with maturity in December 2018. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB.

Listed financial derivatives

	Contractual amounts		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Trading instruments				
Interest rate futures	722	790	42	29

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).

	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
MCZK									
As at 30 September 2006									
Hedging instruments									
Interest rate swap contracts	655	45	12,727	3,408	10,551	1,885	4,177	13,179	46,627
Cross currency swap contracts	-	-	-	1,417	3,863	-	1,972	-	7,252
Trading instruments									
Forward rate agreements (FRA)	-	-	24,000	6,000	-	-	-	-	30,000
Interest rate swaps	-	1,526	18,694	13,768	2,635	5,120	4,277	24,531	70,551
Foreign exchange contracts (Purchase)	10,390	7,225	4,529	613	133	-	-	-	22,890
Foreign exchange contracts (Sale)	10,467	7,255	4,555	606	130	-	-	-	23,013
Option contracts (Purchase)	717	387	1,237	4,289	8,356	2,531	2,931	287	20,735
Option contracts (Sale)	717	387	1,237	4,289	8,363	2,531	2,931	287	20,742
Interest rate futures	-	722	-	-	-	-	-	-	722
Cross currency swap contracts	-	-	3,146	8,780	-	4,270	-	4,449	20,645

	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
MCZK									
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

34. SEGMENT REPORTING

Primary segment reporting format is based on client's business.

(a) Business segments

	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
MCZK					
As at 30 September 2006					
Net interest and dividend income	21	1,428	1,099	138	2,686
Other net income	502	1,096	147	4	1,749
Depreciation of property, plant and equipment	(36)	(12)	(6)	(99)	(153)
Impairment and provisions	(38)	(15)	(6)	-	(59)
Segment expenses	(796)	(675)	(175)	79	(1,567)
Profit before tax	(347)	1,822	1,059	122	2,656
Income tax	-	-	-	(468)	(468)
Result of segment	(347)	1,822	1,059	(346)	(2,188)
Segment assets	13,694	96,678	93,961	2,579	206,912
Segment liabilities	87,585	58,621	39,308	3,703	189,217

	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
MCZK					
As at 31 December 2005					
Net interest and dividend 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
Segment assets	14,421	85,498	89,556	2,886	192,361
Segment liabilities	80,649	54,508	38,758	2,693	176,608

(b) Geographical segments

The Group's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. From 1 January 2006 to 30 September 2006 and in 2005 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 business 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; 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 35 (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

Below are described selected risks to which the Group is exposed through its non-trading activities, principles of managing positions resulting from these activities and also 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, which flow 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 of 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 hedge accounting.

Value at Risk

Value at risk represents 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.

	30 September 2006	Average 2006	31 December 2005	Average 2005
MCZK				
VaR of interest rate instruments	41	47	56	47
VaR of currency instruments	1.2	1.3	0.4	1.3
VaR of equity instruments	0.5	0.9	0.6	0.8

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, as a result of 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 30 September 2006 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 aimed 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. represents the sensitivity of instruments towards interest rate risks.

The Group set up the interest rate risk limits to limit fluctuation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

The Group carries out weekly interest rate stress testing by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Group's financial results. The Group has set the 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:

		Up to 1 month	1-3 month	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe- cified	Total
MCZK	EIR										
As at 30 September 2006											
Cash in hand and balances with the central bank	0.00	-	-	-	-	-	-	-	-	691	691
Financial assets held for trading	2.91	36	-	730	-	-	-	-	-	2,973	3,739
Receivables from banks	2.38	32,232	1,433	1,073	5	-	-	-	-	104	34,847
Receivables from customers	4.26	18,171	22,045	27,531	6,227	8,377	4,119	2,871	7,177	11,479	107,997
Financial investments	4.73	9,506	3,033	19,658	2,870	2,947	2,967	1,179	11,631	2,575	56,366
Deposits from banks	3.09	21,638	5,327	231	-	-	-	-	-	-	27,196
Deposits from customers	2.20	88,327	5,311	15,988	5,959	4,411	438	363	310	9,794	130,901
Debt securities issued	4.43	3,867	3,580	11,095	1,125	1,878	699	259	157	-	22,660
Financial liabilities held for trading	0.00	-	-	250	-	-	-	-	-	2,926	3,176
Subordinated liabilities	3.37	-	-	663	-	-	-	-	-	-	663

		Up to 1	1-3	3 m. to	1-2	2-3	3-4	4-5	Over	Unspe-	
MCZK	EIR	month	months	1 year	years	years	years	years	5 years	cified	Total
As at 31 December 2005											
Cash in hand and balances with the central bank	0.00	-	-	-	-	-	-	-	-	2,247	2,247
Financial assets held for trading	1.15	-	63	939	-	-	-	-	-	2,787	3,789
Receivables from banks	2.14	33,188	1,245	1,745	5	-	-	-	-	25	36,208
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

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.

Hedge accounting

As part of its market risk management strategy, the Group hedges against interest rate risk. Based on the hedging strategy, the Group uses both fair value hedges and cash flow hedges.

Fair value hedge

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.

	Contractual amount		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Interest rate swaps	17,510	26,551	(72)	(226)
Cross currency swaps	-	-	-	-

Cash flow hedge

The Group uses the concept of cash flow hedge 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 of 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		Fair value	
MCZK	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Interest rate swaps	29,117	12,254	(262)	(510)
Cross currency swaps	7,252	6,377	28	156

	Fair value	
MCZK	30.9.2006	31.12.2005
Hedged instruments		
Available for sale securities	64	79
Loans and receivables from clients	28	161
Debt securities issued	26	(13)
The remaining part of formerly hedged financial instruments		
Available for sale securities	10	43
Loans and receivables from clients	138	192
Debt securities issued	45	59

In line with the 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 currency 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 has set the 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 particular currency.

The position of the Group in foreign currencies is as follows:

MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 30 September 2006								
Cash and balances with central banks	539	92	33	7	5	-	15	691
Financial assets held for trading	3,739	-	-	-	-	-	-	3,739
Receivables from banks	29,951	2,624	676	-	153	179	1,264	34,847
Receivables from customers	68,005	37,649	937	293	1,110	-	3	107,997
Financial investments	41,191	10,699	699	-	-	3,777	-	56,366
Property, plant and equipment	786	-	-	-	-	-	-	786
Intangible assets	198	-	-	-	-	-	-	198
Deferred tax asset	244	-	-	-	-	-	-	244
Other assets	1,976	60	6	-	-	1	1	2,044
Deposits from banks	13,503	11,260	1,612	16	45	708	52	27,196
Deposits from customers	106,273	18,396	3,311	117	479	1,884	441	130,901
Debt securities issued	22,351	161	148	-	-	-	-	22,660
Financial liabilities held for trading	3,176	-	-	-	-	-	-	3,176
Provisions	416	-	-	-	-	-	-	416
Deferred tax liability	8	-	-	-	-	-	-	8
Other liabilities	3,580	601	13	-	-	-	3	4,197
Subordinated liabilities	-	663	-	-	-	-	-	663
Equity	17,695	-	-	-	-	-	-	17,695

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
Receivables from banks	33,239	1,522	174	39	1	3	1,230	36,208
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

Equity risk

The 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 in 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 used to manage these risks 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 including subordinated loans and 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

	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
MCZK										
As at 30 September 2006										
Cash and balances with central banks	510	-	-	-	-	-	-	-	181	691
Financial assets held for trading	7	-	620	-	-	30	-	110	2,972	3,739
Receivables from banks	31,082	2,022	1,371	5	46	-	4	212	105	34,847
Receivables from customers	1,597	5,627	30,222	8,510	13,735	7,685	6,382	31,552	2,687	107,997
Financial investments	2,697	1,077	6,697	4,717	5,500	5 570	3,941	23,594	2,573	56,366
Property, plant and equipment	-	-	-	-	-	-	-	-	786	786
Intangible assets	-	-	-	-	-	-	-	-	198	198
Deferred tax asset	-	-	244	-	-	-	-	-	-	244
Other assets	-	-	-	-	-	-	-	-	2,044	2,044
Total	35,893	8,726	39,154	13,232	19,281	13,285	10,327	55,468	11,546	206,912
Deposits from banks	21,638	1,883	231	-	2,325	-	1,119	-	-	27,196
Deposits from customers	98,106	5,310	15,994	5,964	4,411	438	365	313	-	130,901
Debt securities issued	154	193	653	1,125	12,385	699	3,484	3,967	-	22,660
Financial liabilities held for trading	250	-	-	-	-	-	-	-	2,926	3,176
Provisions	-	-	-	-	-	-	-	-	416	416
Deferred tax liability	-	-	8	-	-	-	-	-	-	8
Other liabilities	-	-	-	-	-	-	-	-	4,197	4,197
Subordinated liabilities	-	-	-	-	-	663	-	-	-	663
Equity	-	-	-	-	-	-	-	-	17,695	17,695
Total	120,148	7,386	16,886	7,089	19,121	1,800	4,968	4,280	25,234	206,912
Gap	(84,255)	1,340	22,268	6,143	160	11,485	5,359	51,188	(13,688)	-
Cumulative gap	(84,255)	(82,915)	(60,647)	(54,504)	(54,344)	(42,859)	(37,500)	13,688	-	-

	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
MCZK										
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
Receivables from banks	33,188	479	2,281	5	-	12	-	218	25	36,208
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	-	-

36. 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.

The credit risk is managed at two levels, level of the individual client (transaction) and 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 analyzing 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's 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 ČNB 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, a guarantee from a highly reputable non-banking entity, real estate, assignment of high quality receivables. In assessing the net realizable value of the collateral, the Bank primarily considers the provider's financial standing and the nominal value of the collateral or an expert appraisal 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 ČNB, as amended by regulation no. 6/2004.

The Group regularly identifies indication of impairment; if such indication is identified, the Group creates and recognizes impairment according to 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 amount of loss resulting from decrease of the loan's carrying amount, i.e. impairment loss is equal to difference between carrying amount (reduced by materially acceptable value of collateral) and discounted value of estimated future cash flows.

Impairment of portfolio of loans

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

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

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

Provisions for the off-balance sheet items

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

(i) Provisions to the off-balance sheet items at the Bank's clients, to whom there is currently presented a particular balance sheet receivable, which fulfilled the conditions for ranking into the classified loans category and the Bank creates the provisions for the particular loan.

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

(ii) Provisions to the selected off-balance sheet items at the Bank's clients, to whom the Bank does not present (record) any balance sheet receivable in a given period, however, in case of existence of such receivable the conditions for ranking into the classified loans would be fulfilled.

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

(d) Recovery of receivables

The Bank has established a department to deal with the 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:

- "revitalization" of the credit relationship, restructuring and potential reclassification to standard receivables
- full repayment of the loan
- minimization of the loss from the loan (realization of collateral, sale of receivable with a discount, etc.)
- prevention of further losses from the loan (comparison of future income and expenses).

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 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 authorizing and authorized by a second),
- daily nostro accounts reconciliation,
- daily and monthly internal accounts reconciliation,
- evidence, processing and escalation of client complaints resulting from processing mistakes.

Within the 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 implementation of 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 Group was controlled by Bayerische Hypo und Vereinsbank AG, Munich (HVB AG), which had through Bank Austria Creditanstalt AG, Vienna holding of 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 UCI/HVB/BACA Group, subsidiaries and associated companies, Board members and other management of the Bank.

MCZK	30.9.2006	31.12.2005
Assets		
Receivables from banks	8,857	4,853
<i>thereof:</i>		
Bank Austria Creditanstalt AG	4,808	1,340
HVB Bank Serbia a Cerna Gora	1,277	2,206
Unicredito Italiano, Milano	1,000	150
Živnostenská banka, a.s.	762	600
Receivables from customers	6,662	5,790
<i>thereof:</i>		
BA/CA Leasing GmbH	4,539	3,882
Board of directors	-	-
Management	24	37
Financial investments	1,215	1,403
HVB Jelzalogbank, Hungary	1,215	1,403
Total	16,734	12,046
Liabilities		
Deposits from banks	10,302	5,620
<i>thereof:</i>		
Bank Austria Creditanstalt AG	2,222	3,007
Bayerische Hypo-und Vereinsbank AG	7,529	2,268
Živnostenská banka, a.s.	500	-
Deposits from customers	621	496
<i>thereof:</i>		
BA/CA Leasing GmbH	370	213
CAE PRAHA a.s. in the process of liquidation	-	2
Board of directors	18	14
Management	43	41
Debt securities issued	57	-
Živnostenská banka, a.s.	57	-
Subordinated liabilities	663	679
Bank Austria Creditanstalt AG	663	679
Total	11,643	6,795
Revenues		
Interest income and similar income	246	292
Fee and commission income	44	139
Total	290	431
Expenses		
Interest expenses and similar expenses	83	434
Fee and commission expense	16	27
General administrative expenses	1	2
Total	100	463

39. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The estimate of fair values (see Note 3(c)) 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 management estimates, discounted cash flows models or other commonly used

valuation methods. Many of the methods mentioned above are characterized by considerable level of uncertainty; the fair value estimates cannot be always considered as market values and in many cases these might not be obtained in selling certain financial instruments. Changes of initial assumptions used for determining fair value could have significant impact in such circumstances.

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:

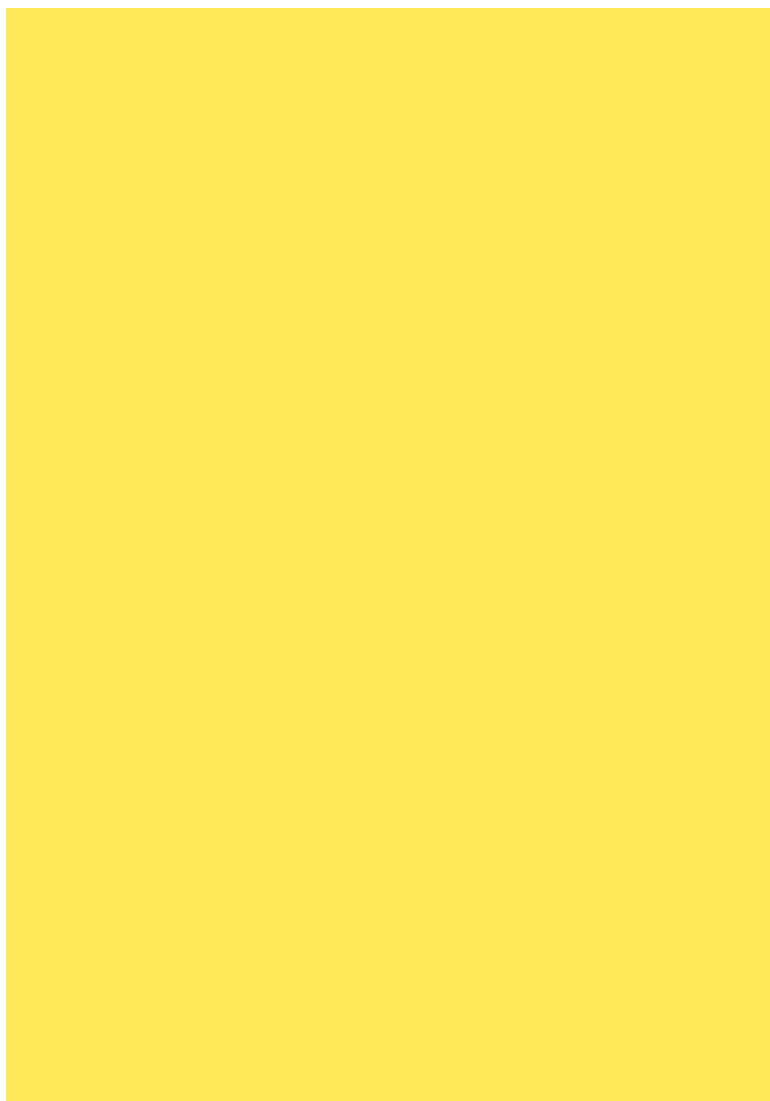
	30.9.2006		31.12.2005	
	Carrying amount	Fair value	Carrying amount	Fair value
MCZK				
Financial assets				
Loans and receivables from banks	34,847	34,846	36,208	36,213
Loans and receivables from customers	107,997	108,301	94,952	95,829
Financial investments				
Securities held to maturity	13,016	13,423	14,232	15,029
Financial liabilities				
Deposits from banks	27,196	27,195	28,230	28,237
Deposits from customers	130,901	129,812	122,596	122,436
Debt securities issued	22,660	22,134	17,272	17,626
Subordinated liabilities	663	663	679	679

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 Group's financial statements as at 31 December 2005.

After the date of approval of these extraordinary consolidated financial statements, the subsidiary decreased the provision for penalties by MCZK 10 based on the decision of UOHS dated 19 December 2006 about decrease in the fine.

**AUDITOR'S REPORT
ON THE EXTRAORDINARY 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.

Financial statements

On the basis of our audit, on 15 December 2006 we issued an auditor's report on the extraordinary financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying extraordinary financial statements of HVB Bank Czech Republic a.s. as of 30 September 2006. These extraordinary financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these extraordinary 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 extraordinary financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the extraordinary 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 extraordinary financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the extraordinary 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 30 September 2006, and expenses, revenues and the results of its operations for the nine-month period 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."

Report on relations between related parties

We have also reviewed the factual accuracy of the information disclosed in the report on relations between related parties of HVB Bank Czech Republic a.s. as of 30 September 2006. This report on relations between the related parties is the responsibility of the Company's management. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with International 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 review to obtain moderate assurance that the report on relations is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not conducted an audit of the report on relations and, accordingly, we do not express an audit opinion.



Nothing has come to our attention based on our review that indicates that the information disclosed in the report on relations between related parties of HVB Bank Czech Republic a.s. as of 30 September 2006 contains material factual misstatements.

Annual report

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

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

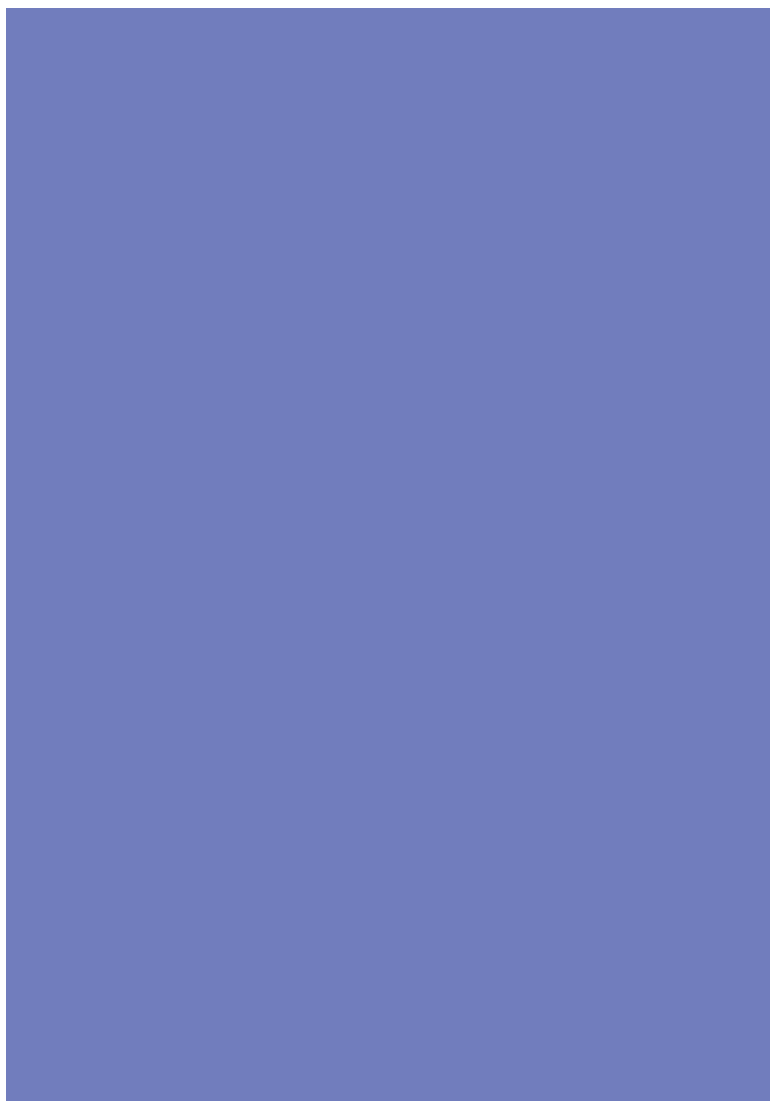
In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited extraordinary financial statements.

Prague
30 January 2007

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. in liquidation

Key financial characteristics of the company (CZK 000):

	30. 9. 2006	31. 12. 2005
Registered capital	4,396	100,000
Equity	2,029	73,671
Total assets	2,182	73,834
Net profit/loss	-1,641	-725

HVB Bank and its consolidation group hold 100% of the registered capital of this company. By a decision of the sole shareholder exercising the powers of the general meeting of 10 August 2006, the company was wound up with liquidation as at 1 September 2006.

On 13 June 2005, HVB Bank had 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):

	30. 9. 2006	31. 12. 2005
Registered capital	1,200	1,200
Equity	6,783	2,984
Total assets	25,153	14,754
Net profit/loss	5,449	1,737

HVB Bank and its consolidation unit hold 20% in the registered capital of this company. The company's main business activity is to operate a banking client information register.



Georges Seurat (1859 – 1891) / *The Maria at Honfleur Harbour*, 1886