Annual Report UniCredit Bank Czech Republic, a.s. 2007

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UniCredit Bank
Czech Republic, a.s.
2007

Antonín Střížek / Dvůr – Courtyard / 1997

Contents

Financial highlights

(IFRS audited, non-consolidated)
(results are for the accounting period from 1 October 2006 to 31 December 2007)

UniCredit Bank Czech Republic, a.s.	1 Oct 2006 – 31 Dec 2007 In CZK millions
Operating performance	
Net interest income	6,553
Net fee and commission income	3,650
General administrative expenses	(5,540)
Profit from ordinary activities before tax	4,157
Net profit for the year	3,241
Balance sheet figures	
Total assets	268,935
Loans and receivables from customers	153,187
Deposits from customers	166,322
Issued capital	5,125
Information about capital and capital adequacy	
Tier 1	20,007
Tier 2	1,000
Tier 3	–
Deductible items	(264)
Total capital	20,743
Risk-weighted assets (banking portfolio)	206,553
Capital adequacy ratio	9.55%
Key ratios	
Return on average assets	1.30%
Return on average equity	14.80%
Number of employees at end of period	1,631
Branch offices	60

Zdeněk Sýkora / Linie – Lines / 1995 – partial view

Introduction from the Managing Board

Dear shareholders, ladies and gentlemen,

In the history of every bank, there comes a point in time that proves to be pivotal with regard to its continuing operations on the market. The year 2007 was in our case decidedly such a turning point. It is not often that two main market players join in such a momentous occasion as the combining of their independent and successful banks into a single, fully functioning entity. It was just such an event, however, which gave rise to the fourth-largest bank in the Czech Republic, which created UniCredit Bank Czech Republic.

As the target date of 5 November 2007 approached, and at which time HVB Bank Czech Republic and Živnostenská banka were to merge, the profile of the new UniCredit Bank Czech Republic began ever more distinctly to take shape.

The personnel area was particularly key for us. From the very beginning of the year, the staffing process was fully under way and, guided by clear rules and openness, we were able to select the best candidates for individual positions. This was a unique project in the human resources area. The creation of a unified trading system also proved to be a very demanding task. This required absolutely painstaking and timely preparation, a succession of tests, and, last but certainly not least, a broad training effort. The new system that we implemented will gradually be put into effect across the entire UniCredit Group. We must not forget, either, those other areas without which the new bank would not be able to function, including the preparation of a unified business model, communications, the branch network, and others.

Although the merger put great demands on all our employees' energies, we always bore in mind that the quality of our services to clients must not in any way be affected. Our service simply had to maintain the high standard that is expected from us, and this remained true throughout the gradual introduction of changes.

The fact that we achieved this is indicated by our business results, which exceeded the planned levels over a series of indicators. UniCredit Bank Czech Republic's net profit rose by 11.5% for 2007, reaching the CZK 3 billion mark. The Bank's total assets grew by more than one-fifth, to CZK 269 billion.

Even as UniCredit Bank Czech Republic was taking shape, we also were inaugurating a new sponsorship and charitable-giving strategy. In future, we will aim to focus the Bank's support on projects with clear and achievable targets in the fields of culture and charity, as well as in sport and education.

Looking back on 2007, I must say that it was an exceptional and immensely challenging time – one that we managed successfully through both the support of the UniCredit Group and the intensive perseverance of all the employees of UniCredit Bank Czech Republic. At this occasion, I would like to acknowledge their extraordinary performances.

With the transition year behind us, we already are fully focused upon the continuing challenges ahead and upon ways even further to increase the quality and value that we provide our clients and shareholders. As we continue to move forward, we want to draw upon our past experience as well as from our membership in the largest banking group in Central and Eastern Europe, the UniCredit Group.

I strongly believe that we will succeed in this and that, together, we will achieve even more in future.

30 April 2008

Ing. Jiří Kunert
Chairman of the Managing Board

Macroeconomic environment in 2007

The Czech economy continued on a dynamic growth course for the third year in a row. As in 2006, that growth was primarily domestically driven, with both private consumption and gross capital formation contributing substantially. Net exports' contribution to GDP growth was also positive, albeit rather modest. The extended spell of bustling economic activity has put an increasing strain on domestic resources. Despite the jobless number dropping to its lowest level for a decade, the labour market's supply side was not able to keep pace with the new jobs creation without an ongoing influx of workers from abroad. As a natural consequence of tight labour market conditions, growth in nominal wages has begun to gather pace. Inflation shot up in the last quarter of 2007 to a six-year high, but that was attributable to a food price spike seen across the region rather than to demand-driven inflationary pressures.

The Czech crown experienced two distinct halves of the year, the first marked by a prevailing depreciation drift but the second seeing an almost 10% gain in its value against the euro. On average for 2007, appreciation of the real effective exchange rate just exceeded 2%, lagging behind the pace of the previous two years. The central bank increased its repo rate in four steps by the total of 100bp, remaining below the ECB's base rate level but narrowing that gap to 50bp. At 3.50%, the CNB's base rate nevertheless continued to be the lowest within the EU.

As a key step in its economic strategy for 2007, the governing coalition managed to push through a package of economic measures aimed to stabilise public sector finances. The measures, in place since the start of 2008, include changes in the tax system, social spending cuts, and adjustments to health care system financing. In all of these three areas, however, more reforms are clearly needed in order to secure long-term alignment with the EU's public finance stabilisation pact.

Corporate clients

The year 2007 was very successful for the corporate clients division. As in past years, our operating incomes and profit contributions continued to grow across all of our business areas. In a year-on-year comparison, this division succeeded dramatically to increase operating income and the average volumes of loans and deposits. Growth was driven in part by success in acquiring new clients and, at the same time, through deeper co-operation with existing clients. The corporate clients division exceeded its targets in all business areas.

In the area of corporate banking, we continue to focus on providing our clients with comprehensive services tailored to their individual needs. 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 have also significantly expanded our services to Czech-owned companies. 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 regard, we were the most active bank of our Group within CEE.

The year 2007 was a successful one for exporters, as Czech exports growth reached 15.3%. This corresponded with enhanced client demand for letters of credit, bank guarantees, and pre-export and export loans. A new product offered by the Bank to assist Czech firms in making financial investments abroad was insurance provided through the state-owned Export Guarantee and Insurance Corporation (EGAP).

The total volume of factoring transactions in 2007 for the two banks reached CZK 5.03 billion. The Bank's management decided to continue providing factoring services through a fully owned subsidiary. As from 5 November 2007, the transformation of the factoring business to the Bank's newly named subsidiary – UniCredit Factoring s.r.o. – was successfully concluded.

During 2007, we successfully defended, and even strengthened, our prominent market position in financing commercial real estate, as we participated in a large number of major real estate transactions in all four main segments of that market (office, retail, warehouse and residential). The commercial real estate portfolio and total volume of real estate loans saw significant growth in the last year, increasing by more than 30%. 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 acquisitions financing and leveraged finance. We successfully originated a number of large transactions, among the most important of which were, for example, the comprehensive refinancing of the loan obligations (including the financing of an investment development programme) for the company KORADO a.s., one of the largest producers of radiators in Europe, in a total amount exceeding CZK 1.5 billion. Further, we financed acquisition of Šmidberský Transport by the transport group C.S.CARGO, one of the most important players in the transport services and logistics market in Central Europe. We also provided leveraged financing in a total amount of CZK 3.0 billion for the J&T investment group's investment into United Energy a.s, the most significant heating company operating in the North Bohemia region.

Private and business clients

The year 2007 of course brought the merger of HVB and Živnostenská banka. The integration process fundamentally impacted on retail banking activities and, despite a priority focus on successfully completing the migration, this division succeeded to keep up the pace of earnings growth from previous years and continued in acquiring many new clients in this target segment.

The strategic aims of the merged bank were defined with regard to the selected segments and products, thus necessitating work in defining the merged bank's brand positioning, service model and product portfolio. The primary target segments for retail banking take in individuals from the so-called "Urban Money Class" of entrepreneurs and small businesses. A decision was taken to present UniCredit Bank in the Czech Republic as a premium brand, representing a strong and professional bank asserting the principle of "Customer Intimacy". That is to say, the Bank is to be seen as a partner who perceives each client as an individual with diverse plans and goals, strives to listen to those needs, and, through a personal banker, finds appropriate solutions for achieving their fulfillment.

A good example of this strategy toward private clients is a new type of account known as "Mozaic", which makes it possible for clients to design made-to-measure accounts reflecting their individual preferences and needs. At the same time, a concept unique in the Czech Republic was introduced for entrepreneurs and small businesses. Whether their firms are just starting out or already established, small or highly developed, entrepreneurs may now choose the most convenient types of business accounts for their businesses. Depending upon their situations, they can have from 20 to an unlimited number of transactions free.

In 2007, work was completed on a new price list and general business terms and conditions for the merged bank, construction of a new website, and proposals for new point-of-sale materials and forms.

In the credit products area, the Bank took advantage of the synergistic effects of the two merged banks and offered a complete portfolio of operating, investment and mortgage financing.

UniCredit Bank took over, and began intensively supporting and developing, the successful model for serving freelance professional clients. Through its specialised competence centre for freelance professionals, the Bank is able to provide clients with a high level of services and products targeted directly to their specific professional groups, as well as to monitor their needs and actively co-operate with their professional associations. The legal profession, a group that the Bank has traditionally attracted in particular showed significant growth.

In the securities field, clients were offered additional variants of their favourite structured bonds. These included the bonds HVB SBD EAST REALIT 2012, HVB SBD WORLD TOP 2012, HVB SBD CONVERGENCE 2012 and, following the merger of the Bank at the end of the year, UniCredit Bank SBD WORLDSTAR 2013.

The Bank has at its disposal a broad palette of investment products with varying maturities and risk profiles. Offered in co-operation with the company Pioneer Investments, this makes it possible for the Bank to execute a business strategy directed to true client advisory in the investment area. Strategies can thus be executed to meet clients' concrete needs in accordance with their individual investment profiles.

In the credit cards area, the Bank is already amongst the leaders with regard to co-branded cards. Our co-operation with AXA insurance company, through a unique loyalty concept coupled with supplementary pension insurance, has proven very successful. Additional co-operation is being successfully developed with the Czech airline ČSA, with which the Bank has also collaborated in the past.

The Bank strives to attract clients by providing quality services and supporting those products with direct banking. Clients have especially appreciated the advantages of the electronic payment system. Direct banking has recently shown outstanding growth, and this product is now actively used by more than one-third of all private and business clients. As a result, the Czech Republic has been selected as a pilot country within UniCredit Group CEE for implementing its unified GWS (Group Web Solution) platform. UniCredit Bank's direct banking provides clients with the most up-to-date security measures by means of security tokens, unified identification, stability and reliable access even when using less common systems and browsers. Clients can manage all their finances through direct banking, including securities investments and credit cards.

The Bank once again confirmed its strong position in the key Private Banking segment, where its knowledgeable and capable private bankers provide professional and individually made-to-measure services.

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.

The division exhibited great success during 2007 in the pursuit of its long-term strategy that focuses on providing clients comprehensive treasury services. With its innovative approach and individualised solutions to meet clients' needs, the division strengthened its position in the corporate clients segment as well as in the highly specialised institutional investors segment.

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.

In the area of securities management and custody, the Bank reinforced its position among foreign institutional clients at the top of this highly competitive market segment. With completion of the legal merger, the Bank could boast of its leading position in providing depositary services for pension funds, where it has a 55% market share as measured by both volume of assets under management and by the number of end-clients served by the given pension funds.

As measured by income achieved, 2007 was the historically most successful year for trading in treasury products on the Bank's own account, and in all areas of market risk (i.e. regarding foreign currencies, interest rates and equities).

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).

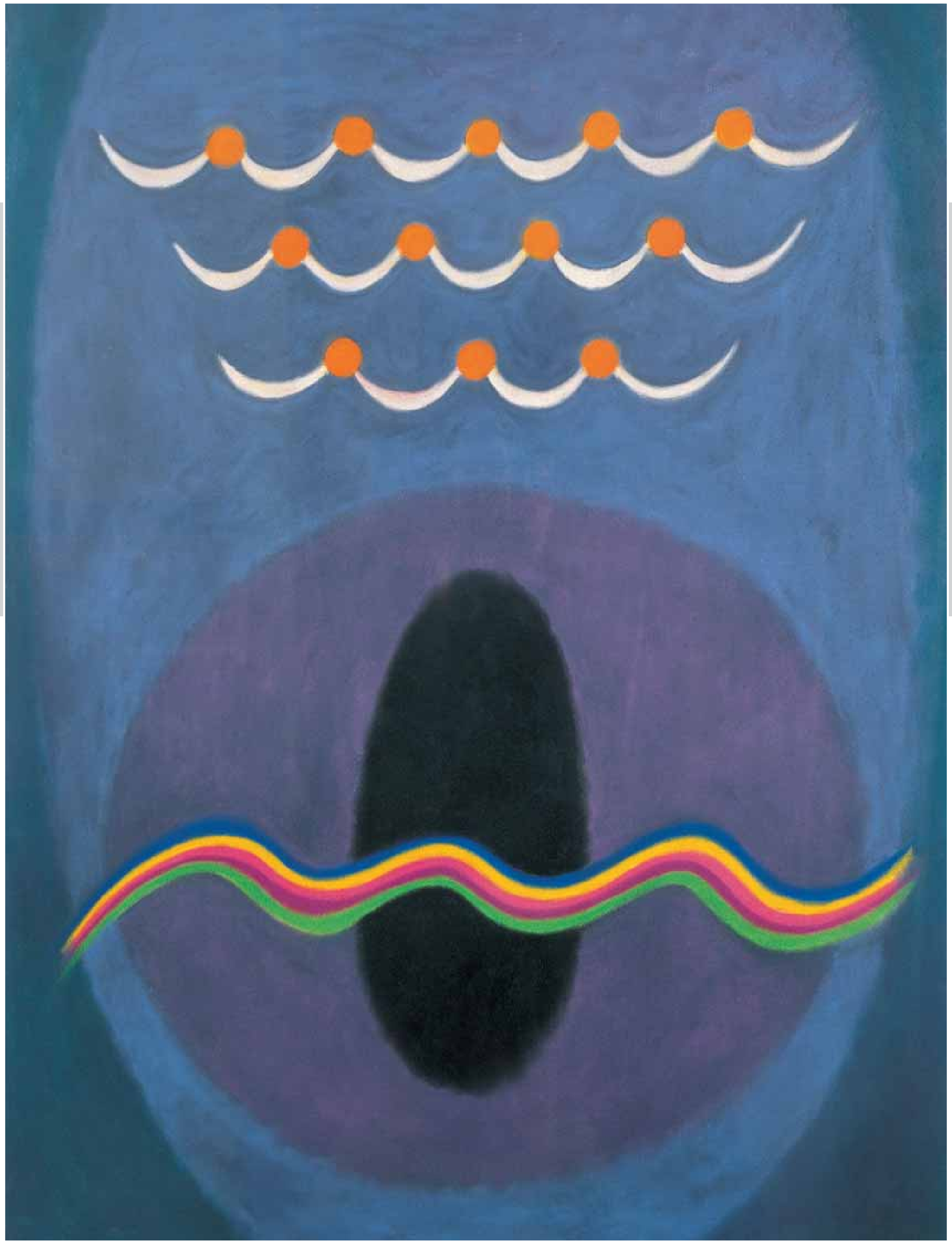
Sponsoring and charity

UniCredit Group, of which UniCredit Bank is a member, traditionally maintains a close relationship with the world of culture and the arts. The predecessors to today's UniCredit Bank – HVB Bank and Živnostenská Banka – were also notable for their support to various art projects and systematically developed their co-operation within this sphere. The newly established bank will carry on that tradition.

Among the many cultural projects sponsored by UniCredit Group in the Czech Republic, one can mention, for example, its year-round main partnership with the National Gallery in Prague. In 2007 alone, exhibitions presenting the works of Emil Filla (Prague Castle), Jan Zrzavý (Wallenstein Riding Hall) and Václav Hollar (Kinský Palace) were made possible through this co-operation. Another important upcoming project prepared in partnership with the National Gallery will be the exhibition entitled "Mikoláš Aleš (1852–2007) – Master of Czech Drawing", which will be open until April 2008 in the Prague Castle Riding Hall.

The Bank gave similarly significant support to the 6th annual contemporary art fair "Art Prague – Live with the Art!" organised in the Mánes and Nová síň galleries, to the antiquity fair Antique 2007 held in Prague, and to the exhibition at the Moravian Gallery in Brno entitled "František Foltýn / Košice – Paris – Brno". Furthermore, an exhibition of the German painter Neo Rauch, "Neo Rauch – Neue Rollen", in Rudolfinum Gallery and the retrospective exhibition cycle of the Czech painter Aleš Lamr, both sponsored by the Bank, were received by the public with great interest. Also notable were some smaller exhibitions, such as that of H. Slavík's photographs, O. Kulhánek's graphic works as a part of the exhibition "A CZ Contacts", as well as exhibitions of D. Smutný and J. Moravec.

An important role is played, too, by the combination of charitable projects with visual arts. The Bank intends to follow up on the tradition of the so-called auction salons of artists for Konto BARIÉRY. In the last year, Konto BARIÉRY obtained a total of CZK 4.5 million thanks to this auction. The earnings from the auction subsequently provided scholarships for 62 handicapped students of secondary schools and universities, while the remaining revenues from the auction, of CZK 1 million, will be used for a health care program helping 15 to 20 patients.



Karel Malich / Světlo – Light / 1998 – partial view

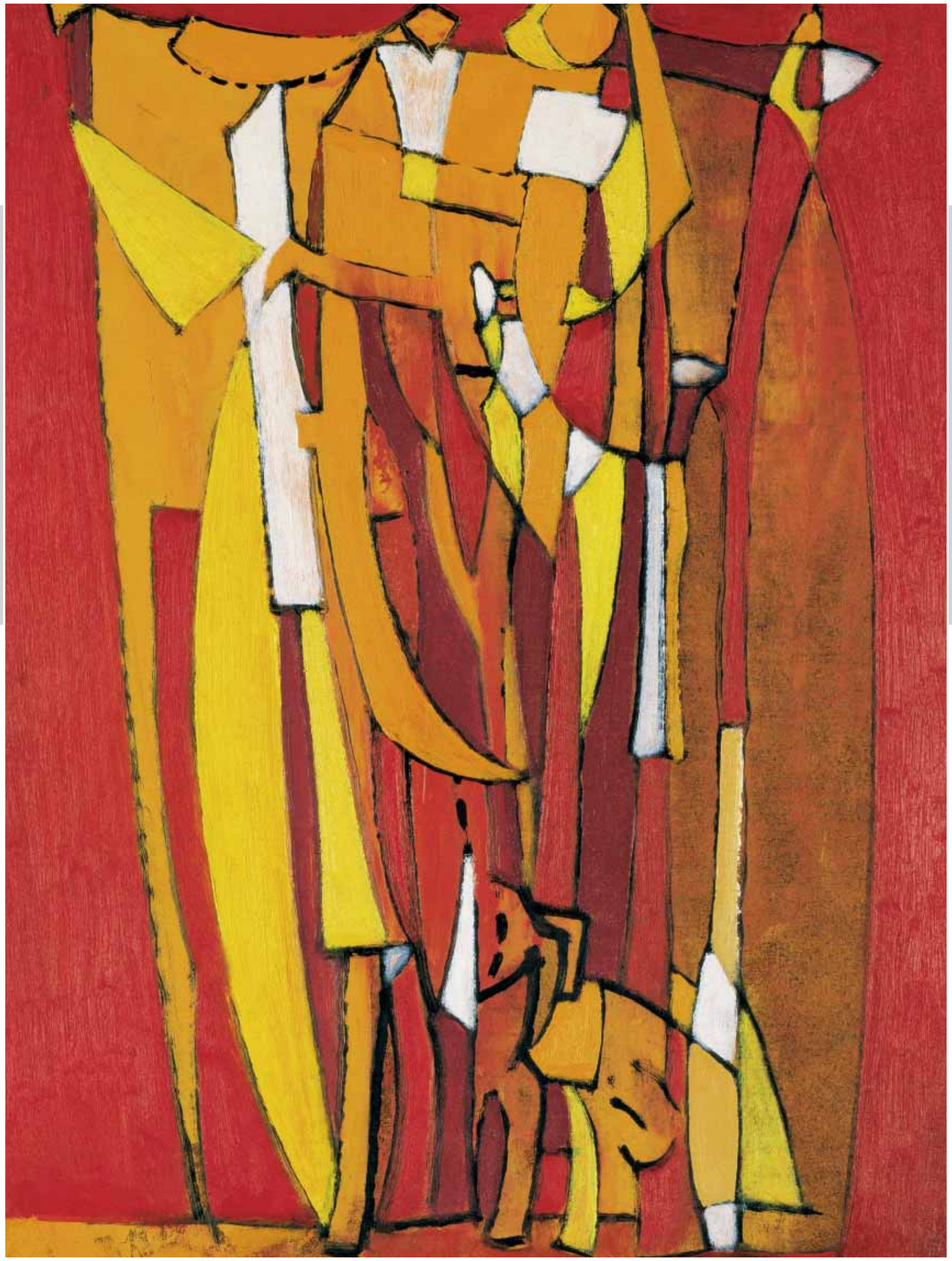
Report of the Supervisory Board

The Supervisory Board of the UniCredit Bank Czech Republic, a.s. was regularly informed of the progress of the Bank's business during the period 1 October 2006 to 31 December 2007 through meetings and discussions with the Managing Board, and it has performed all of its tasks as set forth by Czech law and the Bank's Articles of Association.

The financial statements as at 31 December 2007 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 31 December 2007.

The Supervisory Board would like to thank the members of the Managing Board and all the staff of UniCredit Bank Czech Republic, a.s. for their contributions to the results achieved by the Bank in its 2007 business year.



Bohumír Matal / Dvojice – Couple / 1984 – partial view

Non-consolidated financial statements

Income statement

For the fifteen-month period from 1 October 2006 to 31 December 2007	Note	1. 10. 2006 – 31. 12. 2007 MCZK	1. 1. 2006 – 30. 9. 2006 MCZK
Interest income and similar income	5	12,328	5,526
Interest expense and similar charges	5	(5,775)	(2,373)
Net interest income and similar income		**6,553**	**3,153**
Dividend income	6	252	235
Fee and commission income	7	4,275	2,215
Fee and commission expense	7	(625)	(305)
Net fee and commission income		**3,650**	**1,910**
Net trading income	8	140	431
Net income from financial investments	11	(62)	(119)
Other operating income	10	268	209
General administrative expenses	9	(5,540)	(2,614)
Impairment of loans and receivables	15	(561)	(93)
Other operating expenses	10	(543)	(227)
Profit before income tax		**4,157**	**2,885**
Current income tax	28	(883)	(636)
Deferred income tax	28	(33)	78
Profit for the period		**3,241**	**2,327**

Balance sheet

As at 31 December 2007	Note	31. 12. 2007 MCZK	1. 10. 2006 MCZK
Assets			
Cash in hand and balances with central banks	12	1,720	1,322
Financial assets held for trading	13	18,159	8,204
Receivables from banks	14	47,549	42,117
Receivables from clients	15	153,187	141,823
Financial investments	16	36,248	33,727
Property, plant and equipment	18	1,168	1,356
Intangible assets	19	6	137
Deferred tax asset	28	385	338
Other assets	20	10,153	1,362
Non-current assets held for sale	17	360	–
Total assets		**268,935**	**230,386**
Liabilities			
Deposits from banks	22	27,004	32,649
Deposits from clients	23	166,322	141,263
Debt securities issued	24	30,314	26,283
Financial liabilities held for trading	25	5,194	3,472
Provisions	26	652	424
Other liabilities	27	15,496	3,894
Subordinated liabilities	29	1,000	1,663
Total liabilities		**245,982**	**209,648**
Shareholder's equity			
Issued capital	30	5,125	5,125
Share premium	30	3,357	3,357
Reserve funds	32	2,849	2,849
Reserves from revaluation of financial instruments		(379)	(3)
Retained earnings	32	12,001	9,410
Total shareholder's equity		**22,953**	**20,738**
Total liabilities and shareholder's equity		**268,935**	**230,386**

Statement of changes in equity

For the fifteen-month period from 1 October 2006 to 31 December 2007 MCZK	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of hedging instruments	Reserves from revaluation of available-for-sale securities	Retained earnings	Equity
Balance at 1 January 2006	**6,485**	**1,997**	**1,099**	**1,824**	**(340)**	**409**	**7,009**	**18,483**
Change in revaluation of available-for-sale securities						(214)		(214)
Change in fair value of cash flow hedge derivatives					142			142
Unrealized gains/losses booked into equity					**142**	**(214)**		**(72)**
Transfer to statutory reserve fund			93				(93)	–
Net profit/loss for the period from 1/1/2006 to 30/09/2006							2 327	2 327
Balance at 30 September 2006	**6,485**	**1,997**	**1,192**	**1,824**	**(198)**	**195**	**9,243**	**20,738**
Transfer of issued capital of Živnostenská banka	(1,360)	1,360						–
Partial transfer of statutory reserve fund of Živnostenská banka			(167)				167	–
Balance at 1 October 2006 – Opening balance sheet	**5,125**	**3,357**	**1,025**	**1,824**	**(198)**	**195**	**9,410**	**20,738**
Change in revaluation of available-for-sale securities						(390)		(390)
Net amount of available-for-sale securities transferred to Income statement						(13)		(13)
Change in fair value of cash flow hedge derivatives					7			7
Net amount of cash flow hedge derivatives transferred to Income statement					20			20
Unrealized gains/losses booked into equity					**27**	**(403)**		**(376)**
Dividend paid							(650)	(650)
Net profit/loss for the period from 1/10/2006 to 31/12/2007							3,241	3,241
Balance at 31 December 2007	**5,125**	**3,357**	**1,025**	**1,824**	**(171)**	**(208)**	**12,001**	**22,953**

Cash flow statement

For the fifteen-month period from 1 October 2006 to 31 December 2007	1. 10. 2006 – 31. 12. 2007 MCZK	1. 1. 2006 – 30. 9. 2006 MCZK
Net profit for the period	**3,241**	**2,327**
Adjustments for non-cash items:		
Impairment of loans and receivables	561	93
Impairment of property, plant and equipment and intangible assets	(79)	(7)
Impairment of other assets	19	–
Impairment of participation interests	1	2
Creation and release of other provisions	233	5
Depreciation of property, plant and equipment and intangible fixed assets	345	317
Deferred tax	33	(78)
Operating profit before change in operating assets and liabilities	**4,354**	**2,659**
Financial assets held for trading	(10,121)	(47)
Loans and receivables from banks	(5,432)	2,791
Loans and receivables from customers	(11,854)	(17,269)
Other assets	(8,791)	169
Deposits from banks	(5,645)	(1,134)
Deposits from customers	24,869	11,025
Financial liabilities held for trading	1,722	92
Other liabilities	11,502	12
Net cash flows from operating activities	**604**	**(1,702)**
Changes in financial investments	(2,521)	(4,107)
Proceeds from sale of property, plant and equipment and intangible assets	–	88
Acquisition of property, plant and equipment and intangible assets	(303)	(209)
Net cash flows from investing activities	**(2,824)**	**(4,228)**
Dividends paid	(650)	–
Debt securities issued	3,931	3,950
Subordinated liabilities repaid	(663)	(34)
Net cash flows from financial activities	**2,618**	**3,916**
Cash and cash equivalents at the beginning of the period	**1,322**	**3,336**
Net cash flows from operating activities	604	(1,702)
Net cash flows from investing activities	(2,824)	(4,228)
Net cash flows from financing activities	2,618	3,916
Cash and cash equivalents at the end of the period	**1,720**	**1,322**
Income tax paid	(1,108)	608
Interests received	12,657	5,394
Interest paid	(6,821)	(3,171)
Dividends received	252	235

Notes to the financial statements

1 BACKGROUND

UniCredit Bank Czech Republic, a.s. ("the Bank") was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. on 1 October 2006. All rights and obligations of the dissolved company Živnostenská banka, a.s. were assumed by the continuing company, HVB Bank Czech Republic a.s. The change of name and other changes connected with the merger were recorded on 5 November 2007 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:

Na Příkopě 858/20
113 80 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 for its own account or on behalf of clients:
  1. with foreign exchange currency products,
  2. with forward and option contracts, including foreign currency and interest rate contracts, and
  3. with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing clients' securities including portfolio management;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information;
- renting of safe-deposit boxes.

2 BASIS FOR PREPARATION

On 17 December 2005 UniCredito Italiano S.p.A., Milano ("UCI") acquired a 93.93% share in Bayerische Hypo- und Vereinsbank AG, Mnichov ("HVB"), which at that time owned a 77.5% share in HVB Bank Czech Republic through Bank Austria Creditanstalt AG, Vienna ("BACA"). At the same time, UCI also owned Živnostenská banka, a.s. in the Czech Republic. The merger of the two banks in the Czech Republic took place as a consequence of including HVB group in the UCI group. The effective date of the merger was 1 October 2006. The opening balance sheet of the Bank was issued as at this date.

These financial statements have been prepared for the accounting period from 1 October 2006 to 31 December 2007, i.e. 15 months, in accordance with regulatory requirements. The opening balance sheet data are used as comparative information for the balance sheet items. The aggregated data, which are based on statutory financial statements of both banks for the period from 1 January 2006 to 30 September 2006, are used as comparative information for the income statement, statement of changes in equity and statement of cash flow.

The Bank has also prepared comparative income statements for the 12-month periods of years 2007 and 2006 and that are presented in Note 41.

These 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 non-consolidated financial statements prepared in accordance with Act No. 543/1991 Coll, the Accounting Act. The Bank also prepares the consolidated financial statements, which form a part of the Bank's Annual Report for the period from 1 October 2006 to 31 December 2007.

The financial statements have been prepared based on the fair value principle including financial derivatives, financial assets and liabilities measured at the fair value through profit and loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(b), part (iv). Recognised 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 amortised 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 recognised 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 recognised 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 recognised on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's income statement from the day the Bank commits to purchase the assets.

Available-for-sale financial assets are recognised on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognised in equity from the day the Bank commits to purchase the assets.

Held-to-maturity assets are recognised on the settlement date.

The Bank initially recognises 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 amortised 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 amortised 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 prices 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.

The Bank's management believes that the fair values of the assets and liabilities presented within the financial statements are reliably measurable.

(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 recognised 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 recognised 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 recognised directly in equity as "Change in revaluation of available-for-sale securities". When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement as "Net income from financial investments". Interest income from available-for-sale debt securities is recognised 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 amortised cost are recognised in the income statement when the financial asset or liability is derecognised or impaired (see Note 3(g)), and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised 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 realised, expire or are surrendered. A financial liability is derecognised when it is settled.

Available-for-sale assets and assets recognised at fair value through profit and loss that are sold are derecognised and the corresponding receivables from the buyer are recognised as at the trade settlement date. The Bank uses accounting methods to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised 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 running of the company (that means the Bank's ability to participate on financial and operational guidance of the company and to gain benefits from its activities). This participation interest results from share in the registered capital or from contract or the articles of association regardless of the total amount of the participation interest.

Substantial interest means participation interest where the Bank factually or legally executes direct or indirect substantial interest on guidance or running of the company (that means the Bank's ability to participate on financial and operational guidance of the company without exercising controlling interest). This participation interest results from share in the registered capital (more than 20%) or from contract or the 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, and
- in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of recorded assets and liabilities or unrecognised 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 recognised 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 recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in equity in "Reserve from revaluation of hedging instruments". The ineffective part of the hedge is recognised 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 recognised in equity are transferred to the income statement at the same time 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 recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised 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 recognised in the balance sheet.

(e) Borrowing and lending of securities

Investments lent under securities lending arrangements or sold under repurchase agreements continue to be recognised 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 recognises 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 recognised in the balance sheet.
As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Bank recognises loans and advances to either banks or customers. The receivables are shown as collateralised 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 recognised 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 recognised 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 recognised 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 in order 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 ratings of the underlying customers, late payments of interest or penalties and other qualitative factors. 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 the portfolio as at the balance sheet date.
When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly and the loss is recognised in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognised in the income statement under "Other operating income".
If in a subsequent period the amount of 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 recognised directly in equity, the cumulative loss is transferred to the income statement and recognised 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 recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent of the impairment. Any additional impairment loss is recognised in the income statement. Impairment losses recognised 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 the assets' estimated useful lives. The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

Buildings	30–50 years
Technical improvement of buildings protected as a cultural heritage	15 years
Technical improvement of rented premises	10 years
Air conditioning equipment	5 years
Machinery and equipment	4–5 years
Bank vaults	20 years
Fixtures and fittings	6 years
Motor vehicles	4 years
IT equipment	4 years
Software and intangible assets	2–6 years
Low value tangible assets	2 years

Both tangible and intangible assets are assessed for potential impairment or a reduction in useful life. The gains and losses on disposal are determined based on the net book value and are included in "Other operating income". The costs of repair, maintenance and technical improvement are expensed as they are incurred. The technical improvement exceeding the legal limits is capitalised. The fixed assets acquired before 2007 are depreciated based on the remaining useful life, determined in accordance with the original depreciation plans.

(i) Provisions

Provision means a probable outflow of an uncertain amount and in an uncertain period of time. Provisions are recognised 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 recognised 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 amortisation of any discount or premium, relevant transaction costs 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 a 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 recognised when the corresponding service is provided.

(l) Dividend income

Dividend income is recognised 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 period of the asset recovery or liability settlement. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(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.
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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

These disclosures supplement the commentary on financial risk management (see note 36 and 37).

(a) Key sources of estimation uncertainty

(i) Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(b)(iii).
The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.
Collectively assessed impairments cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the impairment depends on how well these future cash flows for specific counterparties are estimated and on the quality of the model assumptions and parameters used in determining collective impairment.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(b)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3(b)(i).

Details of the Bank's classification of financial assets and liabilities are given in note 3 (b) (i).

(ii) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

5 NET INTEREST INCOME AND SIMILAR INCOME

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Interest income and similar income		
Balances with central bank	1,104	350
Receivables from banks	307	371
Loans and receivables from customers	9,105	4,004
Financial investments	1,800	845
Net income/loss from fair value hedges	12	(44)
Interest income and similar income	**12,328**	**5,526**
Interest expense and similar charges		
Repos with the central bank	(232)	(1)
Deposits from banks	(817)	(679)
Deposits from customers	(3,577)	(1,019)
Debt securities issued	(1,104)	(706)
Net income/loss from fair value hedging of debt securities issued	–	48
Subordinated liabilities	(45)	(16)
Interest expense and similar charges	**(5,775)**	**(2,373)**
Net interest income and similar income	**6,553**	**3,153**

6 DIVIDEND INCOME

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Dividend income		
From subsidiaries	83	63
Thereof Hypo stavební spořitelna a.s.	79	63
From investment certificates classified as securities at fair value through profit and loss not held for trading	169	166
Other	–	6
Total dividend income	**252**	**235**

7 NET FEE AND COMMISSION INCOME

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Fee and commissions income from		
Securities transactions	208	67
Management, administration, deposit and custody services	222	132
Loans	529	335
Payment services	1,022	598
FX transactions	1,646	710
Payment cards	627	341
Other	21	32
Fee and commission income	**4,275**	**2,215**
Fee and commission expense from		
Securities transactions	(128)	–
Management, administration, deposit and custody services	(1)	(43)
Loans	(37)	(45)
Payment services	(27)	(25)
Payment cards	(394)	(187)
Other	(38)	(5)
Fee and commission expense	**(625)**	**(305)**
Net fee and commission income	**3,650**	**1,910**

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.

8 NET TRADING INCOME

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Net realised and unrealised gain/(loss) from securities held for trading	(5)	38
Net realised and unrealised gain/(loss) from derivatives held for trading	(291)	26
Net realised and unrealised gain/(loss) from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	436	367
Net trading income	**140**	**431**

9 GENERAL ADMINISTRATIVE EXPENSES

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Personnel expenses		
Wages and salaries paid to employees	(1,636)	(772)
Social and health insurance	(698)	(269)
	(2,334)	**(1,041)**
Including wages and salaries paid to:		
Members of the Managing Managing Board	(26)	(33)
Other executives	(106)	(90)
	(132)	**(123)**
Other administrative expenses		
Rent and building maintenance	(549)	(324)
Information technologies	(990)	(367)
Promotion and marketing	(481)	(136)
Consumables used	(74)	(146)
Audit, legal and advisory services	(95)	(42)
Payments services	(277)	(85)
Services	(345)	(143)
Other	(45)	(20)
	(2,856)	**(1,263)**
Depreciation of property, plant and equipment	(262)	(189)
Depreciation of intangible fixed assets	(83)	(128)
Impairment loss from tangible and intangible assets	(5)	7
	(350)	**(310)**
Total general administrative expenses	**(5,540)**	**(2,614)**

Social and health insurance includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 13. Information about bonuses tied to equity is included in Note 31.

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

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Employees	1,568	1,769
Members of the Managing Board	5	7
Members of the Supervisory Board	6	17
Other executives	24	28

10 OTHER OPERATING INCOME AND EXPENSES

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Income from written-off and ceded receivables	9	16
Income from rent	64	14
Release of other provisions	72	68
Release of provisions for off-balance sheet items	70	4
Use of other provisions	5	1
Income from litigations settlement	24	–
Income from disposal of fixed assets	–	88
Other	24	18
Total other operating income	**268**	**209**
Deposits and transactions insurance	(146)	(78)
Other receivables write-off	(5)	–
Creation of other adjustments	(19)	(1)
Creation of other provisions	(184)	–
Loss on disposal of fixed assets	(20)	(81)
Creation of provisions for off-balance sheet items	(161)	(30)
Other	(8)	(37)
Total other operating expenses	**(543)**	**(227)**

11 NET INCOME FROM FINANCIAL INVESTMENTS

MCZK	from 1. 10. 2006 to 31. 12. 2007	from 1. 1. 2006 to 30. 9. 2006
Net gain/(loss) from available-for-sale and held to maturity securities	(118)	–
Net gain/(loss) from hedging against risk of changes in fair value of available-for-sale securities	(1)	3
Net gain/(loss) from securities at fair value through profit and loss	58	(120)
Impairment of participation interest	(1)	(2)
Net income from financial investments	**(62)**	**(119)**

12 CASH IN HAND AND BALANCES WITH CENTRAL BANKS

MCZK	31. 12. 2007	1. 10. 2006
Cash in hand	1,612	1,119
Obligatory minimum reserves	92	75
Other balances at central banks	16	128
Total cash in hand and balances with central banks	**1,720**	**1,322**

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.
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

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return held for trading	14,263	4,918
Shares and other securities with a variable rate of return held for trading	88	1
Fair value of financial derivatives held for trading	3,808	3,285
Total financial assets held for trading	**18,159**	**8,204**

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

MCZK	31. 12. 2007	1. 10. 2006
Issued by financial institutions	–	3,797
Issued by government sector	14,263	1,121
Total	**14,263**	**4,918**
Thereof:		
Listed	14,263	4,270
Unlisted	–	648

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

MCZK	31. 12. 2007	1. 10. 2006
Shares issued by financial institutions	2	–
Shares issued by non-financial institutions	86	1
Total	**88**	**1**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31. 12. 2007	1. 10. 2006
Interest rate contracts	994	1,112
Currency contracts	853	534
Equity contracts	1,957	1,639
Commodity contracts	4	–
Total	**3,808**	**3,285**

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

14 RECEIVABLES FROM BANKS

(a) Analysis of receivables from banks by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts at other banks	1,725	2,527
Loans provided to banks	13,096	25,718
Term deposits	32,728	13,872
Total receivables from banks	**47,549**	**42,117**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**47,549**	**42,117**

(b) Subordinated loans from banks

The Bank granted a subordinated loan to another bank, totalling TEUR 7,500 in 2004. The subordinated loan balance as at 31 December 2007 was of MCZK 200 (as at 1 October 2006: MCZK 213). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, the interest rate is determined based on the particular EURIBOR rate.

(c) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2007	1. 10. 2006
Czech Republic	19,325	32,158
European Union	27,051	7,836
Others	1,173	2,123
Total receivables from banks	**47,549**	**42,117**

15 RECEIVABLES FROM CUSTOMERS

(a) Analysis of receivables from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Loans to clients	155,502	143,677
Receivables from promissory notes	–	71
Total receivables from customers	**155,502**	**143,748**
Impairment losses of receivables from customers	(2,315)	(1,925)
Net receivables from customers	**153,187**	**141,823**

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 26 (as at 1 October 2006: MCZK 21). Included in these amounts are loans that have not been adjusted for interest accruals in the amount of MCZK 158 (as at 1 October 2006: MCZK 313). In case of applying accrued principal on interest income from these loans the Bank would recognise MCZK 8 as interest income for the period from 1 October 2006 to 31 December 2007.

(b) Classification of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Receivables not impaired		
Standard	146,576	135,661
Receivables impaired		
Watched	6,256	6,247
Substandard	1,053	559
Doubtful	489	406
Loss	1,128	875
Total receivables from customers	**155,502**	**143,748**

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 (including cash flow from realised collateral).

(c) Analysis of receivables from customers by sector

MCZK	31. 12. 2007	1. 10. 2006
Financial institutions	22,732	14,365
Non-financial institutions	106,217	106,650
Government sector	188	592
Non-profit organisations	467	314
Self-employed	1,238	830
Resident individuals	16,064	13,172
Non-resident	8,596	7,825
Total receivables from customers	**155,502**	**143,748**

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

MCZK	31. 12. 2007	1. 10. 2006
Personal guarantee	439	20
Bank and similar guarantee	11,288	17,451
Mortgage	49,929	57,486
Corporate guarantee	8,790	768
Bill of exchange	538	–
Security held by bank	5,018	10,406
Unsecured	79,500	57,617
Total receivables from customers	**155,502**	**143,748**

(e) Analysis of receivables from customers by business activity

MCZK	31. 12. 2007	1. 10. 2006
Real estate services	46,969	41,297
Financial services	23,007	17,074
Wholesale	14,269	17,473
Household services	16,745	15,412
Retail	4,914	6,130
Leasing	1,018	3,847
Others	48,580	42,515
Total receivables from customers	**155,502**	**143,748**

(f) Impairment of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Impairment of individual receivables from customers	(1,301)	(1,245)
Impairment of portfolios of standard receivables from customers	(1,014)	(680)
Total impairment of receivables from customers	**(2,315)**	**(1,925)**

MCZK		
Balance as at 1 October 2006		(1,925)
Creation during the current year	(1,784)	
Release during the current year	1,223	
Net effect on income statement		(561)
Receivables written off – use		143
FX differences		28
Balance of impairment of receivables from customers as at 31 December 2007		**(2,315)**

16 FINANCIAL INVESTMENTS

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

MCZK	31. 12. 2007	1. 10. 2006
Available-for-sale securities	26,764	27,102
Financial assets at fair value through the profit and loss not held for sale	9,363	6,192
Participation interests	121	433
Total financial investments	**36,248**	**33,727**

Financial investments include bonds that were provided as collateral with the market value of MCZK 1,176 (as at 1 October 2006: MCZK 1,224).

(b) Analysis of available-for-sale securities

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	14,128	10,829
Issued by non-financial institutions	4,028	2,363
Issued by government sector	8,586	13,871
Total	**26,742**	**27,063**
Shares and other securities with a variable rate of return		
Issued by financial institutions	–	17
Issued by non-financial institutions	22	22
Total	**22**	**39**
Total available-for-sale securities	**26,764**	**27,102**
Thereof:		
Listed	25,716	23,563
Unlisted	1,048	3,539

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

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	4,191	2,638
Issued by non-financial institutions	1,941	719
Issued by government sector	328	274
Total	**6,460**	**3,631**
Shares and investment certificates with a variable rate of return		
Issued by financial institutions	2,903	2,561
Total	**2,903**	**2,561**
Total of securities at fair value through the profit and loss	**9,363**	**6,192**
Thereof:		
Listed	6,426	3,593
Unlisted	2,937	2,599

(d) Analysis of participation interests

Name	Registered office	Business activity	Date of Acquisition	Acquisition price	Net book value	Share of the Bank 31. 12. 2007	Share of the Bank 1. 10. 2006
UniCredit Factoring s.r.o.	Prague	factoring	26. 10. 2004	100	100	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	0,50	100%	100%
CBCB – Czech Banking Credit Bureau, a.s.	Prague	bank register	10. 10. 2001	0.24	0.24	20%	20%
Total				**199.24**	**121.74**	–	–

Participation interests as at 1 October 2006 also included a 60% share in HYPO stavební spořitelna a.s. The book value of this interest amounted to MCZK 360. Since the contract on sale of shares in this participation interest was signed on 19 November 2007, the book value has been transferred to balance sheet item "Non-current assets held for sale" (see Note 17).

As at 31 December 2007, the amount of impairment of participation interests totaled MCZK 7 (1 October 2006: 7 MCZK).

The issued capital of UniCredit Factoring s.r.o was raised by MCZK 50 on 13 November 2007.

Liquidation of CAE PRAHA a.s. (in the process of liquidation) is expected in 2008.

In 2007, the Bank sold its subsidiary Zivnostenska Finance B.V., incorporated in the Netherlands.

17 NON-CURRENT ASSETS HELD FOR SALE

The Bank decided to withdraw from the building savings segment and sell its 60% participation interest in HYPO stavební spořitelna, a.s. The sale agreement was concluded on 19 November 2007, which is also the date of reclassification of this participation interest to "Non-current assets held for sale". Contract conditions were satisfied on 7 March 2008, which is the date of effective control takeover by Raiffeisen Bausparkassen Holding GmbH. The price for which this subsidiary was sold substantially exceeds the acquisition price of this asset. Net gain from the transaction will be part of the Bank's 2008 income statement.

18 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plan and equipment

MCZK	Land and buildings	Machinery and equipment	Fixtures and fittings	Other non-oper. property	Fixed assets not yet in use	Total
Cost						
At 1 October 2006	2,515	1,200	415	3	13	4,146
Additions	33	74	4	–	63	174
Disposals	(150)	(379)	(57)	–	(11)	(597)
Other	–	(42)	41	–	1	–
At 31 December 2007	2,398	853	403	3	66	3,723
Depreciation						
At 1 October 2006	(1,357)	(1,008)	(334)	(3)	–	(2,702)
Charge for the year	(145)	(96)	(21)	–	–	(262)
Disposals	71	355	31	–	–	457
Other	–	27	(27)	–	–	–
At 31 December 2007	(1,431)	(722)	(351)	(3)	–	(2,507)
Impairment						
At 1 October 2006	(89)	–	–	–	–	(89)
Creation	(5)	–	–	–	–	(5)
Release	–	–	–	–	–	–
Use	46	–	–	–	–	46
At 31 December 2007	(48)	–	–	–	–	(48)
Net book value						
At 1 October 2006	**1,069**	**192**	**81**	**–**	**13**	**1,355**
At 31 December 2007	**919**	**131**	**52**	**–**	**66**	**1,168**

19 INTANGIBLE ASSETS

Movements in intangible fixed assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 October 2006	635	26	41	702
Additions	70	57	2	129
Disposals	(705)	(82)	(23)	(810)
At 31 December 2007	–	1	20	21
Amortisation				
At 1 October 2006	(382)	–	(25)	(407)
Charge for the year	(78)	–	(5)	(83)
Disposals	460	–	15	475
At 31 December 2007	–	–	(15)	(15)
Impairment				
At 1 October 2006	(79)	–	–	(79)
Creation	–	–	–	–
Release	–	–	–	–
Use	79	–	–	79
At 31 December 2007	–	–	–	–
Net book value				
At 1 October 2006	174	26	16	216
At 31 December 2007	–	1	5	6

As a result of the change in the current system brought about by the merger, the Bank decreased the impairment loss for software by MCZK 79 (as at 1 October 2006: MCZK 79).

20 OTHER ASSETS

MCZK	31. 12. 2007	1. 10. 2006
Prepaid expense and accrued income	127	60
Trade receivables	343	324
Positive fair value of hedging derivatives	455	450
Receivables from securities	8,304	167
Suspense accounts	805	245
Taxes	99	–
Other	53	130
Total other assets	**10,186**	**1,376**
Impairment of other assets	(33)	(14)
Net other assets	**10,153**	**1,362**

The increased balance of “Receivables from securities” is mainly caused by two unsettled over the counter trades that were performed shortly before the year’s end. These trades were settled at the beginning of January 2008.

(a) Impairment of other assets

MCZK	
Balance as at 1 October 2006	(14)
Creation during the current year	(19)
Release during the current year	–
Balances of impairment of other assets as at 31 December 2007	**(33)**

21 IMPAIRMENT OF ASSETS TOTAL

MCZK	Receivables from clients (Note 15)	Financial investments (Note 16)	Tangible and intangible assets (Note 18,19)	Other assets (Note 20)	Total
Balance as at 1 October 2006	(1,925)	(7)	(168)	(14)	(2,114)
Creation during the current year	(1,784)	(1)	(5)	(19)	(1,809)
Release during the current year	1,223	–	–	–	1,223
Write-offs and others	171	1	125	–	297
Impairment loss as at 31 December 2007	**(2,315)**	**(7)**	**(48)**	**(33)**	**(2,403)**

22 DEPOSITS FROM BANKS

Analysis of deposits from banks by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts	5,641	1,326
Bank loans	7,111	18,487
Term deposits	14,252	12,836
Total deposits from banks	**27,004**	**32,649**

23 DEPOSITS FROM CUSTOMERS

(a) Analysis of deposits from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts	85,944	64,991
Loans	4,282	3,891
Term deposits	58,046	50,326
Issued depository notes	15,174	12,135
Saving deposits	2,876	2,105
Payments in transfer	–	7,573
Other	–	242
Total deposits from customers	**166,322**	**141,263**

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".
The decreased balance of "Payments in transfer" is caused by the change of reporting methodology. This item is included in "Other liabilities" as item "Suspense accounts".

(b) Analysis of deposits from clients by sector

MCZK	31. 12. 2007	1. 10. 2006
Financial institutions	13,938	11,237
Non-financial institutions	73,472	60,684
Government sector	11,056	8,653
Non-profit organisations	1,485	1,155
Self-employed	14,407	12,361
Resident individuals	43,833	40,135
Non-residents	8,131	6,135
Other	–	903
Total deposits from customers	**166,322**	**141,263**

24 DEBT SECURITIES ISSUED

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

MCZK	31. 12. 2007	1. 10. 2006
Mortgage bonds	26,607	21,668
Structured bonds	3,182	3,204
Zero coupon bonds	511	1,363
Other issued bonds	14	48
Net book value	**30,314**	**26,283**

The Bank purchased its own debt securities for the purpose of trading or sale, totalling MCZK 10 (as at 1 October 2006: MCZK 12). The debt securities decreased the amount of "Debt securities issued".

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	31. 12. 2007 MCZK	1. 10. 2006 MCZK
4 February 2002	4 February 2009	CZK	6.00%	6,945	10,442
9 October 2003	9 October 2008	CZK	4.50%	509	747
19 August 2004	19 August 2012	CZK	6.00%	1,422	1,527
15 December 2004	15 December 2006	CZK	1.86%	–	47
15 December 2004	15 December 2006	CZK	1.66%	–	37
29 September 2005	29 September 2015	CZK	4.00%	1,068	1,010
5 October 2005	5 October 2015	CZK	4.50%	5,316	3,746
15 November 2005	15 November 2010	CZK	3.50%	3,937	4,004
23 November 2005	15 November 2025	CZK	5.00%	116	108
15 June 2007	16 September 2008	CZK	–*	225	–
15 June 2007	16 June 2008	CZK	–*	371	–
15 June 2007	15 June 2012	CZK	5.00%	5	–
12 December 2007	21 December 2037	CZK	6.60%	6,693	–
Total of mortgage bonds issued				**26,607**	**21,668**

* discounted mortgage bonds

25 FINANCIAL LIABILITIES HELD FOR TRADING

See Note 36 (a) for the Bank's business strategy.

MCZK	31. 12. 2007	1. 10. 2006
Interest rate contracts	885	1,169
Currency contracts	861	429
Equity contracts	1,947	1,624
Commodity contracts	3	–
Liabilities from short sales of securities	1,498	250
Total financial liabilities held for trading	**5,194**	**3,472**

26 PROVISIONS

Provisions include following items:

MCZK	31. 12. 2007	1. 10. 2006
Provisions for off-balance sheet credit items	438	347
Other provisions	214	77
Claims and litigations	74	47
Receivables	9	–
Unclaimed vacation	60	30
Other	71	–
Total provisions	**652**	**424**

(a) Provisions for off-balance sheet credit items

MCZK	
Balance at 1 October 2006	347
Creation during the current year	161
Release during the current year	(70)
Balance of provisions for off-balance sheet credit items at 31 December 2007	**438**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation	Receivables	Other	Total
Balance at 1 October 2006	47	30	–	–	77
Creation during the current year	49	30	9	126	214
Use during the current year	–	–	–	(5)	(5)
Release of provisions no longer meeting recognition criteria	(22)	–	–	(50)	(72)
Balance of provisions at 31 December 2007	**74**	**60**	**9**	**71**	**214**

The creation of provisions of MCZK 30 for payments of unclaimed vacation entitlement is included in general operating costs, in "Wages and Salaries".

27 OTHER LIABILITIES

MCZK	31. 12. 2007	1. 10. 2006
Deferred income and accrued expenses	209	322
Trade payables	330	440
Negative fair value of hedging derivatives	525	766
Income taxes payables	–	93
Other taxes payable	16	33
Estimated payables	738	413
Securities payables (dealing for clients)	–	445
Unsettled securities dealing	108	196
Suspense accounts	13,558	1,109
Other	12	77
Total other liabilities	**15,496**	**3,894**

The increase in "Suspense accounts" balances was caused by a change in reporting of "Payments in transfer" (see Note 23) and by two unsettled over the counter trades that were performed shortly before the year's end. These trades were settled at the beginning of January 2008.

28 INCOME TAX

(a) Tax in income statement

MCZK	31. 12. 2007
Current year income tax	(885)
Income tax for previous period	2
Deferred tax	(33)
Total income tax	**(916)**

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:

MCZK	31. 12. 2007
Current year profit (loss) before tax	4,157
Income tax calculated using tax rate 24%	998
Effect of the difference between Czech Accounting Standards used for tax base calculation and IFRS	10
Effect of previous years	(2)
Foreign income tax effect	(56)
Non-taxable income	(390)
Tax non-deductible expense	328
Change in deferred tax	33
Other	(5)
Total income tax	**916**

The effective tax rate of the Bank is 22%.

(b) Tax in balance sheet

The Bank made advanced payments for income tax of MCZK 984. When offsetting with the income tax payable, the Bank presents for the accounting period net tax receivable of MCZK 99 in the item "Other assets" (as of 1 October 2006: net income tax payable MCZK 93 included in "Other liabilities").

(c) Deferred tax asset and liability

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

	31. 12. 2007		1. 10. 2006	
MCZK	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	16	–	8	–
Social and health insurance from bonuses	25	–	18	–
Impairment of loans	213	–	258	–
Fixed assets net of book value differences	–	6	9	–
Other	15	–	3	1
Deferred tax liability/asset	269	6	296	1
Net deferred tax liability/asset recognised in income statement	**263**	**–**	**295**	**–**
Revaluation reserve available-for-sale assets	122	–	43	–
Net deferred tax liability/asset recognised in equity	**122**	**–**	**43**	**–**
Total deferred tax asset	**385**		**338**	

When calculating net tax liability or asset, the Bank performs compensation of deferred tax liabilities and assets from the income tax paid to the tax authority in the same tax category. Deferred tax liabilities and assets recognised in equity are not offset against deferred tax liabilities and assets recognised in the profit and loss account.
The Bank's management believes it is highly probable that the Bank will fully utilise its deferred tax asset as at 31 December 2007 based on the Bank's current and expected future level of taxable profits.

29 SUBORDINATED LIABILITIES

MCZK	31. 12. 2007	1. 10. 2006
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	–	663
Subordinated loan, Unicredito Italiano SPA	1,000	1,000
Total subordinated liabilities	**1,000**	**1,663**

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 amounted to TEUR 23,400, with a maturity date in March 2010. The interest period can be from 1 to 12 months and the interest rate was based on the market rate on the money market. The loan was in accordance with subordinated loan requirements of the Czech National Bank (CNB). In December 2007, the Bank made an early repayment of the subordinated loan amounting to TEUR 23,400.

On 29 December 2004, the Bank drew subordinated debt of BCZK 1 from the parent company UCI. The debt interest will be set as PRIBOR + 0.6% until 29 December 2009; from this day onwards the interest will be calculated as PRIBOR + 1.2%. The interest is payable quarterly in arrears, and the principal is repayable on 29 December 2014. The principal may not be repaid before 29 December 2009 and without the CNB's consent. The loan is not collateralised, and it is subordinated to all the Bank's liabilities. It forms a part of the Bank's additional capital for the purpose of capital adequacy.

30 ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 31 December 2007 and 1 October 2006 amounted to MCZK 5,125.

(a) The shareholders as at 31 December 2007 and 1 October 2006

Name	Registered office	Share nominal value (MCZK)	Share premium (MCZK)	Share in equity (%)
Bank Austria Creditanstalt AG, Vienna	Austria	5,125	3,357	100
Total		**5,125**	**3,357**	**100**

(b) Issued capital analysis

	31. 12. 2007 Number of shares	31. 12. 2007 MCZK	1. 10. 2006 Number of shares	1. 10. 2006 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 of issued capital		**5,125**		**5,125**

Shares are transferable with the general meeting's approval.
The Bank held none of its own shares in treasury as at 31 December 2007 and 1 October 2006.

31 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 its own shares.

32 RESERVE FUNDS AND RETAINED EARNINGS

The allocation of reserve funds is as follows:

MCZK	31. 12. 2007	1. 10. 2006
Legal reserve fund	1,025	1,025
Other reserve funds	1,824	1,824
Total reserve funds	**2,849**	**2,849**
Retained earnings	12,001	9,410

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 and use of the legal reserve fund is under the control of the Managing Board. The reserve fund is 20% of the registered capital.
The Managing Board 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 Managing Board.

The Bank intends to distribute the profit for the accounting period from 1 October 2006 to 31 December 2007 of 3,241 MCZK as follows: dividend payment of MCZK 1,000 and distribution to retained earnings of MCZK 2,241.

33 BORROWING AND LENDING OF SECURITIES, REPURCHASE AND RESALE COMMITMENTS

(a) Resale commitments

MCZK	31. 12. 2007	1. 10. 2006
Receivables from banks	12,688	24,078
Fair value of securities received	12,494	23,781
Receivables from clients	–	179
Fair value of securities received	–	221

(b) Repurchase operations

MCZK	31. 12. 2007	1. 10. 2006
Deposits from banks	7,903	8,659
Fair value of given securities (Financial assets held for trading)	4,278	–
Fair value of given securities (Financial investments)	3,549	8,500
Deposits from clients	–	3,391
Fair value of given securities (Financial assets held for trading)	–	3,419

34 CONTINGENT LIABILITIES, CONTINGENT ASSETS AND DERIVATIVES

In its regular business operations, the Bank enters into various financial operations which are not recognised 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 31 December 2007 and created appropriate provisions for litigation and claims (see Note 26). 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 uncertain which interpretation the tax authority will choose. The outcomes from this uncertainty cannot be quantified and can only be determined when the legal changes will be put into practice or official interpretation will become available.

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 commitments issued for loans or guarantees and also unused credit lines and overdraft facilities. The Bank can revoke the revocable credit commitments at any time without stating reasons. On the other hand, irrevocable credit commitments represent the Bank's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Bank, even though it depends on the clients to fulfil the terms and conditions.

Liabilities from financial guarantees represent irrevocable commitments that the Bank will realise payments when the conditions defined in guarantee certificate are fulfilled. These commitments bear a similar risk as loans, so the Bank creates reserves for these commitments using a similar algorithm as when creating loan loss provisions (see Note 37).

Letters of credit represent written irrevocable liabilities of the Bank to provide funds to the third parties or to its order (beneficiary, commissioned) if a letter of credit's conditions were fulfilled in a defined period. It is issued on the basis of the customer's (applicant) request. The Bank creates reserves for these financial instruments using a similar algorithm as when creating loan loss provisions (see Note 37).

The Bank has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2007, the total of these provisions amounted to MCZK 438 (1 October 2006: MCZK 347) (see Note 26 (a)).

MCZK	31. 12. 2007	1. 10. 2006
Irrevocable letters of credit and financial guarantees	19,768	16,536
Other irrevocable contingent liabilities (unused credit commitments)	89,185	65,287
Total	**108,953**	**81,823**

Values taken into administration and management

MCZK	31. 12. 2007	1. 10. 2006
Bonds	279,926	145,125
Shares	259,239	206,355
Depository notes	15,174	11,716
Total values taken into administration and management	**554,339**	**363,196**

(b) Contingent assets

As at 31 December 2007, 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 2,902 (MEUR 109) and maturing in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,448 (MEUR 54.39) 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 values	
MCZK	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Hedging instruments				
Interest rate swap contracts	53,666	47,256	(23)	(344)
Cross currency swap contracts	9,147	7,252	(47)	28
Trading instruments				
Forward rate agreements (FRA)	3,500	30,087	2	4
Interest rate swap contracts	81,006	74,033	48	(102)
Forward foreign exchange contracts			(201)	(116)
Purchase	7,717	22,890		
Sale	7,900	23,013		
Option contracts			10	15
Purchase	63,129	29,389		
Sale	63,129	29,396		
Cross currency swap contracts	59,002	42,012	192	220

Listed financial derivatives

	Contractual amounts		Fair values	
MCZK	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Trading instruments				
Interest rate futures	956	722	60	42
Commodity instruments	10	–	1	–

Residual maturity of financial derivatives

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

As at 31 December 2007 MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Hedging instruments									
Interest rate swap contracts	4,833	54	2,414	15,754	8,150	2,150	3,374	16,937	53,666
Cross currency swap contracts	–	–	3,681	3,592	–	1,874	–	–	9,147
Trading instruments									
Forward rate agreements (FRA)	–	–	3,500	–	–	–	–	–	3,500
Interest rate swap contracts	4,231	3,099	11,865	12,043	8,068	8,937	12,054	20,709	81,006
Foreign exchange contracts (Purchase)	495	1,588	3,831	1,658	144	1	–	–	7,717
Foreign exchange contracts (Sale)	496	1,616	3,942	1,702	143	1	–	–	7,900
Option contracts (Purchase)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Option contracts (Sale)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Interest rate futures	–	956	–	–	–	–	–	–	956
Commodity instruments	–	–	10	–	–	–	–	–	10
Cross currency swap contracts	33,290	5,162	10,964	2,052	4,102	–	2,985	447	59,002

As at 1 October 2006 MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Hedging instruments									
Interest rate swap contracts	655	45	12,893	3,408	10,551	1,885	4,460	13,359	47,256
Cross currency swap contracts	–	–	–	1,417	3,863	–	1,972	–	7,252
Trading instruments									
Forward rate agreements (FRA)	40	47	24,000	6,000	–	–	–	–	30,087
Interest rate swap contracts	–	1,526	19,721	14,542	2,817	5,620	4,277	25,531	74,034
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)	1,224	774	4,754	6,137	9,084	2,531	4,598	287	29,389
Option contracts (Sale)	1,224	774	4,754	6,137	9,091	2,531	4,598	287	29,396
Interest rate futures	–	722	–	–	–	–	–	–	722
Cross currency swap contracts	15,617	4,256	4,342	9,079	–	4,270	–	4,449	42,013

35 SEGMENT REPORTING

Primary segment reporting format is based on clients' business.

(a) Business segments

As at 31 December 2007 MCZK	Retail banking/ small and medium companies	Corporate banking	Investment banking	Other	Total
Net interest and dividend income	1,784	3,755	799	467	6,805
Other net income	780	2,262	323	88	3,453
Depreciation of property, plant and equipment and amortisation of intangible assets	(80)	(64)	(16)	(190)	(350)
Impairment and provisions	(229)	(328)	(4)	–	(561)
Segment expenses	(1,497)	(1,081)	(556)	(2,056)	(5,190)
Profit before tax	758	4,544	546	(1,691)	4,157
Income tax				(916)	(916)
Result of segment	758	4,544	546	(2,607)	3,241
Segment assets	22,005	131,531	104,731	10,668	268,935
Segment liabilities	105,216	73,613	50,005	17,148	245,982
As at 1 October 2006					
Segment assets	19,615	125,087	83,854	1,830	230,386
Segment liabilities	86,455	69,461	48,053	5,679	209,648

(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 October 2006 to 31 December 2007, the Bank generated the main part of its revenues from activities in the Czech Republic and the EU.

36 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 maximise the net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 36 (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 form 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 arising from its open positions in credit, equity and foreign currency instruments and transactions that are sensitive to changes in financial market conditions.

The Bank's risk management concentrates on 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 the 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 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 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.

MCZK	As at 31. 12. 2007	Average 1. 10. 2006 – 31. 12. 2007	As at 30. 9. 2006	Average 1. 1. – 30. 9. 2006
VaR of interest rate instruments	78.8	35.8	35	40
VaR of currency instruments	1.1	1.5	1.9	1.8
VaR of equity instruments	1.2	1.1	0.5	0.9

Interest rate risk

The Bank is exposed to interest rate 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 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 optimising the Bank's net interest revenue in accordance with the strategy approved by the Managing Board.

The Bank's position as at 31 December 2007 is characterised by a shorter duration on the side of liabilities compared with assets. 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 slightly 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 Managing Board. Part of the Bank's income is generated by the intentional 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 of 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 restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

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 it 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:

As at 31 December 2007 MCZK	EIR	Up to 1 months	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
Cash in hand and balances with central banks	–	–	–	–	–	–	–	–	–	1,720	1,720
Financial assets held for trading	3.74	4,763	11,130	983	99	36	–	125	935	88	18,159
Receivables from banks	4.53	38,669	6,811	1,969	9	91	–	–	–	–	47,549
Receivables from customers	5.14	42,335	31,022	37,404	11,651	8,541	3,020	7,230	4,360	7,624	153,187
Financial investments	5.25	1,111	3,683	7,161	1,073	4,207	2,145	111	13,710	3,047	36,248
Deposits from banks	3.93	19,234	3,639	4,131	–	–	–	–	–	–	27,004
Deposits from customers	2.97	156,925	4,913	3,299	402	281	410	92	–	–	166,322
Debt securities issued	4.91	56	351	11,103	7,045	3,922	–	1,399	6,438	–	30,314
Financial liabilities held for trading	0.00	3,694	–	1,500	–	–	–	–	–	–	5,194
Subordinated liabilities	4.70	–	–	1,000	–	–	–	–	–	–	1,000

As at 1 October 2006 MCZK	EIR	Up to 1 months	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
Cash in hand and balances with central banks	–	–	–	–	–	–	–	–	–	1,322	1,322
Financial assets held for trading	2.91	662	2,757	1,251	321	–	–	240	–	2,973	8,204
Receivables from banks	2.38	39,271	1,525	1,144	5	–	68	–	–	104	42,117
Receivables from customers	4.26	22,828	29,346	40,719	8,007	9,973	4,742	3,423	6,885	15,900	141,823
Financial investments	4.73	7,896	3,017	19,005	280	–	5	295	223	3,006	33,727
Deposits from banks	3.09	26,631	5,157	759	102	–	–	–	–	–	32,649
Deposits from customers	2.20	104,515	6,843	2,862	323	583	2	631	45	25,459	141,263
Debt securities issued	4.43	3,901	3,580	12,713	1,125	2,696	785	259	1,224	–	26,283
Financial liabilities held for trading	0.00	–	–	546	–	–	–	–	–	2,926	3,472
Subordinated liabilities	3.37	–	–	1,663	–	–	–	–	–	–	1,663

Hedge accounting

As part of its market risk management strategy, the Bank hedges against interest rate risk. Based on the hedge strategy, the Bank uses 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 securities held-to-maturity) 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).

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

	Contractual amount		Fair value	
MCZK	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Interest rate swaps	21,578	18,139	(12)	(82)
Cross currency swaps	–	–	–	–

Cash flow hedging

The Bank uses the concept of cash flow hedging to eliminate interest risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense sensitive to changes 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	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Interest rate swaps	32,088	29,117	(11)	(262)
Cross currency swaps	9,147	7,252	(47)	28

MCZK	Fair value 31. 12. 2007	1. 10. 2006
Hedged instruments		
Available for sale securities	39	64
Receivables from clients	105	28
Debt securities issued	181	36
The remaining part of formerly hedged financial instruments		
Available for sale securities	3	10
Receivables from clients	41	150
Debt securities issued	21	45

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 amortised till maturity.

Currency risk

Assets and liabilities denominated in foreign currency, including off-balance sheet exposures, represent the Bank's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the profit and loss account. The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD). For the remaining currencies, there are valid limits ranging from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

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

As at 31 December 2007 MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
Cash in hand and balances with central banks	1,245	310	71	25	19	–	50	1,720
Financial assets held for trading	18,159	–	–	–	–	–	–	18,159
Receivables from banks	25,125	18,850	2,318	17	388	155	696	47,549
Receivables from customers	108,123	41,855	929	1,475	800	–	5	153,187
Financial investments	21,159	9,567	1,027	–	–	4,495	–	36,248
Property, plant and equipment	1,168	–	–	–	–	–	–	1,168
Intangible assets	6	–	–	–	–	–	–	6
Deferred tax asset	385	–	–	–	–	–	–	385
Other assets	9,554	488	99	1	2	–	9	10,153
Non-current assets held for sale	360	–	–	–	–	–	–	360
Deposits from banks	9,848	12,701	1,860	1,433	2	803	357	27,004
Deposits from customers	128,789	27,742	5,253	331	520	2,307	1,380	166,322
Debt securities issued	30,035	177	102	–	–	–	–	30,314
Financial liabilities held for trading	5,194	–	–	–	–	–	–	5,194
Provisions	652	–	–	–	–	–	–	652
Deferred tax liability	–	–	–	–	–	–	–	–
Other assets	13,335	1,865	245	17	6	–	28	15,496
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	22,953	–	–	–	–	–	–	22,953

As at 1 October 2006 MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
Cash in hand and balances with central banks	965	199	71	14	17	–	56	1,322
Financial assets held for trading	4,791	2,222	976	–	–	–	215	8,204
Receivables from banks	36,741	2,930	516	1	160	179	1,590	42,117
Receivables from customers	95,454	43,100	1,516	482	1,236	–	35	141,823
Financial investments	17,408	11,660	882	–	–	3,777	–	33,727
Property, plant and equipment	1,356	–	–	–	–	–	–	1,356
Intangible assets	137	–	–	–	–	–	–	137
Deferred tax asset	338	–	–	–	–	–	–	338
Other assets	1,183	101	66	1	–	2	9	1,362
Deposits from banks	17,151	12,169	2,041	199	45	709	335	32,649
Deposits from customers	105,572	24,462	7,370	138	703	1,884	1,134	141,263
Debt securities issued	25,885	247	151	–	–	–	–	26,283
Financial liabilities held for trading	3,379	44	45	–	–	–	4	3,472
Provisions	424	–	–	–	–	–	–	424
Deferred tax liability	–	–	–	–	–	–	–	–
Other assets	2,659	1,066	138	3	5	–	23	3,894
Subordinated liabilities	1,000	663	–	–	–	–	–	1,663
Equity	20,781	(43)	–	–	–	–	–	20,738

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 trade with equity instruments, although some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits. 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 Managing Board. 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

As at 31 December 2007 MCZK	Up to 1 months	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
Cash in hand and balances with central banks	107	–	–	–	–	–	–	–	1,613	1,720
Financial assets held for trading	1,190	11,198	2,274	833	944	–	343	1,230	147	18,159
Receivables from banks	38,662	6,847	2,025	15	–	–	–	–	–	47,549
Receivables from customers	18,967	11,151	34,560	20,985	11,054	7,969	12,625	35,876	–	153,187
Financial investments	6	483	1,995	2,059	9,102	–	–	19,606	2,997	36,248
Property, plant and equipment	–	–	–	–	–	–	–	–	1,168	1,168
Intangible assets	–	–	–	–	–	–	–	–	6	6
Deferred tax asset	–	–	–	–	–	–	–	–	385	385
Other assets	155	–	19	178	225	34	–	118	9,424	10,153
Non-current assets held for sale	–	360	–	–	–	–	–	–	–	360
Total	**59,087**	**30,039**	**40,873**	**24,070**	**21,325**	**8,003**	**12,968**	**56,830**	**15,740**	**268,935**
Deposits from banks	19,234	155	4,152	2,288	1,078	–	–	–	97	27,004
Deposits from customers	149,743	8,394	3,604	409	291	410	92	–	3,379	166,322
Debt securities issued	–	–	1,628	8,919	6,883	–	1,422	11,462	–	30,314
Financial liabilities held for trading	367	123	1,157	854	713	339	–	1,421	220	5,194
Provisions	–	–	–	–	–	–	–	–	652	652
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other assets	232	1	78	97	152	33	–	225	14,678	15,496
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	22,953	22,953
Total	**169,576**	**8,673**	**10,619**	**12,567**	**9,117**	**782**	**1,514**	**14,108**	**41,979**	**268,935**
Gap	**(110,489)**	**21,366**	**30,254**	**11,503**	**12,208**	**7,221**	**11,454**	**42,722**	**(26,239)**	**–**
Cumulative gap	**(110,489)**	**(89,123)**	**(58,869)**	**(47,366)**	**(35,158)**	**(27,937)**	**(16,483)**	**26,239**	**–**	

As at 1 October 2006 MCZK	Up to 1 months	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
Cash in hand and balances with central banks	662	–	–	–	–	–	–	–	660	1,322
Financial assets held for trading	62	155	1,222	741	1,347	434	788	283	3,172	8,204
Receivables from banks	38,141	2,161	1,398	5	46	–	49	212	105	42,117
Receivables from customers	19,299	10,616	36,811	8,710	13,695	7,637	6,309	31,463	7,283	141,823
Financial investments	1,101	1,053	5,629	2,127	2,553	2,608	3,061	12,576	3,019	33,727
Property, plant and equipment	–	–	–	–	–	–	–	–	1,356	1,356
Intangible assets	–	–	–	–	–	–	–	–	137	137
Deferred tax asset	–	–	236	–	–	–	–	–	102	338
Other assets	2	–	–	8	49	–	35	–	1,268	1,362
Total	**59,267**	**13,985**	**45,296**	**11,591**	**17,690**	**10,679**	**10,242**	**44,534**	**17,102**	**230,386**
Deposits from banks	26,631	1,713	759	102	2,325	–	1,119	–	–	32,649
Deposits from customers	129,755	6,886	2,968	328	583	2	633	48	60	141,263
Debt securities issued	154	193	599	1,125	13,477	785	3,484	6,466	–	26,283
Financial liabilities held for trading	287	18	32	115	68	–	22	3	2,927	3,472
Provisions	–	–	–	–	–	–	–	–	424	424
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other assets	165	–	–	–	–	–	5	5	3,719	3,894
Subordinated liabilities	–	–	–	–	–	663	–	1,000	–	1,663
Equity	–	–	–	–	–	–	–	–	20,738	20,738
Total	**156,992**	**8,810**	**4,358**	**1,670**	**16,453**	**1,450**	**5,263**	**7,522**	**27,868**	**230,386**
Gap	**(97,725)**	**5,175**	**40,938**	**9,921**	**1,237**	**9,229**	**4,979**	**37,012**	**(10,766)**	**–**
Cumulative gap	**(97,725)**	**(92,550)**	**(51,612)**	**(41,691)**	**(40,454)**	**(31,225)**	**(26,246)**	**10,766**	**–**	

37 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 Division and the Credit Models and Reporting Division are directly responsible for credit risk management. Both are organisationally independent of the trade divisions and are accountable to the member of the Managing Board responsible for risk management, finance and controlling.

(a) Credit risk management at individual client level

The credit risk at client level is managed by analysing 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 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. In addition to its overdue period (if any), this system assesses the client's financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash-flow structure), quality of management, ownership structure, market position, quality of reporting, production equipment, etc.

If an external rating of the debtor prepared by a reputable 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 or her 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 client default for individuals 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, and assignment of high quality receivables. The Bank's assessment of the net realisable 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 realisable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realise 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 individual countries, industrial sectors, and connected groups of debtors and regularly monitors its exposure to different segments.

(c) Classification of receivables, impairment and provisions

The Bank categorises its receivables arising from financial activities on a monthly basis, in accordance with regulation no. 123/2007 of the CNB.
The Bank regularly assesses whether a possible permanent decrease of the balance sheet value of accounts receivable has occurred. If the Bank identifies such a decrease, it creates provisions for individual receivables or, as the case may be, portfolios of receivables, in accordance with 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 of the loan receivable, or its part, adequate to the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default.

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

Impairment of portfolio of loans

The Bank recognises impairment losses of the standard loans portfolio if it identifies a decrease in the 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 time 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 off-balance sheet items

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

(i) Provisions for 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 watched loan or a loan with debtor's default category and the Bank creates provisions for such loans.
Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off-balance sheet items 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 the existence of such receivable the conditions for ranking into watched loan or a loan with debtor's default category would be fulfilled.

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

(d) Recovery of receivables

The Bank has established a department to deal with the recovery of loans 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) minimisation of the loss from the loan (realisation of collateral, sale of receivable with a discount etc.),
d) prevention of further losses from the loan (comparison of future income and expenses).

38 OPERATIONAL RISK

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's organisational structure and its internal rules fully respect the separation of duties and prevent any conflict of interests. The Bank has developed a complex system of internal rules and regulations that govern and define the working processes and related control activities.

As part of the preparation for Basel II, in 2007 the Bank continued with the creation and implementation of a complex system for operational risk identification, monitoring and management, including the arrangements needed for system unification at the newly established Bank. In the fourth quarter a management directive was issued that updated the principles of operational risk management, measurement and control. The Operational Risk Committee subsequently approved the new organisational structure at the merged Bank. The Operational Risk Management Committee is the main control and decisive body regarding operational risk. Managing BoardAll members of the Managing Board are permanent members of the committee. The Operational Risk Division is an independent body that directly reports to the Managing Board member responsible for finance and operational risk management. The Operational Risk Division is entrusted with securing unified and coordinated operational risk management, congruent with the applicable regulation and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the particular departments. The Internal Audit Department identifies extraordinary trends, breach of or non-compliance with the directives, and assesses the control and management system functionality.

In order to ensure an effective operational risk monitoring, the Bank uses an on-line information system developed by the Bank Austria Creditanstalt Group. The system complies with the requirements for capital adequacy management in accordance with the new regulation of the Basel Committee on Banking Supervision. The data acquired through the system form one of the bases for the design of processes that will lead to a reduced number of particular events and the mitigation of their consequences. The data are also used for rechecking the reliability of the proposed measures for the operational risk mitigation. Data is collected continuously, in cooperation with the Bank's departments. All significant events are reported and resolved immediately. Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Bank's Managing Board, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or promptly, if needed.

In 2007, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) forms another important part of operational risk management. In 2007, the Bank updated the recovery plans (for crisis situations such as the floods in 2002) in order to ensure their full efficiency in the merged Bank. The updated recovery plans testing is planned for 2008. The Operational Risk Division is also increasing the overall awareness of operational risk in the Bank and trains the Bank's staff. An e-learning training "Basel II – operational risks" was launched in 2007.

The Bank met all the conditions necessary to calculate the capital requirement for operational risk under the standardized approach (TSA) as at 1 January 2008, i.e. as at the Basel II implementation date. At the same time, the Bank started preparation of the planned sequential implementation of the AMA advanced approach for capital requirement calculation. The parent bank, UniCredito Italiano, and Bank Austria Creditanstalt (part of the sub-consolidated Bank Austria Creditanstalt group) are sponsoring this project.

39 TRANSACTIONS WITH RELATED ENTITIES

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 manager of the Bank.

MCZK	31. 12. 2007	1. 10. 2006
Assets		
Receivables from banks	16,222	8,921
thereof:		
Bank Austria Creditanstalt AG	13,792	4,808
Bayerische Hypo- und Vereinsbank AG	639	–
HVB Banka Serbia and Montenegro	201	1,277
Unicredito Italiano, Milano	400	1,000
HYPO stavební spořitelna a.s.	360	–
Receivables from customers	5,697	7,958
thereof:		
BA/CA Leasing GmbH	4,623	5,183
HVB Reality CZ, s.r.o.	413	454
UniCredit Factoring s.r.o.	611	198
Managing Board	–	–
Management	13	28
Financial investments	1,695	1,215
Bank Austria Creditanstalt AG	348	–
HVB Jelzalogbank, Hungary	1,347	1,215
Total	**23,614**	**18,094**

MCZK	31. 12. 2007	1. 10. 2006
Liabilities		
Deposits from banks	16,836	10,850
thereof:		
Bank Austria Creditanstalt AG	10,881	2,222
Bayerische Hypo- und Vereinsbank AG	4,650	7,529
HYPO stavební spořitelna a.s.	16	2
Unicredito Milano	54	–
Deposits from customers	788	1,184
thereof:		
BA/CA Leasing GmbH	131	370
Pioneer Asset Management	413	–
HVB Reality CZ, s.r.o.	39	30
CAE PRAHA a.s. in the process of liquidation	1	2
Managing Board	–	38
Managements	6	61
Debt securities issued	1,704	1,731
HYPO stavební spořitelna a.s.	1,687	1,674
Pioneer Asset Management	17	–
Subordinated liabilities	1,000	1,663
Unicredito Milano	1,000	1,000
Bank Austria Creditanstalt AG	–	663
Total	**20,328**	**15,428**

MCZK	1. 10. 2006 – 31. 12. 2007
Revenues	
Interest income and similar income	637
thereof:	
Bank Austria Creditanstalt AG	190
UniCredit Leasing Vienna	135
BA/CA Leasing	50
Fee and commission expense	47
thereof:	
Bayerische Hypo- und Vereinsbank AG	16
Bank Austria Creditanstalt AG	13
Total	**684**

MCZK	1. 10. 2006 – 31. 12. 2007
Expenses	
Interest expenses and similar charges	669
thereof:	
Bayerische Hypo- und Vereinsbank AG	236
Bank Austria Creditanstalt AG	172
HYPO stavební spořitelna a.s.	83
Fee and commission expense	46
thereof:	
Bank Austria Creditanstalt AG	16
Bayerische Hypo- und Vereinsbank AG	7
General administrative expenses	1,073
thereof:	
Banking Transaction Services	251
UniCredit Servizi Informativi S.P.	734
Total	**1,788**

40 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, the market value of a group of financial instruments is not available. In such circumstances, the fair values are based on the management's estimates, discounted cash flows models or other commonly used valuation methods. Many of the methods mentioned above are characterised by certain levels of uncertainty; the fair value estimates cannot always be considered as market values, and, in many cases, these would not necessarily be achieved in selling a certain financial instrument. Changes of initial assumptions used in establishing fair value could have significant impact on this value determination.

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

MCZK	31. 12. 2007 Carrying amount	31. 12. 2007 Fair value	1. 10. 2006 Carrying amount	1. 10. 2006 Fair value
Financial assets				
Receivables from banks	47,549	47,549	42,117	42,116
Receivables from customers	153,187	166,476	141,823	141,983
Financial liabilities				
Deposits from banks	27,004	27,004	32,649	32,648
Deposits from customers	166,322	165,812	141,263	141,269
Debt securities issued	30,314	30,124	26,283	25,757
Subordinated liabilities	1,000	1,000	1,663	1,663

41 INCOME STATEMENT FOR COMPARABLE PERIODS

The following table presents income statement items relevant for the period from 1 January to 31 December 2007 and comparative information for the year 2006 prepared as the aggregated information from statutory financial statements of both banks for the period from 1 January 2006 to 30 September 2006 and for the merged bank for the period from 1 October 2006 to 31 December 2006.

MCZK	2007	2006	HVB Bank 1. 1. – 30. 9. 2006	Živnostenská banka 1. 1. – 30. 9. 2006	UniCredit Bank 1. 10. – 31. 12. 2006
Interest income and similar income	10,149	7,706	4,267	1,259	2,180
Interest expense and similar charges	(4,831)	(3,317)	(1,907)	(466)	(944)
Net interest income and similar income	**5,318**	**4,389**	**2,360**	**793**	**1,236**
Dividend income	252	235	229	6	–
Fee and commission income	3,453	3,037	1,813	402	822
Fee and commission expenses	(504)	(427)	(264)	(41)	(122)
Net fee and commission income	**2,949**	**2,610**	**1,549**	**361**	**700**
Net trading income	147	424	195	236	(7)
Net income from financial investments	(130)	(51)	(119)	–	68
Other operating income	234	244	104	105	35
General administrative expenses	(4,220)	(3,934)	(1,596)	(1,018)	(1,320)
Impairment of loans and receivables	(388)	(267)	(25)	(68)	(174)
Other operating expenses	(440)	(331)	(119)	(108)	(104)
Profit before tax	**3,722**	**3,319**	**2,578**	**307**	**434**
Current income tax	(766)	(753)	(487)	(149)	(117)
Deferred income tax	(18)	64	19	59	(14)
Profit for the period	**2,938**	**2,630**	**2,110**	**217**	**303**

42 SUBSEQUENT EVENTS

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Bank's financial statements as at 31 December 2007.

The Bank sold its 60% participation interest in its subsidiary HYPO stavební spořitelna a.s. on 7 March 2008 (see Note 17).

Auditor's report on the non-consolidated annual report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

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 UniCredit Bank Czech Republic, a.s.

Financial statements

On the basis of our audit, on 18 April 2008 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of UniCredit Bank Czech Republic, a.s., which comprise the balance sheet as of 31 December 2007, and the income statement the statement of changes in equity and the cash flow statement for the period from 1 October 2006 to 31 December 2007, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of UniCredit Bank Czech Republic, a.s. in accordance with Czech accounting legislation and in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

KPMG

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

Opinion

In our opinion, the financial statements present fairly in all material respects the assets, liabilities and the financial position of UniCredit Bank Czech Republic, a.s. of 31 December 2007, and its expenses, revenues and financial performance and its cash flows for the period from 1 October 2006 to 31 December 2007 in accordance with Czech accounting legislation 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 UniCredit Bank Czech Republic, a.s. for the 15 months period from 1 October 2006 to 31 December 2007. 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 Standard on Review Engagements 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 UniCredit Bank Czech Republic, a.s. for the 15 months period from 1 October 2006 to 31 December 2007 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited 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 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 financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

KPMG

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

Prague
28 April 2008

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner

Pavel Závitkovský
Partner
Licence number 69

Resolution of the sole shareholder of UniCredit Bank Czech Republic, a.s.

Bank Austria Creditanstalt AG, with its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Republic of Austria (Court File Number FN 150714 p), represented by Mag. Josef Duregger and Dr. Erhard Gehberger, **as the sole shareholder** of the commercial company UNICREDIT BANK CZECH REPUBLIC, A.S. (hereinafter referred to as the „Bank"), with the registered office at Prague 1, Na Příkopě 858/20, PSČ 111 21, Czech Republic, Id. No.64948242,

adopts hereby in exercising the powers of the general meeting of the Bank pursuant to Section 190 Par. 1 of Act No. 513/1991 Coll., as amended, the following

RESOLUTION

1. The Bank reported the following audited main non-consolidated financial results for the period from 1 October 2006 to 31 December 2007:

Total Assets:	CZK 268,935 million
Profit before Taxes:	CZK 4,157 million
Profit after Taxes:	CZK 3,241 million

2. The sole shareholder approves the final non-consolidated accounts stated under point 1) of this Resolution, which were audited by the company KPMG Česká republika Audit, spol. s r.o., Pobřežní 648/1a, Prague 8 (License number 71) and by the Auditor Pavel Závitkovský (License number 69).

In Vienna on 29 April 2008

BANK AUSTRIA CREDITANSTALT AG

Mag. Josef Duregger Dr. Erhard Gehberger

Supplementary information

Supplementary information published pursuant to §118 of Act No. 256/2004 Coll., on capital market undertakings, as amended

1 INFORMATION ABOUT UNICREDIT BANK AS AN ISSUER OF REGISTERED SECURITIES

1.1 Basic data

Business name:	UniCredit Bank Czech Republic, a.s.
Company identification no.:	64948242
Registered office:	Prague 1, Na Příkopě 858/20

UniCredit Bank Czech Republic, a.s. ("UniCredit Bank") as incorporated according to Czech law, and in particular pursuant to the Banking Act 21/1992 Coll., as amended.

UniCredit Bank was established for an indefinite period.

UniCredit Bank is duly entered in the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608 from 1 January 1996 to 31 December 1998 as Vereinsbank (CZ) a.s. – merged with HYPO-BANK CZ a.s. on 31 December 1998; from 31 December 1998 to 1 October 2001 as HypoVereinsbank CZ a.s. – merged with Bank Austria Creditanstalt Czech Republic, a.s.; from 1 October 2001 to 5 November 2007 as HVB Bank Czech Republic, a.s. – merged with Živnostenská banka, a.s. A banking licence was granted to UniCredit Bank by the Czech National Bank with effect from 1 January 1996 based upon decision ref. no. V 40/9-95 dated 14 September 1995.

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 15 months from 1 October 2006 to 31 December 2007 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

1.3 Administrative, managing and supervisory bodies

The Bank's bodies are the:

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

The General Meeting of Shareholders is the supreme body of the Bank. It decides on all matters of the Bank falling within its competence by law or under the Articles of Association.

The following activities belong within the General Meeting's exclusive competence:

a) deciding on changes in the Articles of Association if these are not changes resulting from an increase in registered capital by the Managing Board pursuant to §210 of the Commercial Code or on changes occurring on the basis of other legal facts;

b) deciding on increase or decrease of the registered capital, or on authorising the Managing Board pursuant to §210 of the Commercial Code, or on the possibility of setting off financial claims due to the Bank against a claim for payment of an issuance price;

c) deciding about a decrease of the registered capital and about issuing bonds pursuant to §160 of the Commercial Code;

d) electing and dismissing members of the Supervisory Board and other bodies established by the Articles of Association, with the exception of members of the Supervisory Board elected and dismissed pursuant to §200 of the Commercial Code;

e) approving the regular or extraordinary financial statements and consolidated financial statements, and, in cases established under law, interim financial statements; deciding on distributing profits or settling losses and setting of directors fees;

f) deciding on remunerating members of the Supervisory Board;

g) deciding on the listing of participating shares in the Bank under special legal regulations and about their withdrawal from trading on an official market;

h) deciding on winding up of the Bank with liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration, and approving the proposal for distributing the liquidation balance;

i) deciding on a merger, transfer of the assets to a single shareholder, or on division or a change of legal form;

j) approving contracts cited in §67a of the Commercial Code;

k) approving negotiations carried out in the name of the Bank before its incorporation pursuant to §64 of the Commercial Code;

l) approving controlling contracts (§190b of the Commercial Code), contracts on the transfer of profit (§190a of the Banking Act), and contracts on silent partnerships and their changes;

m) decisions on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation; and

n) decisions on other issues that the Commercial Code or Articles of Association entrust to the competence of the General Meeting.

1.4 Managing Board of UniCredit Bank

The Managing Board has four members who exercise their functions personally. Members of the Managing Board are elected by the Supervisory Board for the period of 3 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 relevant legal requirements may be appointed members of the Managing Board.

Ing. JIŘÍ KUNERT
Chairman of the Managing Board and Chief Executive Officer
Domicile: Pod Kaštany 1107/19, Prague 6
Born: 31 January 1953

Ing. DAVID GRUND
Vice-Chairman
First Deputy to the Chief Executive Officer
Domicile: K lukám 702, Šestajovice
Born: 24 February 1955

Dr. PETER KOERNER
Member of the Managing Board and Deputy to the Chief Executive Officer
Domicile: Pötzleinsdorfer Höhe 33, 1180 Vienna, Austria
Born: 18 May 1959
From 16 February 2005 also Statutory Executive of UniCredit Factoring, s.r.o.
From 7 November 2006 also Statutory Executive of HVB Reality CZ, s.r.o.

Ing. ALEŠ BARABAS
Member of the Managing Board and Deputy to the Chief Executive Officer
Domicile: U Dubu 1371, Prague 4
Born: 28 March 1959

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 UniCredit 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 3 years and may be re-elected.

CARLO VIVALDI, Born: 2 December 1965
Chairman
Vienna, Köhlergasse 17, Postal Code A-1180
Austria
Date of appointment to the office: 5 December 2007
Date of appointment as member of the Supervisory Board: 5 November 2007

CARMINE FERRARO, 14 December 1944
Vice-chairman of the Supervisory Board
Monza (MI), Via Monviso 33, Postal Code 200 52
Italy
Date of appointment to the office: 28 March 2007
Date of appointment as member of the Supervisory Board: 28 March 2007

CARLO MARINI, Born: 23 March 1968
Piacenza, Str. Ne Farnese 81, Postal Code 291 00
Italy
Date of appointment as member of the Supervisory Board: 5 November 2007

ELENA PATRIZIA GOITINI, Born: 15 June 1969
Milan, Via Fiori Chiari 14, Postal Code 201 25
Italy
Date of appointment as member of the Supervisory Board: 5 November 2007

THOMAS GROSS, Born: 17 August 1965
Starnberg-Söcking, Bründlwiese 1, Postal Code 823 19
Germany
Date of appointment as member of the Supervisory Board: 28 March 2007

Ing. JAKUB STÁREK, Born: 18 September 1972
Prague 4, Kamýk, Otradovická 731/11, Postal Code 140 00
Date of appointment as member of the Supervisory Board: 15 November 2006

HEINZ MEIDLINGER, Born: 6 September 1955
Kalmusweg 46 / Haus 107, Vienna, Austria
Date of appointment as member of the Supervisory Board: 30 July 2001

JAROSLAVA LAUROVÁ, Born: 2 September 1959
Amforová 1886, Prague 5
Date of appointment as member of the Supervisory Board: 3 June 2003

Ing. PAVEL ŠLAMBOR, Born: 12 March 1972
Černošická 614, Prague 5 - Lipence
Date of appointment as member of the Supervisory Board: April 2004

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. UniCredit 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. JANA RIEBOVÁ
Human Resources Division
From 1 March 2007
Institute of Chemical Technology Prague
17 years of experience in managing human resources and training
Domicile: Semonická 2173/4, Prague 9
Born: 14 June 1962

Ing. JAN CHVOJKA
Marketing and Communication Division
From 1 March 2007
University of Economics, Prague
11 years of experience in marketing
Domicile: Brusnicová 413, Květnice
Born: 27 March 1971

JUDr. IVANA BUREŠOVÁ
Legal Division
From 1 March 2007
Law Faulty of Charles University, Prague
31 years of experience in law
Domicile: Dlouhá 36/714, Prague 1
Born: 11 October 1953

Ing. JOSEF TYLL, CSC.
Internal Audit Division
From 1 March 2007
University of Economics, Prague
14 years of experience in internal audit in banking
Domicile: Kaštanová 662, Zeleneč
Born: 8 August 1947

RNDr. PAVEL SOBÍŠEK
Market Analysis Department
From 1 March 2007
Faculty of Mathematics and Physics of Charles University, Prague
17 years of experience in banking
Domicile: Okružní 231, Hostivice
Born: 12 February 1962

Ing. IVO POLIŠENSKÝ
Service Quality Department
From 1 October 2007
University of Economics, Prague
14 years of experience in banking
Domicile: Petržílova 23/3306, Prague 4
Born: 27 August 1970

Ing. JAROSLAV ŽAHOUREK
Retail Distribution Division
From 1 March 2007
Czech Technical University in Prague
13 years of experience in banking
Domicile: U Zvonařky 2536, Prague 2
Born: 30 May 1970

Mgr. JAKUB DUSÍLEK, MBA
Segment and Product Management for the Retail Banking Division
From 1 March 2007
Masaryk University, Brno
Sheffield Hallam University
12 years of experience in banking
Domicile: Krásnopolská 4323/15, Ostrava
Born: 17 December 1974

Ing. JAN TRONÍČEK
Private Banking Division
From 1 March 2007
University of Economics, Prague
6 years of experience in banking
Domicile: K Haltýři 689/18, Prague 8
Born: 30 August 1971

Ing. DANA CASIMATY
Retail Distribution Division – Alternative Distribution
From 1 September 2007
University of Economics, Prague
London Business School, London
15 years of experience in production strategy and product development
Domicile: Peckova 3, Prague 8
Born: 30 October 1968

Ing. MARTIN PIŠŤÁK
Retail Distribution Division – Majordomus
From 1 May 2007
Technical University of Ostrava
15 years of experience in banking
Domicile: Antonína Macka 4, Ostrava
Born: 23 February 1966

Ing. PETR KOMÁREK
Retail Distribution Division – Prague Region
From 1 May 2007
Czech University of Agriculture, Prague
15 years of experience in banking
Domicile: U Průhonu 231, Svojetice
Born: 8 September 1972

Ing. PAVEL ŠUPÍK
Retail Distribution Division – Bohemian Region
From 1 May 2007
Czech University of Life Sciences, Prague
17 years of experience in banking
Domicile: Okružní 217, Černožice
Born: 30 April 1969

JIŘÍ ŠTEGL
Retail Distribution Division – Moravian Region
From 1 May 2007
Secondary Technical School, Prague
16 years of experience in banking
Domicile: Malkovského 596, Prague 9
Born: 7 April 1962

Ing. DUŠAN HLADNÝ
Corporate Client Division
From 1 March 2007
University of Economics, Prague
16 years of experience in corporate banking
Domicile: Na Hřebenech II 3a, Prague 4
Born: 29 November 1964

Mgr. TOMÁŠ HRON
Regional Company Clients Division – Southeast
From 1 March 2007
Masaryk University Brno
13 years of experience in banking
Domicile: Lesní 729, Bílovice nad Svitavou
Born: 6 October 1970

Ing. PAVEL NĚMEJC
Regional Company Clients Division – Northwest
From 1 March 2007
University of Economics, Prague
21 years of experience in banking
Domicile: Družstevní 1658/4, Pilsen
Born: 9 March 1963

Ing. JANA KYTLICOVÁ
Trade and Export Finance Division
From 1 March 2007
University of Economics, Prague
22 years of experience in international trade
Domicile: Choceradská 3120/8, Prague 4
Born: 25 January 1956

Ing. Mgr. JAN HÁJEK
Commercial Real-Estate Finance Division
From 1 March 2007
University of Economics, Prague
Law Faulty of Charles University, Prague
11 years of experience in banking
Domicile: Na Břehu 897/1C, Prague 9
Born: 30 October 1973

Mgr. PAVEL KUBIČKA, MBA
Segment and Product Management for the Corporate Banking Division
From 1 March 2007
Law Faulty of Charles University, Prague
US Business School, Prague
9 years of experience in project management
Domicile: Liborova 14, Prague 6
Born: 21 May 1966

Ing. MARTIN VINTER
Treasury Sales Division
From 1 March 2007
University of Economics, Prague
12 years of experience in treasury
Domicile: Galandova 1237, Prague 6
Born: 22 December 1969

Ing. JIŘÍ KUPEC
Finance Division
From 1 March 2007
University of Economics, Prague
10 years of experience in banking
Domicile: Poznaňská 439/25, Prague 8
Born: 11 December 1975

Ing. TOMÁŠ HOLÍK
Controlling Division
From 1 March 2007
University of Economics, Prague
11 years of experience in controlling
and market risk monitoring
Domicile: Mirovická 25/1101, Prague 8
Born: 1 May 1971

Ing. PATRIK MAREŠ
Department of Assets and Liabilities Management
From 1 July 2005
University of Economics, Prague
11 years of experience in treasury
Domicile: Pařížská 98/17, Prague 1
Born: 15 February 1974

Mag. ALOIS BARTLHUBER
Credit Risk Management Division
From 1 March 2007
University of Economics, Vienna
19 years of experience in risk management
Domicile: K Botiči 8/1483, Prague 10
Born: 21 June 1962

Ing. ANTONÍN FIKRLE
Credit Modelling and Reporting Division
From 1 March 2007
University of Economics, Prague
9 years of experience in analysis and management of credit risk
Domicile: Hviezdoslavova 506/9, Prague 4
Born: 26 September 1974

Ing. MILAN ŘÍHA
Market Risk Division
From 1 March 2007
Czech Technical University in Prague
15 years of experience in treasury
Domicile: Splavná 1489, Prague 9
Born: 19 May 1966

Ing. PETR BARTEL
Operational Risk Division
From 1 March 2007
University of Economics, Prague
17 years of experience in banking
Domicile: Tenisová 13/956, Prague 10
Born: 30 October 1968

MASSIMILIANO FOSSATI
Global Banking Services Division
From 1 March 2007
Universitą Commerciale Luigi Bocconi
15 years of experience in banking
Domicile: Jungmannovo nám. 1, Prague 1
Born: 30 January 1968

1.7 Dividends and directors fees

In 2007, the Bank paid out dividends to its shareholder totalling CZK 650 million.

1.8 Scope of business activities according to the articles of association

The Bank's business activities include:

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 another party, 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, executing 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 UniCredit Bank Czech Republic, a.s. is Bank Austria Creditanstalt AG, having its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Austria.

Share capital: EUR 1,469,000,000

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

UniCredit 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.

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

UniCredit 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.

UniCredit Bank has neither acquired nor holds any of its own shares.

Information about the main shareholder

Bank Austria Creditanstalt (BA-CA), a member of the UniCredit Group, is among the largest banking groups in Europe, and it is the clear number one in the Austrian banking sector.

As a modern and dynamic universal bank, BA-CA provides its clients with access to international financial markets. Within the UniCredit Group, BA-CA is responsible for the growth region that is Central and Eastern Europe (CEE). BA-CA is the unrivalled number one in this region.

Leader on the Austrian market

With owner's equity in excess of EUR 13 billion, and with a 20% to 60% market share, BA-CA is by far and away the largest Austrian bank. Its clients include:
82% of large companies,
62% of medium companies, and
45% of small companies.
In Austria, the Bank has a network of 360 branches and a total of 11,000 employees.

History

BA-CA originated in a merger of several large and well-established Austrian banks. The history of these banks stretch back to 1855, when the "k.k. privilegirte Oesterreichische Credit-Anstalt für Handel und Gewerbe" banking establishment was first founded; to 1880, when the "k.k. privilegirte Oesterreichische Laenderbank" was created; and to 1905, the year in which the "Zentralsparkasse der Gemeinde Wien" was established.
In 1991, merger of the "Zentralsparkasse und Kommerzialbank" and the "Oesterreichische Laenderbank" together created Bank Austria. In 1997, Bank Austria then took over what was at that time the second-largest bank in Austria, Creditanstalt.
Since November 2005, BA-CA has been a member of the UniCredit Group. Through this union there was created a new and truly European bank, in which BA-CA plays a key role by virtue of its operations in the growth market of Central and Eastern Europe.

Recognised for its success

In recent years, BA-CA's results have been recognised by awards from renowned international financial journals on more than 250 occasions. Journals such as Euromoney and The Banker have time and again rated BA-CA as "Best bank" and "Bank of the Year". BA-CA, as well as its subsidiary banks in Central and Eastern Europe, has also been awarded many prizes in the areas of custody, trade finance, project finance and foreign currency transactions.
In accordance with the Articles of Association, the main shareholder may only influence UniCredit 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. UniCredit 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 AG, results from the directly owned portion of the issuer's shares. To prevent misuse of the control and controlling influence of the controlling entity, UniCredit 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.

2.2 Overview of changes in owner's equity

(All data as at 31 December, except for 2006)	2007	1. 10. 2006
Registered capital	5,124,716	5,124,716
Share premium	3,357,330	3,357,330
Mandatory reserve funds and risk funds	1,024,943	1,024,943
Other reserve funds and other funds from profit	1,824,157	1,824,157
Revaluation gains (losses)	(379,350)	(3,390)
Retained earnings	12,000,679	9,409,626
Total shareholder's equity	**22,952,475**	**20,737,382**

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 31 December 2007: CZK 30,313,999,308.63

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 the shareholders of BA-CA AG, and this was accepted by holders of 17.45% of the shares. Therefore, UniCredit holds, directly or indirectly through HVB, 94.98% of the 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.

Main shareholders of UniCredit (holding more than 2%)

UniCredit shareholders	Common shares	Shares in%
1. 1.Fondazione Cassa di Risparmio Verona, Vicenza, Belluno e Ancona	606,077,204	4.542%
2. Fondazione Cassa di Risparmio di Torino	505,858,753	3.791%
3. Gruppo Münich Re	355,530,913	2.664%
4. Carimonte Holding SpA	446,567,993	3.346%
5. Gruppo Allianz	319,137,270	2.392%
6. Credit Suisse Group	279,177,261	2.092%

A. UniCredit shareholder

Shareholder	Share in CZK	Share in %
Bank Austria Creditanstalt AG, Vienna	CZK 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%)
Unicredit Leasing a.s.	Prague 5, Radlická 14/3201	Bank Austria Creditanstalt Leasing GmbH, Vienna (100%)
Banking Transaction Services s.r.o.	Prague 1, Nové Město, Václavské náměstí 33/823, Postal Code 11000	Bank Austria Creditanstalt AG, Vienna (100%)

C. Subsidiaries

Company	Address	Partner / Shareholder (Share in %)
HYPO stavební spořitelna a.s.	Prague 1, Senovážné nám. 27	UniCredit Bank Czech Republic, a.s. (60%), Vereinsbank Victoria Bauspar AG, Munich (40%)
CAE PRAHA, a.s., in liquidation	Prague 5, nám. Kinských 602	UniCredit Bank Czech Republic, a.s. (100%)
HVB Reality CZ, s.r.o.	Prague 1, Staré Město, Revoluční 17/764	UniCredit Bank Czech Republic, a.s. (100%)
UniCredit Factoring s.r.o.	Prague 2, Italská 24	UniCredit Bank Czech Republic, a.s. (100%)

2.5. Information on trends

Since the date of presenting the last financial statements for the year ending 30 October 2006, no substantial negative changes have occurred to the issuer's outlook.

In the second half of 2007, the planned merger of HVB Bank with Živnostenská banka was completed. Together, the two banks gave rise to the fourth-largest Czech bank, which has total assets in excess of CZK 268 billion, around 60 branches and 200,000 clients. The new bank is part of the biggest banking group in Central and Eastern Europe, the UniCredit Group.

2.6 Profit forecast or estimates

The issuer has decided not to include a profit forecast 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

Remuneration in CZK	Total incomes	Salaries and remuneration	Annual bonuses	Non-monetary remuneration
Managing Board	30,771,487	22,070,619	7,290,961	1,409,907

Members of the Supervisory Board are not entitled to remuneration for executing their offices (see point 2.9 of the Principles of Remunerating the Issuer's Managers and Members of the Supervisory Board).

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 to support 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 top manager's classification system of the UniCredit Group, 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 "team target", which relates to the results of the Central and Eastern Europe division of the UniCredit Group and is adjusted by the resultant variable component of salaries depending upon fulfilment of the business targets for that division.

The variable component of managers' incomes amounts to 25–50% of their fixed remuneration.

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

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) is approved by the Bank's Supervisory Board. For MBO, the approval is based on a 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

	On behalf of the issuer		HYPO stavební spořitelna a.s.			On behalf of the consolidated unit			
(In CZK, inc. VAT)	Tax advisory	Audit	Tax advisory	Other advisory	Audit	Tax advisory	Other advisory	Audit	Total
KPMG	0	11,747,000		73,494	2,949,517	0	73,494	14,696,517	14,770,011
Deloitte Touche	927,428	0				927,428	0	0	927,428
Price Waterhouse	734 641	0				734,641	0	0	734,641
Ernst Young	369,090	0				369,090	0	0	369,090
PRK Tax Consulting, s.r.o.	0	0	941,007			941,007	0	0	941,007
Total	**2,031,160**	**11 747,000**	**941,007**	**73,494**	**2,949,517**	**2,972,167**	**73,494**	**14,696,517**	**17,742,178**

2.11 Major investments (in CZK 000)

Type of investment	2007	1 November 2006
Securities	**50,599,085**	**38,212,524**
thereof:		
Capital instruments for trading	87,472	553
Debt securities for trading	14,264,065	4,917,709
Capital instruments at fair value through profit or loss	2,902,643	2,561,460
Debt securities at fair value through profit or loss	6,459,616	3,631,035
Capital instruments available-for-sale	22,289	39,133
Debt securities available-for-sale	26,741,519	27,062,634
Interests in associated and controlled entities and in joint ventures	763	432,987
Debt securities held to maturity	0	0

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 UCB'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.

Investments into information technologies (IT) are not reported by the Bank directly. IT services are purchased on an outsourcing basis, and their extent and parameters are specified by contract and included into operating costs.

2.12 Major future investments other than financial investments (planned for 2008)

Other investments (other than financial investments)	CZK	323,990,000

Investments into information technologies (IT) are not reported by the Bank directly. IT services are purchased on an outsourcing basis, and their extent and parameters are specified by contract and included into operating costs.

2.13 Guarantees provided by the issuer

(In CZK 000)	31 December 2007	1 October 2006
Guarantees provided	18,823,027	14,664,257
Guarantees provided under L/Cs	944,944	1,871,900
Total	**19,767,970**	**16,536,157**

2.14 Revenues in the last two accounting periods

(In CZK 000)	31 December 2007
Interest income and similar income	12,329,510
Income from shares and participation interests	251,709
Commission and fee income	4,274,630
Total gross income	**16,855,849**

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:	Providing building society savings in accordance with §1 of Act No. 96/93 Coll., on building society savings and state support to building society savings, and performing activities listed under §9, para. 1 of Act No. 96/1993 (the Building Society Savings Act) Coll.: – a) acceptance of deposits from participants in building society savings schemes; – b) providing of loans to participants in building society savings schemes; – c) providing of state subsidies to individuals participating in building society savings schemes; – d) providing of loans to persons or 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 provided in compliance with §5, para. 5 of the Building Society Savings Act, and for loans specified in §89, para. 1a) of the Building Society Savings Act; – 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 provisions as at 31 Dec 2007:	Mandatory reserve fund: CZK 100,000,000
Net profit for 2007:	CZK 155,193,372
UCB's ownership in the company's registered capital:	60% (fully paid up)
Income in 2007 from the ownership interest:	CZK 79,218,000

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 regarding hardware and software, - Automatic data processing, - Database services, - Administration of computer networks.
Subscribed registered capital:	CZK 1,200,000
Amounts and types of provisions as at 31 Dec 2007:	The company does not publish financial statements.
Net profit for 2007:	The company does not publish financial statements.
UCB's ownership in the company's registered capital:	20% (fully paid up)
Income in 2007 from the ownership interest:	CZK 0

Company:	**CAE PRAHA a.s. in liquidation**
Registered office:	nám. Kinských 602, Prague 5
Company identification no.:	43004580
Subjects 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 provisions as at 31 Dec 2007:	CZK 0
Loss for 2007:	CZK -613,000
UCB's ownership in the company's registered capital:	100%
Income in 2007 from the ownership interest:	CZK 0

Company:	**HVB REALITY CZ, s.r.o.**
Registered office:	Revoluční 17/764, Prague 1
Company identification no.:	60465859
Subjects 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 provisions as at 31 Dec 2007:	Mandatory reserve fund: CZK 7,179,598
Net profit for 2007:	CZK 27,410,331
UCB's ownership in the company's registered capital:	100% (fully paid up)
Income in 2007 from the ownership interest:	CZK 0

Company:	**UniCredit Factoring, s.r.o.**
Registered office:	Italská 24/1583, Prague 2
Company identification no.:	27182827
Subjects 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 100,000,000
Amounts and types of provisions as at 31 Dec 2007:	Mandatory reserve fund: CZK 27,868
Net profit/loss for 2007:	CZK -2,128,858.82
UCB's ownership in the company's registered capital:	100% (fully paid up)
Income in 2007 from the ownership interest:	CZK 0

2.16 Issuer's business outlook through the end of the 2008 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	4,776,266
Financial assets held for trading	38,100,000
Receivables from banks	27,000,000
Receivables from customers	172,705,000
Financial investments	35,471,241
Intangible assets	4,095
Property, plant and equipment (including leasing)	1,138,000
Other assets	6,709,643
Total assets	**285,904,245**

Liabilities and Owner's Equity	
Deposits from banks	35,272,000
Deposits from customers	176,813,000
Debt securities issued	33,700,000
Financial liabilities held for trading	4,300,000
Provisions	190,000
Issued capital	5,124,716
Capital funds, reserve funds and other funds from profit	21,354,529
Other liabilities	8,150,000
Subordinated liabilities	1,000,000
Total liabilities and owner's equity	**285,904,245**

Income statement	
Interest income (banks, clients, government bodies)	6,317,289
Commission and fee income (banks, clients, government bodies)	2,757,000
Income from trading operations	67,189
Income from financial investments	792,641
Other operating expenses	-4,290,083
Other operating income	6,092
Net creation of adjustments and provisions	-739,000
Income tax	-775,958
Net profit/loss for the accounting period	**4,135,170**

2.17 General outline of trends in the issuer's activity from 31 December 2007 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 and business clients segment, and in line with its strategy, the bank offers high-quality service and products that meet the individual needs of the clients, including personal consultancy services. The principal targets of this segment are individuals from the so-called "Urban Money Class" (i.e. creditworthy urban clientele), as well as members of the so-called "freelance professions", other entrepreneurs and small companies. For these clients, the Bank has designated a coherent range of products: bank accounts and other transaction products, including direct banking, payment and credit cards, loans and other forms of financing, and a complete portfolio of investment products. Together with the branch network, for selected products and services there are also alternative possibilities for access to the Bank's services in co-operation with associated companies and a network of strategic partners.

3 ACTIVITIES

3.1 Key activities

Client group	Banking products and services
Corporate clients	Credit transactions Financing commercial real estate Project financing and structured financing Trade and export financing Documentary transactions Treasury & custody services Asset management EU funds Maintaining accounts and deposits Payment systems Electronic banking Direct banking SWIFT services Cash pooling Payment cards Card acquiring

Private clientele and business clientele:

Personal and business accounts and packages – Konto POHODA, Konto MOZAIKA, Konto KOMPLET, Konto EXKLUSIVE, Student Konto, BUSINESS Konto, Konto DOMOV (an account for housing co-operatives and owners associations), Konto PROFESE, and Konto PROFESE - Aesculap (an account for medical professionals);

Payment cards including insurance (debit, credit and partnership);
Internet, telephone and GSM banking;
Personal current account overdrafts and mortgages for operating capital and investment financing;
Savings and investment products (the Bank's own or in co-operation with Pioneer Investments);
Asset management and Art Banking;
Cash and money changing operations and supporting services.

LAUNCHING NEW PRODUCTS OR ACTIVITIES

BUSINESS Konto

In October 2007, UniCredit Bank introduced onto the market a new transaction account aimed at the business and small companies segment. Thanks to the variants offered within the BUSINESS Konto, business clients can all choose the accounts that are optimal for them with regard to the number of free transactions. That means clients can effectively manage their business finances according to their needs.

Personal accounts

From October 2007, UniCredit Bank is offering a new type of personal account, under the name Konto **MOZAIKA.** It allows a client to construct a bank account consisting of just those services that he or she really needs.

Mortgage loans

In fulfilling our strategy of perceiving each client as an individual, the Bank has introduced five new types of mortgage loans: INDIVIDUAL, START, PLUS, FLEXI and TWIN, whereby every client is provided with a tailor-made solution.

Credit cards

In 2007, UniCredit Bank began offering its own clients the Charity VISA Classic credit card, whereby the client may choose a foundation to whose account UniCredit Bank will send a specified charitable contribution following the card's activation and for every subsequent transaction carried out with the card.
All credit cardholders have access to the Online Card service, which is a type of internet banking providing information about card transactions.

Securities

In the securities area, clients were offered additional variants of their favourite structured bonds, and a series of zero-coupon bonds was again issued. The UCB HZL 6/17 and HVB HZL 5/12 bonds were issued for those investors preferring regular income.

GWS (Group Web Solution)

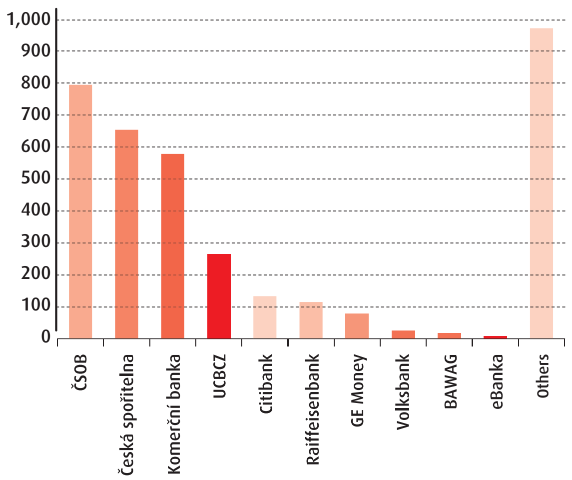
UniCredit Bank Czech Republic, a.s. has become a pilot country within the UniCredit Group which, in co-operation with foreign specialists, created a unique internet and telephone banking group solution that will be used also by other countries within the Group (the so-called GWS or Group Web Solution).
Examples of products within this solution include the **"internet banking family"**, which comprise made-to-measure network applications for individual client groups (i.e. the **Online Banking** application for both private individuals and business clients and the **BusinessNet** application that is designated especially for larger companies). It also includes the **Online Card** application that can be used by credit cardholders without any other of the Bank's products, **Telebanking** intended for individuals, and **Business Linka** for entrepreneurs and smaller firms.
Thanks to this solution, UniCredit Bank clients can now access their private and corporate accounts through the internet or telephone with the help of a single security system (the security token).

Branch network

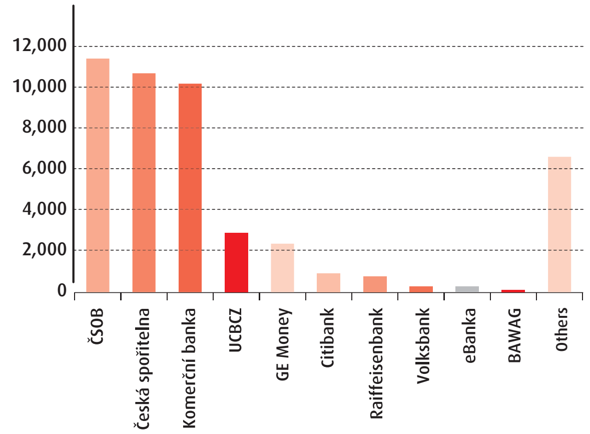
With more than 60 branches spread across the entire Czech Republic, UniCredit Bank's branch network covers all regions of the country.

3.2 Competitive position of the issuer

Total assets in CZK billions
As at 31 December 2007



Profit after tax in CZK millions
For year ending 31 December 2007



3.3 Risk factors

Risk factors are described in detail in the Notes to the non-consolidated and consolidated extraordinary financial statements, specifically in notes 37 (Market risk management), 38 (Credit risk management) and 39 (Operational risk).

Risks in relation to the issuer

Credit risk	Credit risk involves risk from losses due to uncollectible accounts receivable or deterioration in clients' credit ratings. Credit risk may be divided into risks of counterparties' failure to meet their obligations, country risk, and risk of deteriorating credit rating.
Market risk	Market risk takes in the possibility of negative value 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 to meet day-to-day payment obligations; structural liquidity risk, which relates to potentially 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 strategic risks, as well as regulatory, tax and real estate risks.

Risk factors in relation to the issuer

Managing market risk

a) Trading

The Bank holds trading positions in certain financial instruments, including financial derivatives. The majority of the Bank's business activities are conducted to satisfy 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 by quoting bid and ask prices, as well as by trading with other market makers. These positions are also held for the purpose of speculating on future market developments. The Bank's trading strategy is thus affected also by speculative expectations 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 interbank OTC markets 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 rate, equity and currency instruments and transactions that are sensitive to changes in financial market conditions.

Risk management in the Bank concentrates on managing the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by following 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 (so-called basis point value or BPV approach). 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 for financial market developments. Value at Risk is measured based on a one-day holding period and a 99% confidence level. The results of this model are back-tested daily and compared with the results of the actual changes in interest rates on the financial markets. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

Interest rate risk

The Bank is exposed to interest rate risk as a result of having interest-bearing assets and liabilities with different maturities or interest rate re-pricing periods and different volumes within those periods. In the event of a change in interest rates, the Bank is exposed to basis risk resulting from the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest on deposits, etc.

Interest rate risk management activities 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 interest sensitive assets and liabilities.

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

Interest rate risk limits have been established 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 that simulate their impacts on the Bank's financial results. The Bank has established 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 rate 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 being 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 intermediation activities.

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

The management of credit risk is actively shared by the Credit Risk Management and the Credit Modelling and Reporting divisions. Both of these divisions are organised independently of the business divisions and answer directly to the member of the Managing Board accountable for the Risk Management, Finance and Control divisions.

Credit risk management at individual client level

Credit risk at the 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 the client's capacity to meet future obligations, etc. The result of this analysis is, among other things, to establish a rating that reflects the probability of the client's default and takes into account both quantitative and qualitative factors. The analysis of creditworthiness and setting the credit exposure limits and rating are performed before the credit is granted to the client and then regularly during the ensuing credit relationship with the client.

The internal rating system comprises 27 rating levels. In assigning a client to the appropriate rating class, the Bank assesses (in addition to the possibility of payment default) financial ratios and indicators (such as the balance sheet structure, balance sheet ratios, profit and loss structure, cash flow), quality of management, ownership structure, market position of the client, quality of the client's financial reporting, its production equipment and facilities, etc.

If an external rating of the debtor prepared by a renowned rating agency is available, these rating results are also taken into account in assigning the debtor to the appropriate rating class. This rating does not, however, replace the Bank's internal rating system.

For receivables from individuals, the ability of the client to meet his or her obligation is determined using a standardised credit application scoring system based upon risk-relevant characteristics. The Bank also establishes and regularly updates the probability of individual client default using the behavioural scoring method.

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

In accordance with its credit risk management strategy, the Bank requires that collateral for all loans be provided (in accordance with the client's creditworthiness and the nature of the transaction) before the credit is granted. The Bank considers the following to be acceptable forms of collateral: cash, first-class securities, a bank guarantee from a creditworthy bank, a guarantee from a highly creditworthy non-banking entity, real estate, and assignment of high quality receivables. The Bank's assessment of the net realisable 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 realisable 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.

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 regularly monitors its credit exposure to individual economic segments, countries and economically connected groups of debtors.

Classification of receivables, impairment and provisions

The Bank regularly categorises the receivables arising from its financial activities in accordance with the Czech National Bank's Decree No. 123/2007 Coll.

The Bank regularly assesses whether or not there has been permanent decrease in the balance sheet value of its receivables. In case that the Bank identifies such a decrease, it creates provisions for the individual receivables or for the portfolio of receivables in accordance with 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 cover the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each loan rated watch or when the debtor is in default.

Individual impairment is calculated as the amount of the loss resulting from decrease of the loan's carrying amount, i.e. impairment loss is equal to the difference between the carrying amount (reduced by the material value of the collateral) and the discounted value of estimated future cash flows for the unsecured amount of the receivable.

Impairment of loan portfolios

The Bank recognizes impairment losses for the standard loans portfolio if it judges there to be a decrease in the portfolio's carrying amount. The impairment loss is established in the amount corresponding to the decrease in the carrying amount of the standard loans portfolio as a result of events that are expected to decrease the expected future cash flows from that portfolio.

Provisions are assigned to individual portfolios. They are not divided up and assigned to individual loan cases within a portfolio.

The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering the time lapse 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 standard receivables portfolio and the decrease in value is assessed in accordance with the principles used for individual receivables; that is, when a provision for the individual receivable is created).

Provisions for off-balance sheet items

The Bank creates provisions for selected off-balance sheet items, as follows:
(i) Provisions for off-balance sheet items related to the Bank's clients for which there are concurrently recorded particular balance sheet receivables of the Bank meeting the conditions for inclusion into classified loans categories and for which the Bank recognises losses.
Note: The Bank does not create such provisions for undrawn credit lines for credit cards issued.

(ii) Provisions for selected off-balance sheet items related to the Bank's clients for which the Bank does not record balance sheet receivables in a given period but for which in the case of their existence the conditions for inclusion into classified loans categories would be met.

(iii) Provisions for selected off-balance sheet items that are included into the portfolios. In creating such provisions, the Bank proceeds in the same way as if recognising impairment losses from portfolios of receivables.

Recovery of receivables

The Bank has established its own department to deal with recovering and restructuring loans in respect of receivables considered to be at risk. This department aims to achieve one or more of the following objectives:

a) "revitalisation" of the credit relationship by restructuring the loan and its subsequent reclassification as a standard receivable,
b) full repayment of the loan,
c) minimisation of the loss from the loan (realisation of collateral, sale of the account receivable at a discount, etc.), and
d) prevention against further losses from the loan (which means assessing the future costs in comparison with the probable future revenues).

Operational risk

Operational risk is risk of loss as a result of error, breach of or failure to uphold rules, or exceeding a limitation, as well as damages incurred through failure of internal processes, human or systems failure within the Bank, or due to external events.

The organisational structure of the Bank and its internal rules and regulations are set up in such a way as to fully respect the separation of incompatible functions and exclude conflicts of interest. Internal rules and regulations unambiguously establish the employees' duties and authorities, including the management of staff, organisation of working processes, and control of activities.

In connection with its preparations for Basel II, the Bank during 2007 continued in creating and adjusting a comprehensive system for the identification, monitoring and management of operational risk, including all steps necessary for unifying the system in the newly established bank. In the fourth quarter, the Bank published its top-level regulations integrating and updating the principles for management, measurement and control of operational risk in the consolidated bank. The main decision-making and control entity in operational risk management is the Operational Risk Management Committee, whose permanent members are all also members of the Managing Board. The Operational Risk Division is an independent unit, directly accountable to the member of the Managing Board responsible for finance and risk management and entrusted with providing for unified and co-ordinated decision making in regard to managing operational risk, in accordance with the regulations and the standards of the parent company. Actual monitoring and management of operational risk is undertaken by designated individuals within individual departments. The internal audit is the body that identifies exceptional trends, breaches of or failures to uphold rules and regulations, and evaluates the functionality of the direction and control systems.

For the effective collection of operational risk events and data, the Bank utilises an on-line information system that was developed by the Bank Austria Creditanstalt Group in accordance with the requirements for managing capital adequacy under the new rules and regulations of the Basel Committee for Bank Supervision. The recording of data is one of the main reasons for the proposed procedure, which helps reduce the occurrence of operational risk within individual departments and reduces its impact. The data are also used for checking back on the reliability of the system designed for limiting operational risk. Data collection through this system is carried on continuously and in co-operation with the Bank's individual organisational departments. All significant events are reported and resolved immediately. On the basis of the data collected, a consolidated report is produced at regular quarterly intervals, is presented to the Operational Risk Management Committee and is distributed within the Bank. The Bank's Managing Board, the Internal Audit, and the parent company are informed on a weekly basis about the most significant cases of operational risk or immediately when necessary.

During 2007, the Bank also undertook implementing scenario analysis and setting up risk indicators and risk limits. An important component of the system for managing operational risk is business continuity management (emergency planning, crisis management). In 2007, the recovery plan (for crisis situations such as the 2002 floods) was updated with the aim of ensuring its full workability and effectiveness under conditions within the integrated bank. Testing of the revised recovery plan is scheduled for 2008. The Operational Risk Division is continuously raises awareness about operational risk within the Bank and training staff. The Bank launched an e-learning course for all employees in 2007 entitled "Basel II – Operational Risk".

From 1 January 2008, the date of Basel II's implementation, all conditions had been fulfilled necessary to operate under the standardised approach (STA) of calculating capital adequacy for operational risk. At the same time, preparations were initiated for the planned gradual transition to the advanced measurement approach (AMA) of calculating capital adequacy. The parent company, UniCredito Italiano, is the guarantor of this project within the Bank Austria Creditanstalt sub-consolidated group.

3.4 Registered office of the issuer's organisational unit and description of real estate owned by the issuer

UniCredit Bank Czech Republic, a.s. has neither external operations nor separate organisational units.

UniCredit Bank owns six real estate properties:

Brno	Lidická 59
	Divadelní 545/2
Prague	Na Příkopě 858/20
Liberec	Široká 5/28
České Budějovice	Nám. Přemysla Otakara II. 122/35
Chata Horní Malá Úpa No. 2	Postal Code 542 27

3.5 Licence and trademarks

UniCredit Bank makes use of several dozen trademarks for designating and protecting its products in the banking market. These have been registered as owned by the Bank at the Industrial Property Office of the Czech Republic. At present, the Bank has approximately an additional 10 trademark applications in process for entry to the register.

3.6 Judicial, administrative and arbitration proceedings

UniCredit Bank is not and was not involved in any judicial, administrative or arbitration proceedings that had or could have a significant impact on the issuer's financial situation. Neither UniCredit 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

Creditor:	European Investment Bank, Luxembourg	
Debtor:	HypoVereinsbank CZ a.s.	
Loan amount:		CZK **940,000,000**
Interest rate:	PRIBOR – 0.05%	
Loan date:		15 Jun 1999
Maturity date:		15 Mar 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 Dec 2000
Maturity date:		15 Mar 2009
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 Jun 2001
Maturity date:		15 Jun 2009
Collateral:	No collateral*	

Creditor:	European Investment Bank, Luxembourg	
Debtor:	UniCredit Bank Czech Republic, a.s.	
Loan amount:		EUR **100,000,000**
		(disbursed USD **50,000,000**)
Interest rate:	EIB POOL RATE**	
Loan date:		17 Mar 2003
Maturity date:		15 Mar 2011 for portion already disbursed
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 UniCredit Bank Czech Republic, a.s., and this guarantee was also transferred to Bank Austria Creditanstalt AG, Vienna. Presently, all loans are guaranteed by Bank Austria Creditanstalt AG, Vienna.
**) EIB POOL RATE is an interest rate fixed by EIB on a quarterly basis.

Total amount of loans as at 31 December 2007 (disbursed amounts only) converted at exchange rates valid as at 31 December 2007	**CZK 3,186,400,000**

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 2007, no significant change has occurred in the financial situation of the issuer or the Group.

3.9 Significant contracts

The Bank has concluded no 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 declarions 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 in 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 and on relations between the controlled entities and other entities controlled by the same controlling entity

In accordance with §66a, para. 9 of Act No. 513/1991 Coll., the Banking Act, as subsequently amended, the Managing Board of **UniCredit Bank Czech Republic, a.s.,** having its registered address at Prague 1, Na Příkopě 858/20, identification no. 64948242, entered into the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608 ("UniCredit Bank"), has compiled a **report on relations** for the **accounting period from 1 October 2006 to 31 December 2007** (hereinafter just the "period").

UniCredit Bank (until 5 November 2007 HVB Bank Czech Republic, a.s. ["HVB"]), with its registered address at Náměstí Republiky 3a/2090), was, throughout the whole of the aforementioned accounting period, controlled by **Bank Austria Creditanstalt AG,** having its registered address at Vordere Zollamtsstrasse 13, 1030 Vienna, Austria ("BA-CA"). As at 5 November 2007, UniCredit Bank was merged with the company Živnostenská banka, a.s. ("Živnostenská banka"), having its registered address at Prague 1, Na Příkopě 858/20, company identification no. 00001368, which was controlled from the beginning of the accounting period up to 26 February 2007 by **UniCredito Italiano S.p.A.** ("UCI"), having its registered address at Via Dante 1, 16121 Genoa, Italy, and subsequently from 26 February 2007 by **Bank Austria Creditanstalt AG,** having its registered address at Vordere Zollamtsstrasse 13, 1030 Vienna, Austria.

The designation UniCredit Bank is used hereafter in the text for both HVB and Živnostenská banka. In view of the fact that during the aforementioned time up until 5 November 2007 the two companies entered into mutual contractual relations, in connection with those relations only the name HVB or Živnostenská banka is used.

Inasmuch 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 the Bank.

During the period, UniCredit Bank controlled the companies UniCredit Factoring s.r.o. (formerly HVB Factoring s.r.o.), company identification no. 27182827, having its registered address at Prague 2, Italská 24/1583, Postal Code 12000; HVB Reality CZ, s.r.o., company identification no. 60465859, having its registered address at Prague 1, Staré Město, Revoluční 17/764, Postal Code 11000; CAE Praha a.s. in liquidation, company identification no. 43004580, having its registered address at Prague 5, Nám. Kinských 602, Postal Code 15000; HYPO Stavební spořitelna a.s., company identification no. 61858251, Prague 1, Nové Město, Senovážné náměstí 27, Postal Code 11000; and Zivnostenska Finance B.V., having its registered address at Haaksbergweg Zuidoost, The Netherlands.

The Managing Board of UniCredit Bank declares that the following contractual relations existed between UniCredit Bank and parties related to it in the accounting period from 1 October 2006 to 31 December 2007:

1. Contacts concluded between Živnostenská banka, a.s. and HVB Bank Czech Republic, a.s. in the period from 1 October 2006 to 5 November 2007:

1.1 The following contracts were concluded between **Živnostenská banka, a.s.,** and **HVB Bank Czech Republic a.s.** from 1 October 2006 to 5 November 2007:

Contract title	Subject of contract	Date of conclusion
Contract on provision of main cash desk services	Outsourcing HVB's main cash desk services to ŽB	12 Jan 2007
Contract on protection of confidential information	Protection of confidential information	30 Apr 2007
Contract on intermediation of credit card debts and assignment of receivables	Intermediation of credit from card debts and assignment of related accounts receivable concluded between Živnostenská banka, a.s. and HVB Bank Czech Republic, a.s. in the period from 1 October 2006 to 5 November 2007:	30 Apr 2007
Contract on collaboration	Co-operation in selling HVB credit cards	30 Apr 2007
Merger contract	Merger	7 May 2007

2. Contracts concluded between UniCredit Bank and connected entities in the accounting period from 1 October 2006 to 31 December 2007:

2.1 The following contracts were concluded between UniCredit Bank and the Pioneer group in the accounting period from 1 October 2006 to 31 December 2007:

Pioneer investiční společnost, a.s.

Contract title	Subject of contract	Date of conclusion
Contract on processing of personnel data	Processing of personnel data	2 Oct 2006
Contract on promoting participation certificates for open-end mutual funds	Performance of activities in connection with offering participation certificates for mutual funds offered and issued by Pioneer investiční společností, a.s.	2 Oct 2006
Amendment no. 2 to the Contract on promoting participation certificates for open-end mutual funds	Performance of activities in connection with offering participation certificates for mutual funds offered and issued by Pioneer investiční společností, a.s.	20 Dec 2006
Amendment no. 3 to the Contract on promoting participation certificates for open-end mutual funds	Performance of activities in connection with offering participation certificates for mutual funds offered and issued by Pioneer investiční společností, a.s.	18 Jul 2007
Commission contract on providing for the buying and selling of securities	Establishing the terms under which HVB Bank Czech Republic, a.s. will provide for buying or selling securities for Pioneer investiční společnost, a.s.	5 Mar 2007
Contract on the performance of depositary services	Amending the conditions for the performance of depositary services for Pioneer 2 Guaranteed Fund, Pioneer investiční společnost, a.s., open-end mutual fund	18 May 2007
Commission contract on securing foreign currency futures and foreign currency swap operations	Amending the conditions under which HVB Bank Czech Republic, a.s. carries out foreign currency futures and swap operations for Pioneer investiční společnost, a.s.	30 Oct 2007

Contract title	Subject of contract	Date of conclusion
Termination agreement	Agreement on the termination of the enumerated contracts (contract on providing for trading in securities from 12 April 2002, contract on providing for trading in foreign securities from 12 April 2002, contract on distribution of participation certificates from the open-end mutual fund of Živnobanka and related services from 1 January 2006, and contract on processing of personnel data from 1 January 2006) concluded between Pioneer investiční společnost, a.s. and Živnostenská banka, a.s., as at 5 November 2007	5 Nov 2007
Contract on intermediation of participation in the short-term bond system (SBS) and providing for the buying and selling of securities conducted in the SBS	Amending the conditions on intermediating participation of Pioneer investiční společnost, a.s. in the short-term bond system (SBS) and providing for the buying, selling, and transfer of securities conducted in the SBS for Pioneer investiční společnost, a.s.	15 Nov 2007
Amendment no. 1 to the contract on performance of the depositary function from 9 August 2006	Amending the conditions on performance of depositary activities for the Pioneer Guaranteed Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function	Amending the conditions on performance of depositary activities for the FOUNDATIONS GROWTH FUND, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function	Amending the conditions on performance of depositary activities for the FOUNDATIONS BALANCED FUND, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 18 May 2007	Amending the conditions on performance of depositary activities for the Pioneer 2 Guaranteed Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 1 September 2006	Amending the conditions on performance of depositary activities for the Pioneer Dynamic Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 1 September 2006	Amending the conditions on performance of depositary activities for the Pioneer Equity Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 1 September 2006	Amending the conditions on performance of depositary activities for the Pioneer – Sporokonto, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 1 September 2006	Amending the conditions on performance of depositary activities for the Pioneer Growth Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function from 1 September 2006	Amending the conditions on performance of depositary activities for the Pioneer Bond Fund, Pioneer investiční společnost, a.s., open-end mutual fund	10 Dec 2007
Amendment no. 1 to the contract on performance of the depositary function From 9 January 2004	Amending the conditions on performance of depositary activities	10 Dec 2007

Pioneer Asset Management, a.s.

Contract title	Subject of contract	Date of conclusion
Contract for the RENTIER INVEST product	Performing activities in connection with offering the RENTIER INVEST product	2 Oct 2006
Contract on receiving and conveying instructions elated to investment instruments and their safe keeping	Amending the conditions on receiving and conveying instructions related to investment instruments and their safe keeping	6 Nov 2006
Contract on protection of confidential information	Protection of confidential information	13 Nov 2006
Mandate contract for settlement of securities trades	Amending the conditions on securing settlement of securities trades	16 Jan 2007
Contract on securities safe keeping and management	Amending the conditions on securities safe keeping and management	16 Jan 2007
Contract on intermediating management contracts	Amending the conditions on intermediating management contracts	19 Jan 2007
Commission contract on providing for the buying and selling of securities	Establishing conditions under which HVB Bank Czech Republic will provide for the buying and selling of securities for Pioneer Asset Management, a.s.	5 Mar 2007
Amendment no. 3 to the contract from 31 March 2003	Agreement on changes to the contract concluded between the contracting parties as at 31 March 2003	4 May 2007
Memorandum on trading with certain foreign securities	Amending the conditions for disposing with certain foreign securities	21 Jun 2007
Amendment no. 1 to the contract on securities safe keeping and management	Agreement on changes to the contract on securities safe keeping and management concluded between the contracting parties	22 Jun 2007
Amendment no. 1 to the mandate contract for settlement of securities trades	Agreement on changes to the mandate contract for settlement of securities trades	22 Jun 2007
Amendment no. 2 to the contract on securities safe keeping and management	Agreement on changes to the contract on securities safe keeping and management concluded between the contracting parties	29 Jun 2007
Commission contract on securing foreign currency futures and foreign currency swap operations	Establishing conditions under which HVB Bank Czech Republic, a.s. carries out foreign currency futures and swap operations for Pioneer Asset Management, a.s.	3 Aug 2007
Memorandum	Memorandum to the commission contract on securing foreign currency future and swap operations from 3 August 2007	9 Aug 2007
Amendment no. 4 to the contract on securities safe keeping and management	Agreement on changes to the contract on securities safe keeping and management concluded between the contracting parties	31 Oct 2007
Termination agreement	Agreement on the termination of the enumerated contracts (contract on providing for trading in securities from 22 December 2000, contract on providing for trading in foreign securities from 20 April 2001, contract on securities safe keeping and management from 29 June 2001, contract on settlement of securities trades from 19 December 2000, contract on intermediating management contracts from 31 April 2003, and the contract for the Rentiér Invest product from 1 June 2006) concluded between Pioneer Asset Management, a.s. and Živnostenská banka, a.s. as at 5 November 2007	5 Nov 2007

Contract title	Subject of contract	Date of conclusion
Amendment no. 2 to the mandate contract for settlement of securities trades	Agreement on changes to the mandate contract for settlement of securities trades	21 Nov 2007
Amendment no. 3 to the contract on securities safe keeping and management	Agreement on changes to the contract on securities safe keeping and management concluded between the contracting parties	21 Nov 2007

Pioneer Global Funds Distributor, LTD

Contract title	Subject of contract	Date of conclusion
Contract on distribution	Distribution of participation certificates	17 Oct 2006

Pioneer Investments Austria GmbH

Contract title	Subject of contract	Date of conclusion
Amendment no. 2 to the contract on place of sale from 10 December 2001	Contract on representation in the territory of the Czech Republic pursuant to §43, para. 2 of Act No. 189/2004 Coll.	5 Jan 2007

2.2 The following contracts were concluded between UniCredit Bank and **UniCredit Global Information Services** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Contract on services provision between HVB and UGIS CZ	Contract on services provision regarding information systems	29 Jun 2007
Contract on services provision between HVB and UGIS Italy	Contract on services provision regarding information systems	29 Jun 2007
Sublease agreement	Sublease of Revoluční 15	12 Dec 2007
Sublease agreement	Sublease of Revoluční 7	1 Jul 2007
Amendment no. 1 to the sublease agreement from 1 July 2007	Enlargement of rental space at Revoluční 7	15 Oct 2007
Amendment no. 1 to the lease agreement from 1 June 2006	Amendment on reducing the rental space at Na Příkopě 20	22 Oct 2007
Lease agreement	Lease of Revoluční 17	22 Oct 2007
Amendment no. 1 to the lease agreement	Change of rental space at Revoluční 17	1 Nov 2007
Purchase agreement ŽB + UGIS	Purchase/sale of movable property	31 Jan 2007
Purchase agreement ŽB + UGIS	Sale of non-active and active property	31 Dec 2007
Contract on transfer of rights and obligations	HVB + UGIS + Teledin s.r.o.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + Rewin s.r.o.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + Technologies s.r.o.	8 Jan 2007
Contract on transfer of rights and obligations	HVB + UGIS + Brain Force Software s.r.o.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + Dataya s.r.o.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + ITS a.s.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + IBM Česká republika s.r.o.	28 Jun 2007
Contract on transfer of rights and obligations	HVB + UGIS + BTS s.r.o.	28 Jun 2007

2.3 The following contracts were concluded between UniCredit Bank and **UniCredit Leasing a.s.** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
General contract ŽB + CAC FULL Service leasing s.r.o.	Supply of new fleet vehicles	25 May 2007

2.4 The following contracts were concluded between UniCredit Bank and **Banking Transaction Services s.r.o.** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Agreement on cancellation of the contract on provision of services between Živnostenská banka and BTS	Cancellation of the contract on provision of services between Živnostenská banka and BTS from 30 May 2006	31 Dec 2006
Contract on provision of services between Živnostenská banka and BTS	Contract on provision of back office services in the areas of the payments system and account maintenance	1 Jan 2007
Contract on provision of services between Živnostenská banka and BTS	Contract on provision of selected back office services regarding treasury	1 Jan 2007
Contract on provision of services between Živnostenská banka and BTS	Contract on provision of selected back office card services	1 Jan 2007
Amendment to the contract on co-ordination between Živnostenská banka and BTS	Amendment to the contract on co-ordination between Živnostenská banka and BTS from 30 May 2006	1 Jan 2007
Implementation of the ZB and HVB integration project	Co-operation in implementing the integration project between ZB and HVB	1 May 2007
Agreement on the cancellation of the contract on provision of services between HVB and BTS	Cancellation of the contract on provision of services between HVB and BTS	31 Dec 2006
Contract on provision of services between HVB and BTS	Contract on provision of back office services regarding the payments system and account maintenance	1 Jan 2007
Contract on provision of services between HVB and BTS	Contract on provision of selected back office services regarding treasury	1 Jan 2007
Contract on provision of services between HVB and BTS	Contract on provision of an information system for processing foreign payments	1 Jan 2007
Amendment to the contract on co-ordination between HVB and BTS	Amendment to the contract on co-ordination between HVB and BTS	1 Jan 2007
Amendment to the contract on provision of services between HVB and BTS	Amendment to the contract on provision of services (EU Funds)	1 Apr 2007
Amendment to the contract on provision of services between HVB and BTS	Amendment to the contract on provision of services (Custody)	1 May 2007

Contract title	Subject of contract	Date of conclusion
Agreement on cancellation of contracts on provision of services and contracts on co-operation between Živnostenská banka and BTS and between HVB and BTS	Agreement on cancellation of all existing contracts on provision of services and contracts on co-operation between Živnostenská banka and BTS and between HVB and BTS	5 Nov 2007
Contract on provision of services between UniCredit bank and BTS	Contract on provision of back office services regarding the payments system and account maintenance	5 Nov 2007
Contract on provision of services between UniCredit bank and BTS	Contract on provision of selected back office services regarding treasury	5 Nov 2007
Contract on provision of services between UniCredit bank and BTS	Contract on provision of selected back office services regarding payment cards	5 Nov 2007
Contract on provision of services between UniCredit bank and BTS	Contract on provision of the information system for payments processing	5 Nov 2007
Contract on co-ordination	Contract on co-ordination and co-operation in securing outsourced back office activities (i.e. contract referring to all the aforementioned contracts between UniCredit Bank and BTS on the provision of back office services)	5 Nov 2007
Agreement on the termination of a sublease contract from 1 June 2006	Agreement on the termination of the sublease contract for Na Příkopě 20	31 Dec 2007
Amendment no. 1 to the sublease contract	Modification of the rental space in Revoluční 15	1 Jan 2007
Agreement on termination of a sublease contract	Agreement on termination of the sublease contract for Revoluční 15	31 Dec 2007
Amendment no. 1 to the sublease contract	Modification of the rental space at Revoluční 7	1 May 2007
Agreement on termination of a sublease contract	Agreement on termination of the sublease contract for Revoluční 17	31 Dec 2007
Sublease contract	Sub-leasing of the 3rd and 4th floors of VN 33	1 Jul 2007
Sublease contract	Sub-leasing of a cellar of VN 33	1 Jul 2007
Notice of termination to the contract for a cellar	Notice of termination of the contract for a cellar as at 31 October 2007	31 Oct 2007

2.5 The following contract was concluded between UniCredit Bank and **UniCredit Factoring s.r.o.** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Agreement on transfer of rights and obligations regarding labour relations	Transfer of employees associated with the transfer of a part of the employer's activities	1 Nov 2007

2.6 The following contracts were concluded between UniCredit Bank and **HVB Reality CZ, s.r.o.** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Amendment no. 7 to the lease contract concluded on 30 June 1997	Change to rental space at Revoluční 17	22 Oct 2007
Amendment no. 8 to the lease contract concluded on 30 June 1997	Change to rental space at Revoluční 17	1 Nov 2007

2.7 The following contract was concluded between UniCredit Bank and **BA-CA Administration Services GmbH** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
SWIFT SLA	Contract on the provision of additional SWIFT services regarding: - administration of authorised SWIFT keys - distribution of SWIFT user rules	18 Dec 2007

2.8 The following contract was concluded between UniCredit Bank and **Bank Austria Creditanstalt AG** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Contract on purchase of securities	Živnostenská banka, a.s. sold shares of UniBank a.s.	8 Jan 2007

2.9 The following contract was concluded between UniCredit Bank and **UniCredito Italiano S.p.A.** in the accounting period from 1 October 2006 to 31 December 2007:

Contract title	Subject of contract	Date of conclusion
Contract on sale of shares	Živnostenská banka, a.s. sold shares to UniCredit Leasing Romania IFN S.A.	16 Feb 2007

2.10 In addition to the aforementioned contracts, in the accounting period from 1 October 2006 to 31 December 2007 UniCredit Bank concluded inter-bank, derivative and other transactions with related entities under usual trading terms and conditions.

3. Performance provided in the accounting period from 1 October 2006 to 31 December 2007 by UniCredit Bank with related entities and their **consideration:**
The Managing Board of UniCredit Bank declares that, in the accounting period from 1 October 2006 to 31 December 2007, all performance and consideration between UniCredit Bank and its related entities were provided through usual business relationships or under usual trading terms and conditions.

4. Other legal acts that were undertaken by UniCredit Bank in the interest of related entities:
The Managing Board of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 October 2006 to 31 December 2007, undertake in the interest of related entities other legal acts, apart from those within the scope of usual legal acts in connection with usual business relationships, or, as the case may be, of usual legal acts effected by UniCredit Bank within the usual exercise of the rights of UCI or BA-CA as the successive sole shareholders of UniCredit Bank.

5. Other measures that were adopted or taken by UniCredit Bank in the interest of, or at the instigation of, related entities, and their benefits and disadvantages:
The Managing Board of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 October 2006 to 31 December 2007, adopt or execute any measure in the interest of, or at the instigation of, related entities outside of those within the scope of usual business relationships or, as the case may be, of the usual exercise of the rights of the sole shareholder of UniCredit Bank.

6. Detriment to UniCredit Bank from contracts concluded and measures:
The Managing Board of UniCredit Bank declares that no detriment resulted for UniCredit Bank from the contracts concluded and other measures.

In Prague, this day _____________ 2008

On behalf of the Managing Board of UniCredit Bank

Managing Board, Supervisory Board

MEMBERS OF THE MANAGING BOARD AS AT 31 DECEMBER 2007:

Chairman of the Managing Board:

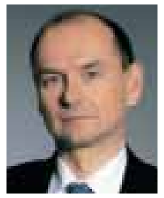
Ing. Jiří Kunert, Born: 31 January 1953
Prague 6, Bubeneč, Pod Kaštany 1107/19,
Postal Code 160 00
Date of appointment to the office: 5 November 2007
Date of appointment to the Managing Board:
1 April 2007

Vice-chairman of the Managing Board:

Ing. David Grund, Born: 24 February 1955
Šestajovice, K lukám 702
Date of appointment to the office: 5 November 2007
Date of appointment to the Managing Board:
1 October 2001

Member of the Managing Board:

Dr. Peter Koerner, Born: 18 May 1959
A-1180 Vienna, Pötzleinsdorf Höhe 33
Austria
Date of appointment to the Managing Board:
1 December 2004



Member of the Managing Board:

Ing. Aleš Barabas, Born: 28 March 1959
Prague 4, U Dubu 1371, Postal Code 140 00
Date of appointment to the Managing Board:
1 April 2007

MEMBERS OF THE MANAGING BOARD WHO RESIGNED FROM THEIR OFFICES BETWEEN 1 OCTOBER 2006 AND 31 DECEMBER 2007:

Member of the Managing Board:

Mgr. Friederike Kotz, Born: 22 November 1962
Döblinger Hauptstrasse 11, DG 29, 1190, Vienna, Austria
Date of appointment to the office: 1 November 2006
Date of resignation from the office: 28 March 2007

Member of the Managing Board:

Christian Suppanz, Born: 27 December 1950
Member of the Managing Board and Executive Director
Meidlinger Hauptstr. 7, 11 20 Vienna, Austria
Date of appointment to the office: 1 July 2005
Date of resignation from the office: 31 October 2006

MEMBERS OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 2007:

Chairman of the Supervisory Board:

Carlo Vivaldi, Born: 2 December 1965
Vienna, Köhlergasse 17, Postal Code A-1180, Austria
Date of appointment to the office: 5 December 2007
Date of appointment as member of the Supervisory Board: 5 November 2007

Vice-chairman of the Supervisory Board:

Carmine Ferraro, Born: 14 December 1944
Monza (MI), Via Monviso 33, Postal Code 200 52, Italy
Date of appointment to the office: 28 March 2007
Date of appointment as member of the Supervisory Board: 28 March 2007

Member:

Carlo Marini, Born: 23 March 1968
Piacenza, Str. Ne Farnese 81, Postal Code 291 00, Italy
Date of appointment as member of the Supervisory Board: 5 November 2007

Member:

Elena Patrizia Goitini, Born: 15 June 1969
Milan, Via Fiori Chiari 14, Postal Code 201 25, Italy
Date of appointment as member of the Supervisory Board: 5 November 2007

Member:

Thomas Gross, Born: 17 August 1965
Starnberg-Söcking, Bründlwiese 1, Postal Code 823 19, Germany
Date of appointment as member of the Supervisory Board: 28 March 2007

Member:

Heinz Meidlinger, Born: 6 September 1955
Kalmusweg 46/Haus 107, 1220 Vienna, Austria
Date of appointment as member of the Supervisory Board: 30 July 2001

Member:

JUDr. Jaroslava Laurová, Born: 2 September 1959
Prague 5, Amforová 1886, Postal Code 155 00
Date of appointment as member of the Supervisory Board: 3 June 2003

Member:

Ing. Pavel Šlambor, Born: 12 March 1972
Prague 5, Černošická 614, Postal Code 155 31
Date of appointment as member of the Supervisory Board: 21 April 2004

Member:

Ing. Jakub Stárek, Born: 18 September 1972
Prague 4, Kamýk, Otradovická 731/11, Postal Code 140 00
Date of appointment as member of the Supervisory Board: 15 November 2006

MEMBERS OF THE SUPERVISORY BOARD WHO RESIGNED FROM THEIR OFFICES BETWEEN 1 OCTOBER 2006 AND 31 DECEMBER 2007:

Chairman of the Supervisory Board:	Mag. Dr. Johann Strobl, Born: 18 September 1959 Walbersdorf, Hauptstrasse 37, Postal Code 7210, Austria Date of appointment to the office: 28 March 2007 Date of resignation from the office: 3 August 2007 Date of appointment as member of the Supervisory Board: 28 March 2007 Date of resignation from the office: 3 August 2007
Member:	Robert Zadrazil, Born: 16 October 1970 Polgarstrasse 21/4, A-1220 Vienna, Austria Date of appointment as member of the Supervisory Board: 1 February 2005 Date of resignation from the office: 23 October 2007
Member:	DDr. Regina Prehofer, Born: 2 August 1956 Adolfstorgasse 49/2/7, 1130 Vienna, Austria Date of appointment as member of the Supervisory Board: 30 January 2004 Date of resignation from the office: 28 March 2007
Member:	Mgr. Friederike Kotz, Born: 22 November 1962 Döblinger Hauptstrasse 11, DG 29, 1190 Vienna, Austria Date of appointment to the office: 21 March 2002 Date of resignation from the office: 30 October 2006
Member:	Helmut Bernkopf, Born: 10 May 1967 A-1180 Vienna, Hockegasse 85/4, Austria Date of appointment as member of the Supervisory Board: 6 December 2004 Date of resignation from the office: 28 March 2007
Member:	Harald Vertneg, Born: 26 June 1959 A-1130 Vienna, Felixgasse 21, Austria Date of appointment as member of the Supervisory Board: 7 September 2004 Date of resignation from the office: 23 October 2007

Václav Kiml / Včelíny – Beehives / 1990 – partial view

Branches


ÚSTÍ NAD LABEM (1)
TEPLICE (1)
CHOMUTOV (1)
LIBEREC (2)
KARLOVY VARY (2)
MLADÁ BOLESLAV (1)
HRADEC KRÁLOVÉ (2)
PILSEN (2)
PRAGUE (24)
PARDUBICE (1)
OPAVA (1)
OSTRAVA (3)
OLOMOUC (1)
TÁBOR (1)
PÍSEK (1)
JIHLAVA (1)
ZLÍN (1)
PROSTĚJOV (1)
ČESKÉ BUDĚJOVICE (2)
KROMĚŘÍŽ (1)
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Brno – Spielberk
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Tel.: 221 114 052
Fax: 221 154 002

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Vladimír Novák / Dvě postavy na vzdáleném horizontu – Two figures on a distant horizon / 1997 – partial view

Financial Group UniCredit 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 UniCredit Bank Czech Republic, a.s. (UCB) is comprised of HYPO stavební spořitelna a.s., HVB Reality CZ, s.r.o. and UniCredit Factoring s.r.o. Through these 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.

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

UniCredit Bank decided to discontinue its operations in the building society savings segment and sold its 60% ownership interest share in HYPO stavební spořitelna a.s. The contract on sale of the shares was signed on 19 November 2007. The contract conditions were fulfilled on 7 March 2008, at which time the purchaser, the Raiffeisen Group, actually took over control.

In 2007, a total of 47,783 contracts was concluded and approved (including increased contract amounts) with an overall target amount of CZK 9.98 billion. HYPO stavební sporitelna a.s. is progressively meeting its targets in its credit-related activities. Especially due to its active credit policy and improvement in its lending process, 2007 was a very successful year for HYPO stavební spořitelna with regard to lending. The company provided 3,679 loans totalling more than CZK 869 million (growth of 68.2%).

Key financial characteristics of the company (CZK 000):	31 Dec 2007	30 Sep 2006
Registered capital	500,000	500,000
Equity	526,771	812,903
Total assets	32,893,422	29,094,180
Net profit/loss	155,193	126,603

HVB Reality CZ, s.r.o.

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

Key financial characteristics of the company (CZK 000):	31 Dec 2007	30 Sep 2006
Registered capital	570,212	570,212
Equity	137,878	73,046
Total assets	573,085	539,278
Net profit/loss	27,411	10,820

UniCredit Factoring, s.r.o.

UniCredit Bank owns 100% of this company. The company offers services in purchasing, financing, administering and collecting of accounts receivable.

Key financial characteristics of the company (CZK 000):	31 Dec 2007	30 Sep 2006
Registered capital	100,000	50,000
Equity	98,404	52,508
Total assets	1,658,577	905,713
Net profit/loss	(2,129)	2,475

Key financial indicators on a consolidated basis

(IFRS audited)
(The results are for the accounting period from 1 October 2006 to 31 December 2007)

	MCZK
Information about capital	
Tier 1	20,445
Tier 2	1,000
Tier 3	–
Deductible items	(264)
Total consolidated capital	21,181
Information about capital requirements	
Capital requirement for credit risk	17,038
Capital requirement for settlement risk	–
Capital requirement for position, foreign exchange and commodity risk	592
Capital requirement for risk exposure of trading portfolio	–
Capital requirement for other trading portfolio instruments	–
Key ratios	
Capital adequacy ratio	**9.61%**
Return on average assets	1.20%
Return on average equity	15.40%
Assets per employee	191.0
Administrative expenses per employee	3.5
Profit after tax per employee	2.1

Consolidated financial statements

Consolidated income statement

For the fifteen-month period ended 31 December 2007	Note	1. 10. 2006–31. 12. 2007 MCZK	1. 1. 2006–30. 9. 2006 MCZK
Interest income and similar income	7	12,339	6,337
Interest expense and similar charges	7	(5,737)	(3,024)
Net interest income and similar income		**6,602**	**3,313**
Dividend income	8	173	172
Fee and commission income	9	4,292	2,434
Fee and commission expense	9	(637)	(398)
Net fee and commission income		**3,655**	**2,036**
Net trading income	10	140	431
Net income from financial investments	13	(62)	(119)
Other operating income	12	371	215
General administrative expenses	11	(5,558)	(2,735)
Impairment of loans and receivables	17	(561)	(112)
Other operating expenses	12	(562)	(238)
Profit before income tax		**4,198**	**2,963**
Current income tax	29	(884)	(636)
Deferred income tax	29	(23)	78
Profit for the period excluding discontinued operations		**3,291**	**2,405**
Profit from discontinued operations for the period	5	90	0
Profit for the period		**3,381**	**2,405**
Majority interest		3,317	2,354
Minority interest		64	51

Consolidated balance sheet

As at 31 December 2007	Note	31. 12. 2007 MCZK	1. 10. 2006 MCZK
Assets			
Cash in hand and balances with central banks	14	1,720	1,494
Financial assets held for trading	15	18,159	8,204
Receivables from banks	16	47,189	42,561
Receivables from customers	17	152,163	143,119
Financial investments	18	36,127	57,726
Property, plant and equipment	19	1,662	1,912
Intangible assets	20	6	213
Deferred tax assets	29	403	346
Other assets	21	11,834	2,379
Non-current assets held for sale	5	31,211	–
Total assets		**300,474**	**257,954**
Liabilities			
Deposits from banks	23	26,983	32,815
Deposits from customers	24	166,283	168,003
Debt securities issued	25	28,653	24,608
Financial liabilities held for trading	26	5,194	3,472
Provisions	27	652	440
Deferred tax liability	29	0	8
Other liabilities	28	16,467	5,697
Subordinated liabilities	30	1,000	1,663
Liabilities directly associated with non-current assets held for sale	5	32,007	–
Total liabilities		**277,239**	**236,706**
Shareholder's equity			
Issued capital	31	5,125	5,125
Share premium	31	3,357	3,357
Reserve funds	32	2,849	2,849
Reserves from revaluation of financial instruments - continuing operations		(379)	(8)
Reserves from revaluation of financial instruments - discontinued operations		(194)	–
Retained earnings	33	12,267	9,600
Total shareholder's equity		**23,025**	**20,923**
Minority interest		210	325
Total shareholder's equity and minority interest		**23,235**	**21,248**
Total liabilities, shareholder's equity and minority interest		**300,474**	**257,954**

Consolidated statement of changes in equity

For the fifteen-month period ended 31 December 2007 MCZK	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of hedging instruments	Reserves from revaluation of available-for sale securities (contin. operations)	Reserves from revaluation of available-for sale securities (discontin. operations)	Retained earnings	Share-holder's equity without minority interest	Minority interest	Share-holder's equity and minority interest
Balance at 1 January 2006	**6,485**	**1,997**	**1,099**	**1,824**	**(340)**	**488**	**–**	**7,172**	**18,725**	**374**	**19,099**
Change in revaluation of available-for-sale securities						(298)			(298)	(58)	(356)
Change in fair value of cash flow hedge derivatives					142				142	–	142
Unrealized gains/losses booked into equity					**142**	**(298)**	**–**		**(156)**	**(58)**	**(214)**
Dividends paid									–	(42)	(42)
Transfer to statutory reserve fund			93					(93)	–	–	–
Net profit for the period 1 January 2006 – 30 September 2006								2,354	2,354	51	2,405
Balance at 30 September 2006	**6,485**	**1,997**	**1,192**	**1 824**	**(198)**	**190**	**–**	**9,433**	**20,923**	**325**	**21,248**
Transfer of issued capital of Živnostenská banka	(1,360)	1,360							–	–	–
Partial transfer of statutory reserve fund of Živnostenská banka			(167)					167	–	–	–
Balance at 1 October 2006	**5,125**	**3,357**	**1,025**	**1,824**	**(198)**	**190**	**–**	**9,600**	**20,923**	**325**	**21,248**
Change in revaluation of available-for-sale securities						(390)	(189)		(579)	(126)	(705)
Net amount of available-for-sale securities transferred to income statement						(13)			(13)	–	(13)
Change in fair value of cash flow hedge derivatives					7				7	–	7
Net amount of cash flow hedge derivatives transferred to income statement					20				20	–	20
Unrealized gains/losses booked into equity					**27**	**(403)**	**(189)**		**(565)**	**(126)**	**(691)**
Dividends paid								(650)	(650)	(53)	(703)
Others						5	(5)		–	–	–
Net profit for the period 1 October 2006 – 31 December 2007 (continuing operations)								3,227	3,227	–	3,227
Net profit for the period 1 October 2006 – 31 December 2007 (discontinued operations)								90	90	64	154
Balance at 31 December 2007	**5,125**	**3,357**	**1,025**	**1,824**	**(171)**	**(208)**	**(194)**	**12,267**	**23,025**	**210**	**23,235**

Consolidated cash flow statement

For the fifteen-month period ended 31 December 2007	1. 10. 2006–31. 12. 2007 MCZK	1. 1. 2006–30. 9. 2006 MCZK
Net profit for the period	**3,291**	**2,405**
Adjustments for non-cash items		
Impairment of loans and receivables	561	112
Impairment of intangible assets and property, plant and equipment	(27)	(7)
Impairment of other assets	34	1
Impairment of participation interests	1	2
Creation and release of other provisions	143	(46)
Depreciation of property, plant and equipment and intangible fixed assets	367	346
Deferred tax	23	(78)
Operating profit before change in operating assets and liabilities	**4,393**	**2,735**
Financial assets held for trading	(10,112)	(47)
Loans and receivables from banks	(4,728)	3,115
Loans and receivables from customers	(9,385)	(17,661)
Other assets	(8,759)	1,020
Deposits from banks	(5,932)	(927)
Deposits from customers	(1,820)	11,203
Financial liabilities held for trading	1,722	92
Other liabilities	10,770	329
Net cash flows from operating activities	**(23,851)**	**(141)**
Change in financial investments	21,482	(5,570)
Proceeds from sale of property, plant and equipment and intangible fixed assets	225	88
Acquisition of property, plant and equipment and intangible fixed assets	(309)	(227)
Net cash flows from investing activities	**21,398**	**(5,709)**
Dividends paid	(650)	–
Dividends paid to minority shareholders	(53)	(42)
Debt securities issued	4,045	3,990
Repaid subordinated liabilities	(663)	(16)
Net cash flows from financing activities	**2,679**	**3,932**
Cash and cash equivalents at the beginning of the period	**1,494**	**3,412**
Net cash flows from operating activities	(23,851)	(141)
Net cash flows from investing activities	21,398	(5,709)
Net cash flows form financing activities	2,679	3,932
Cash and cash equivalents at the end of the period	**1,720**	**1,494**
Income tax paid	1,111	607
Interest received	12,668	6,205
Interest paid	(6,783)	(3,822)
Dividends received	173	172

Notes to the consolidated financial statements

1 BACKGROUND

UniCredit Bank Czech Republic, a.s. ("the Bank") was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. on 1 October 2006. All rights and obligations of the dissolved company Živnostenská banka, a.s. were assumed by the continuing company, HVB Bank Czech Republic a.s. The change of name and other changes connected with the merger were recorded on 5 November 2007 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:

Na Příkopě 858/20
113 80 Prague 1

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

The main activities of the Bank are as 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 for its own account or on behalf of clients:
  1.with foreign exchange currency products,
  2.with forward and option contracts, including foreign currency and interest rate contracts, and
  3.with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing clients' securities including portfolio management;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information;
- renting of safe-deposit boxes.

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

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

2 BASIS OF PREPARATION

On 17 December 2005 UniCredito Italiano S.p.A., Milano ("UCI") acquired a 93.93% share in Bayerische Hypo- und Vereinsbank AG, Mnichov ("HVB"), which at that time owned a 77.5% share in HVB Bank Czech Republic through Bank Austria Creditanstalt AG, Vienna ("BACA"). At the same time, UCI owned Živnostenská banka, a.s. in the Czech Republic. The merger of the two banks in the Czech Republic took place as a consequence of including HVB group in the UCI group. The effective date of the merger was 1 October 2006. The opening balance sheet of the Bank was issued as at this date.

These financial statements have been prepared for the accounting period from 1 October 2006 to 31 December 2007, i.e. 15 months, in accordance with regulatory requirements. The opening balance sheet data is used as comparative information for the balance sheet items. The aggregated data, which is based on statutory financial statements of both banks for the period from 1 January 2006 to 30 September 2006, is used as comparative information for the income statement, statement of changes in equity and statement of cash flow.

The Bank has also prepared comparative income statements for the 12-month periods of years 2007 and 2006 and that are presented in Note 42.

These 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 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). Recognised 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 amortised 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 managements of the entity's financial and operating policies without being able to exercise a controlling influence). The consolidated financial statements include the Bank's shares on total recognised 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 price less impairment losses.

Transactions between the companies in the Group and mutual balances and non-realised profits from relations in the Group are eliminated in the consolidated financial statements. The unrealised profits from transactions with associated companies are eliminated in the amount of 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 recognised 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 recognised 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 recognised 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 recognised in the Group income statement.

The Group recognises 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 recognised in Equity.

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

The Group initially recognises 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 amortised 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 amortised 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 prices 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.

The Bank's management believes that the fair values of the assets and liabilities presented within the financial statements are reliably measurable.

(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 recognised 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 recognised 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 recognised directly in equity as "Change in revaluation of available-for-sale securities". When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement as "Net income from financial investments". Interest income from available-for-sale debt securities is recognised 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 amortised cost are recognised in the income statement when the financial asset or liability is derecognised or impaired (see Note 3(g)), and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised when the Group losses 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 realised, expire or are surrendered. A financial liability is derecognised when it is settled.

Available-for-sale assets and assets recognised at fair value through profit and loss that are sold are derecognised and the corresponding receivables from the buyer are recognised 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 derecognised 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 recognised assets and liabilities or unrecognised 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 recognised 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 recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in equity in "Reserves from revaluation of hedging instruments". The ineffective part of the hedge is recognised 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 recognised in equity are transferred to the income statement at the same time 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 recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised 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 recognised in the balance sheet.

(e) Borrowing and lending of securities

Investments lent under securities lending arrangements or sold under repurchase agreements continue to be recognised 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 recognises a loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security.

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

As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Group recognises loans and advances to either banks or customers. The receivables are shown as collateralised 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 recognised 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 recognised 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 recognised 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 ratings 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 the portfolio as at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly and the loss is recognised in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognised 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 recognised directly in equity, the cumulative loss is transferred to the income statement and recognised 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 recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent of the impairment. Any additional impairment loss is recognised in the income statement. Impairment losses recognised 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 stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

Buildings	30 – 50 years
Technical improvement of buildings protected as a cultural heritage	15 years
Technical improvement of rented premises	10 years
Air conditioning equipment	5 years
Machinery and equipment	4 – 5 years
Bank vaults	20 years
Fixtures and fittings	6 years
Motor vehicles	4 years
IT equipment	4 years
Software and intangible assets	2 – 6 years
Low value tangible assets	2 years

Gains and losses on disposal are determined based on the net book value and are included in "Other operating income". The costs of repair, maintenance and technical improvement are expensed as they are incurred. The technical improvement exceeding the legal limits is capitalised. The fixed assets acquired before 2007 are depreciated based on the remaining useful life, determined in accordance with the original depreciation plans.

(i) Provisions

A provision represents a probable outflow of an uncertain amount in an uncertain period of time. Provisions are recognised 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 recognised 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 amortisation of any discount or premium, relevant transaction costs 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 a 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 recognised when the corresponding service is provided.

(l) Dividend income

Dividend income is recognised 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 recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(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.

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.

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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

These disclosures supplement the commentary on financial risk management (see note 37 and 38).

(a) Key sources of estimation uncertainty

(i) Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(b)(iii).

The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Collectively assessed impairments cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the impairment depends on how well these future cash flows for specific counterparies are estimated and on the quality of the model assumptions and parameters used in determining collective impairment.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that these meet the description of trading assets and liabilities set out in accounting policy 3(b)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that these have met one of the criteria for this designation set out in accounting policy 3(b)(i).

Details of the Bank's classification of financial assets and liabilities are given in note 3(b)(i).

(ii) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

5 DISCONTINUED OPERATIONS

The Bank decided to withdraw from the building savings segment and sell its 60% participation interest in HYPO stavební spořitelna, a.s. The sale was concluded on 19 November 2007. Contract conditions were satisfied on 7 March 2008, which is the date of effective control takeover by the counterparty – Raiffeisen group Bausparkassen Holding.

Profit from the discontinued building savings segment is shown in "Profit from discontinued operations for the period".

Income and expenses related to discontinued operations, continued operations and total income and expenses are following:

		1. 10. 2006–31. 12. 2007	
MCZK	Discontinued operations	Continued operations	Total
Interest income and similar income	1,456	12,339	13,795
Interest expense and similar charges	(1,243)	(5,737)	(6,980)
Net interest income and similar income	**213**	**6,602**	**6,815**
Dividend income	–	173	173
Fee and commission income	391	4,292	4,683
Fee and commission expense	(190)	(637)	(827)
Net fee and commission income	**201**	**3,655**	**3,856**
Net trading income	–	140	140
Net income from financial investments	–	(62)	(62)
Other operating income	15	371	386
General administrative expenses	(319)	(5,558)	(5,877)
Impairment of loans and receivables	9	(561)	(552)
Impairment of loans and receivables	(22)	(562)	(584)
Profit from discontinued operations before income tax	**97**		
Current income tax	(8)		
Deferred income tax	1		
Profit from discontinued operations for the period	**90**		

Assets and liabilities related to discontinued operations are following:

MCZK	31. 12. 2007
Cash in hand and balances with central banks	263
Receivables from banks	1,471
Receivables from customers	2,537
Financial investments	25,664
Property, plant and equipment	80
Intangible assets	83
Deferred tax assets	69
Other assets	1,044
Total assets	**31,211**

MCZK	31. 12. 2007
Deposits from customers	30,441
Provisions	2
Other liabilities	1,564
Total liabilities	**32,007**

Cash flows related to discontinued operations are following:

MCZK	1. 10. 2006–31. 12. 2007
Net cash flows from operating activities	25,956
Net cash flows from investing activities	(25,693)
Net cash flows form financing activities	–
Net cash flows from discontinued operations	**263**

6 CONSOLIDATED COMPANIES

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

					Share of the Group	
Name	Registered office	Business activity	Date of acquisition	Acquisition price	31. 12. 2007	1. 10. 2006
UniCredit Factoring s.r.o.	Prague	factoring	26. 10. 2004	100	100%	100%
HVB Reality CZ, s.r.o.	Prague	realty services	30. 12. 2004	21	100%	100%

Participation interests also included 60% share in HYPO stavební spořitelna a.s. as at 1 October 2006. Book value of this share amounted MCZK 360. Since the contract for sale of this participation interest was signed on, the book value is recognised in balance sheet as discontinued operations (see Note 5).

UniCredit Factoring s.r.o. increased issued capital by MCZK 50 as at 13 November 2007.

7 NET INTEREST AND SIMILAR INCOME

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Interest income and similar income:		
Balances with the central bank	1,104	350
Loans and receivables from banks	295	390
Loans and receivables from customers	9,105	4,072
Financial investments	1,800	1,569
Other	23	–
Net income from fair value hedging of loans and deposits	12	(44)
Interest income and similar income	**12,339**	**(6,337)**
Interest expense and similar charges:		
Deposits from banks	(1,011)	(685)
Deposits from customers	(3,577)	(1,716)
Debt securities issued	(1,104)	(655)
Net income from fair value hedging of deposits	–	48
Subordinated liabilities	(45)	(16)
Interest expense and similar charges	**(5,737)**	**(3,024)**
Net interest and similar income	**6,602**	**3,313**

8 DIVIDENDS INCOME

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Dividends income		
From subsidiaries	4	-
From investment certificates classified as securities at fair value through profit and loss not held for trading	169	166
Other	–	6
Total dividend income	**173**	**172**

9 NET FEE AND COMMISSION INCOME

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Fee and commission income from		
Securities transactions	208	67
Management, administration, deposit and custody services	222	132
Loans	529	336
Payment services	1,022	598
FX transactions	1,646	710
Payment cards	627	341
Operations connected with the provision of building savings	–	215
Other	38	35
Fee and commission income	**4,292**	**2,434**
Fee and commission expense from		
Securities transactions	(128)	-
Management, administration, deposit and custody services	(1)	(43)
Loans	(37)	(46)
Payment services	(27)	(25)
Payment cards	(394)	(187)
Operations connected with the provision of building savings	–	(92)
Other	(50)	(5)
Fee and commission expenses	**(637)**	**(398)**
Net fee and commission income	**3,655**	**2,036**

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 revaluating transactions denominated in foreign currency. FX commission is included in "Net fee and commission income" as this income represents significant continuous income from payment transactions and currency exchange transactions with customers of the Group.

10 NET TRADING INCOME

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Net realised and unrealised gain/loss from securities held for trading	(5)	38
Net realised and unrealised gain/loss from derivatives held for trading	(291)	26
Net realised and unrealised gain/loss from spot transactions with foreign currency and from revaluation of receivables and liabilities denominated in foreign currency	436	367
Net trading income	**140**	**431**

11 GENERAL ADMINISTRATIVE EXPENSES

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Personnel expenses		
Wages and salaries paid to employees	(1,641)	(814)
Social and health insurance	(699)	(281)
	(2,340)	**(1,095)**
Including wages and salaries paid to:		
Members of the Managing Board	(26)	(33)
Other executives	(106)	(90)
	(132)	**(123)**
Other administrative expenses		
Rent and building maintenance	(549)	(280)
Information technologies	(990)	(367)
Promotion and marketing	(481)	(163)
Materials	(77)	(157)
Expense for audit, legal and tax advisory	(95)	(45)
System of payments	(277)	(85)
Services	(358)	(184)
Other	(51)	(20)
	(2,878)	**(1,301)**
Depreciation of property, plant and equipment	(282)	(206)
Depreciation of intangible fixed assets	(85)	(140)
Impairment loss from tangible and intangible assets	(5)	(4)
Release of impairment loss from tangible and intangible assets	32	11
	(340)	**(339)**
Total general administrative expenses	**(5,558)**	**(2,735)**

Social and health insurance includes employees' pension supplementary insurance paid by the Group in the amount of MCZK 13. Information about bonuses tied to equity is included in Note 32.

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

	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Employees	1,573	1,769
Members of the Managing Board	5	7
Members of the Supervisory Board	6	17
Other executives	24	28

12 OTHER OPERATING INCOME AND EXPENSES

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Income from ceded and written-off receivables	13	15
Income from rent	151	14
Release of other provisions	72	68
Release of provisions for off-balance sheet items	70	4
Release of impairment of other assets	–	1
Use of other provisions	5	1
Income from litigations settlement	24	–
Income from sale of fixed assets	–	88
Other	36	24
Total other operating income	**371**	**215**
Deposits and transactions insurance	(146)	(87)
Creation of other provisions	(184)	-
Impairment of other assets	(19)	(1)
Creation of reserves for off-balance sheet items	(161)	(30)
Loss on disposal of fixed assets	(20)	(81)
Other expenses for employees	–	(20)
Write-off of other assets	(9)	(1)
Other	(23)	(18)
Total other operating expenses	**(562)**	**(238)**

13 NET INCOME FROM FINANCIAL INVESTMENTS

MCZK	1. 10. 2006–31. 12. 2007	1. 1.–30. 9. 2006
Net gain/loss from available-for-sale and held to maturity securities	(118)	–
Net gain/loss from hedging against risk of changes in fair value of available-for-sale securities	(1)	3
Net gain/loss from securities at fair value through profit and loss	58	(120)
Impairment of participation interest	(1)	(2)
Total gain from financial investments	**(62)**	**(119)**

14 CASH IN HAND AND BALANCES WITH CENTRAL BANK

(a) Continued operations

MCZK	31. 12. 2007	1. 10. 2006
Cash in hand	1,612	1,120
Obligatory minimum reserves	92	246
Other balances at central banks	16	128
Total	**1,720**	**1,494**

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

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

(b) Discontinued operations

MCZK	31. 12. 2007	1. 10. 2006
Cash in hand	6	–
Obligatory minimum reserves	257	–
Total	**263**	**–**

15 FINANCIAL ASSETS HELD FOR TRADING

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return held for trading	14,263	4,918
Shares and other securities with a variable rate of return held for trading	88	1
Fair value of financial derivatives held for trading	3,808	3,285
Total	**18,159**	**8,204**

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

MCZK	31. 12. 2007	1. 10. 2006
Issued by government sector	14,263	1,121
Total	**14,263**	**1,121**

All bonds held for trading are listed on public markets.

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

MCZK	31. 12. 2007	1. 10. 2006
Issued by financial institutions	2	–
Issued by non-financial institutions	86	1
Total	**88**	**1**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31. 12. 2007	1. 10. 2006
Interest rate contracts	994	1 112
Currency contracts	853	534
Equity contracts	1,957	1,639
Commodity contracts	4	–
Total	**3,808**	**3,285**

For the Group's business strategy related to financial assets held for trading see Note 37.

16 RECEIVABLES FROM BANKS

(a) Continued operations

(i) Analysis of receivables from banks by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts at other banks	1,725	2,532
Loans and receivables from banks	12,736	25,837
Term deposits	32,728	14,192
Total receivables from banks	**47,189**	**42,561**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**47,189**	**42,561**

(ii) Subordinated receivables from banks

The Bank granted a subordinated loan to another bank, totalling TEUR 7,500 in 2004. The subordinated loan balance as at 31 December 2007 was of MCZK 200 (as at 1 October 2006: MCZK 213). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, the interest rate is determined based on the particular EURIBOR rate.

(iii) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2007	1. 10. 2006
Czech Republic	18,965	32,602
European Union	27,051	7,836
Others	1,173	2,123
Total receivables from banks	**47,189**	**42,561**

(b) Discontinued operations

(i) Analysis of receivables from banks by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts at other banks	1,471	–
Total receivables from banks	**1,471**	**–**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**1,471**	**–**

(ii) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2007	1. 10. 2006
Czech Republic	1,471	–
Total receivables from banks	**1,471**	**–**

17 RECEIVABLES FROM CUSTOMERS

(a) Continued operations

(i) Analysis of receivables from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Loans to clients	154,478	145,122
Receivables from promissory notes	–	71
Total receivables from customers	**154,478**	**145,193**
Impairment losses of receivables from customers	(2,315)	(2,074)
Net receivables from customers	**152,163**	**143,119**

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 26 (as at 1 October 2006: MCZK 21). Included in these amounts are loans that have not been adjusted for interest accruals in the amount of MCZK 158 (as at 1 October 2006: MCZK 313). In case of applying accrued principal on interest income from these loans the Bank would recognise MCZK 8 as interest income for the accounting period.

(ii) Classification of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Receivables not impaired		
Standard	145,552	136,897
Receivables impaired		
Watch	6,256	6,292
Substandard	1,053	579
Doubtful	489	412
Loss	1,128	1,013
Total receivables from customers	**154,478**	**145,193**

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 (including cash flow from realised collateral).

(iii) Analysis of receivables from customers by sector

MCZK	31. 12. 2007	1. 10. 2006
Financial institutions	22,121	14,167
Non-financial institutions	105,804	106,207
Government sector	188	594
Non-profit organisations	467	314
Self-employed	1,238	830
Resident individuals	16,064	15,256
Non-residents	8,596	7,825
Total loans and receivables from customers	**154,478**	**145,193**

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

MCZK	31. 12. 2007	1. 10. 2006
Personal guarantee	439	20
Bank and similar guarantee	11,288	17,451
Mortgage	48,905	56,962
Corporate guarantee	8,790	768
Other types of security	538	1,358
Security held by the Bank	5,018	10,676
Unsecured	79,500	57,958
Total receivables from customers	**154,478**	**145,193**

(v) Analysis of receivables from customers by business activity

MCZK	31. 12. 2007	1. 10. 2006
Realty services	46,556	40,850
Financial services	22,396	16,876
Wholesale	14,269	17,473
Household services	16,745	15,412
Retail	4,914	6,130
Leasing	1,018	3,847
Others	48,580	44,605
Total receivables from customers	**154,478**	**145,193**

(vi) Impairment of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Impairment of individual receivables from customers	(1,301)	(1,394)
Impairment of portfolios of standard receivables from customers	(1,014)	(680)
Total impairment of receivables from customers	**(2,315)**	**(2,074)**

MCZK	
Balance as at 1 October 2006	(1,925)
Creation during the current year	(1,784)
Release during the current year	1,223
Net effect on income statement	(561)
Receivables written off	143
FX differences	28
Balance of impairment of receivables from customers as at 31 December 2007	**(2,315)**

(b) Discontinued operations

(i) Analysis of receivables from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Loans to clients	2,547	–
Other	18	–
Total receivables from customers	**2,565**	**–**
Impairment losses of receivables from customers	(28)	–
Net receivables from customers	**2,537**	**–**

(ii) Classification of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Standard	2,498	–
Watch	36	–
Substandard	8	–
Doubtful	2	–
Loss	21	–
Total receivables from customers	**2,565**	**–**

(iii) Analysis of receivables from customers by sector

MCZK	31. 12. 2007	1. 10. 2006
Non-financial institutions	5	–
Government sector	4	–
Resident individuals	2,556	–
Total loans and receivables from customers	**2,565**	**–**

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

MCZK	31. 12. 2007	1. 10. 2006
Mortgage	466	–
Other types of security	1,205	–
Security held by the Bank	417	–
Unsecured	477	–
Total receivables from customers	**2,565**	**–**

(v) Analysis of receivables from customers by business activity

MCZK	31. 12. 2007	1. 10. 2006
Others	2,565	–
Total receivables from customers	**2,565**	**–**

(vi) Impairment of receivables from customers

MCZK	31. 12. 2007	1. 10. 2006
Impairment of individual receivables from customers	(24)	–
Impairment of portfolios of standard receivables from customers	(4)	–
Total impairment of receivables from customers	**(28)**	**–**

18 FINANCIAL INVESTMENTS

(a) Continued operations

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

MCZK	31. 12. 2007	1. 10. 2006
Available-for-sale securities	26,763	38,516
Held-to-maturity securities	–	13,016
Financial assets at fair value through profit and loss	9,363	6,192
Non-consolidated subsidiaries and associated companies	1	2
Total	**36,127**	**57,726**

(ii) Analysis of available-for-sale securities

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	14,127	11,041
Issued by non-financial institutions	4,028	2,363
Issued by government sector	8,586	25,073
Total	**26,741**	**38,477**
Shares and other securities with a variable rate of return		
Issued by financial institutions	–	32
Issued by non-financial institutions	22	7
Total	**22**	**39**
Total available-for-sale securities	**26,763**	**38,516**
Thereof:		
Listed	25,715	34,977
Unlisted	1,048	3 539

(iii) Analysis of held-to-maturity securities

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	–	1,810
Issued by non-financial institutions	–	868
Issued by government sector	–	10,338
Total held-to-maturity securities	**–**	**13,016**

All securities held into maturity are listed on public markets.

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

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	4,191	2,638
Issued by non-financial institutions	1,941	719
Issued by government sector	328	274
Total	**6,460**	**3,631**
Shares and other securities with a variable rate of return		
Issued by financial institutions	2,903	2,561
Total	**2,903**	**2,561**
Total of securities at fair value through profit and loss	**9,363**	**6,192**
Thereof:		
Listed	6,426	3,593
Unlisted	2,937	2,599

(v) Non-consolidated subsidiaries and associated companies

Name	Registered office	Business activity	Date of Acquisition	Acquisition price	Net book value	Share of the Bank 31. 12. 2007	Share of the Bank 1. 10. 2006
CAE PRAHA a.s. in the process of liquidation	Prague	lease of real estate	27.6.2003	78	1	100%	100%
CBCB - Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0,24	0,24	20%	20%

As at 31 December 2007 the amount of impairment of participation interests totaled MCZK 7 (1 October 2006: 7 MCZK).

According to group management, the consolidation of final account of CAE PRAHA a.s. in the process of liquidation should not have any important impact for consolidated final account and since the decision was made not to include this company to consolidation group. Liquidation of the company is expected in 2008.

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.

In 2007 the Bank sold its subsidiary Zivnostenska Finance B.V., incorporated in the Netherlands.

(b) Discontinued operations

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

MCZK	31. 12. 2007	1. 10. 2006
Available-for-sale securities	14,835	–
Held-to-maturity securities	10,829	–
Total	**25,664**	–

(ii) Analysis of available-for-sale securities

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	201	–
Issued by government sector	14,634	–
Total	**14,835**	–
Total available-for-sale securities	**14,835**	–

All available for sale securities are listed on public markets.

(iii) Analysis of held-to-maturity securities

MCZK	31. 12. 2007	1. 10. 2006
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	1,504	–
Issued by non-financial institutions	251	–
Issued by government sector	9,074	–
Total held-to-maturity securities	**10,829**	–

All securities held into maturity are listed on public markets.

19 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

MCZK	Land and buildings	Equipment	Furniture and fittings	Other non-oper. property	Fixed assets not yet in use	Total
Cost						
At 1 October 2006	3,607	1,246	416	3	14	5,291
Additions	39	74	4	–	63	180
Disposals	(150)	(379)	(57)	–	(11)	(597)
Other	(76)	(72)	33	–	–	(115)
At 31 December 2007	3,420	869	404	3	66	4,762
Depreciation						
At 1 October 2006	(1,537)	(1,045)	(340)	(3)	–	(2,925)
Charge for the year	(165)	(96)	(21)	–	–	(282)
Disposals	71	355	31	–	–	457
Other	6	49	(21)	–	–	34
At 31 December 2007	(1,625)	(737)	(351)	(3)	–	2,716
Impairment						
At 1 October 2006	(457)	–	–	–	–	(457)
Creation	(5)	–	–	–	–	(5)
Release	32	–	–	–	–	32
Use	46	–	–	–	–	46
At 31 December 2007	(384)	–	–	–	–	(384)
Net book value						
At 1 October 2006	1,613	201	84	–	14	1,912
At 31 December 2007	**1,411**	**132**	**53**	**–**	**66**	**1,662**

Movement in item "Others" relates to the property, plant and equipment transferred into "Non-current assets held for sale" (see Note 5).

20 INTANGIBLE ASSETS

Movements in intangible fixed assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 October 2006	865	26	42	933
Additions	70	57	2	129
Disposals	(705)	(82)	(23)	(810)
Other	(226)	–	(1)	(227)
At 31 December 2007	4	1	20	25
Depreciation				
At 1 October 2006	(616)	–	(25)	(641)
Charge for the year	(80)	–	(5)	(85)
Disposals	539	–	15	554
Other	153	–	–	153
At 31 December 2007	(4)	–	(15)	(19)
Impairment				
At 1 October 2006	(79)	–	–	(79)
Creation	–	–	–	–
Release	–	–	–	79
Use	79	–	–	–
At 31 December 2007	–	–	–	–
Net book value				
At 1 October 2006	170	26	17	213
At 31 December 2007	**–**	**1**	**5**	**6**

As a result of the change in the current system brought about by the merger, the Bank decreased the impairment loss for software to MCZK 79 (as at 1 October 2006: MCZK 79).

Movement in item "Others" relates to intangible assets transferred into "Non-current assets held for sale" (see Note 5).

21 OTHER ASSETS

(a) Continuing activities

MCZK	31. 12. 2007	1. 10. 2006
Prepaid expense and accrued income	148	79
Trade receivables	345	358
Factoring receivables	1,674	905
Fair value of hedging derivatives	455	450
Receivables from securities	8,304	167
Expected state subsidy	–	40
Suspense accounts	805	245
Income tax receivable	99	–
Other	53	152
Total other assets	**11,883**	**2,396**
Impairment of other assets	(49)	(17)
Net other assets	**11,834**	**2,379**

The increased balance of "Receivables from securities" is mainly caused by two unsettled over the counter trades which were performed shortly before the year end. These trades were settled at the beginning of January 2008.

(i) Impairment of other assets

MCZK	
Balance at 1 October 2006	(17)
Creation during the current year	(34)
Release of allowances no longer considered necessary	–
Other	2
Balances of impairment of other assets as at 31 December 2007	**(49)**

(b) Discontinued operations

MCZK	31. 12. 2007	1. 10. 2006
Trade receivables	6	–
Expected state subsidy	1 034	–
Other	7	–
Total other assets	**1 047**	**–**
Impairment of other assets	(3)	–
Net other assets	**1 044**	**–**

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 24). The expected value of subsidiary's claims for a state subsidy as at 1 October 2006 is significantly lower compared to 31 December 2007 as the subsidiary (building society) applies for this state subsidy once at the end of the calendar year.

22 IMPAIRMENT OF ASSETS TOTAL

MCZK	Receivables from clients (Note 17)	Financial investm. (Note 18)	Tangible and intangible assets (Note 19,20)	Other assets (Note 21)	Total
Balance as at 1 October 2006	(1,925)	(7)	(536)	(17)	(2,483)
Creation during the current year	(1,784)	(1)	(5)	(34)	(1,824)
Release during the current year	1,223	–	32	–	1,255
Write-offs and others	171	1	125	–	297
Others	–	–	–	2	
Impairment loss as at 31 December 2007	**(2,315)**	**(7)**	**(384)**	**(49)**	**(2,755)**

23 DEPOSITS FROM BANKS

Analysis of deposits from banks by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts	5,641	1,322
Bank loans	7,090	18,657
Term deposits	14,252	12,836
Total deposits from banks	**26,983**	**32,815**

24 DEPOSITS FROM CUSTOMERS

(a) Continued operations

(i) Analysis of deposits from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Current accounts	85,905	64,961
Loans	4,282	3,891
Term deposits	58,046	50,326
Issued depository notes	15,174	12,135
Payables from building savings scheme	–	26,730
Payables from expected state subsidy	–	40
Savings deposits	2,876	2,105
Payments in transfer	–	7,573
Other	–	242
Total deposits from customers	**166,283**	**168,003**

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".

The decreased balance of "Payments in transfer" is cause by the change in reporting methodology. This item is included in "Other liabilities" as item "Suspense accounts".

(ii) Analysis of deposits from customers by sector

MCZK	31. 12. 2007	1. 10. 2006
Financial institutions	13,938	11,237
Non-financial institutions	73,433	60,725
Government sector	11,056	8,689
Non-profit organisations	1,485	1,163
Self-employed	14,407	12,361
Resident individuals	43,833	66,790
Non-residents	8,131	6,135
Other	–	903
Total deposits from customers	**166,283**	**168,003**

(b) Discontinued operations

(i) Analysis of deposits from customers by type

MCZK	31. 12. 2007	1. 10. 2006
Payables from building savings scheme	29,407	–
Payables from expected state subsidy	1,034	–
Total deposits from customers	**30,441**	**–**

(ii) Analysis of deposits from customers by sector

MCZK	31. 12. 2007	1. 10. 2006
Non-financial institutions	66	–
Government sector	34	–
Non-profit organisations	12	–
Resident individuals	30,329	–
Total deposits from customers	**30,441**	**–**

25 DEBT SECURITIES ISSUED

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

MCZK	31. 12. 2007	1. 10. 2006
Mortgage bonds	24,946	19,993
Structured bonds	3,182	3,204
Zero coupon bonds	511	1,363
Other issued bonds	14	48
Net book value	**28,653**	**24,608**

The Bank purchased its own debt securities totalling MCZK 10 (as at 1 October 2006: MCZK 12) and zero coupon bonds in amount of MCZK 46 (as at 1 October 2006: CZK 0) which are held for trading purposes. The debt securities decreased the amount of "Debt securities issued".

(b) Analysis of mortgage bonds issued

Issue date	Interest maturity date	Currency	Rate	31.12.2007 MCZK	1.10.2006 MCZK
4 February 2002	4 February 2009	CZK	6.00%	6,706	10,199
9 October 2003	9 October 2008	CZK	4.50%	509	747
19 August 2004	19 August 2012	CZK	6.00%	–	95
15 December 2004	15 December 2006	CZK	1.86%	–	47
15 December 2004	15 December 2006	CZK	1.66%	–	37
29 September 2005	29 September 2015	CZK	4.00%	1,068	1,010
5 October 2005	5 October 2015	CZK	4.50%	5,316	3,746
15 November 2005	15 November 2010	CZK	3.50%	3,937	4,004
23 November 2005	15 November 2025	CZK	5.00%	116	108
15 June 2007	16 September 2008	CZK	–*	225	–
15 June 2007	16 June 2008	CZK	–*	371	–
15 June 2007	15 June 2012	CZK	5.00%	5	–
12 December 2007	21 December 2037	CZK	6.60%	6,693	–
Total of mortgage bonds issued				**24,946**	**19,993**

* discounted mortgage bonds

26 FINANCIAL LIABILITIES HELD FOR TRADING

For the Group's business strategy, see Note 37.

MCZK	31. 12. 2007	1. 10. 2006
Interest rate contracts	885	1,169
Currency contracts	861	429
Equity contracts	1,947	1,624
Commodity contracts	3	-
Liabilities from short sales of securities	1,498	250
Total financial liabilities held for trading	**5,194**	**3,472**

27 PROVISIONS

Provisions include the following items:

MCZK	31. 12. 2007	1. 10. 2006
Provisions for off-balance sheet items	438	347
Other provisions		
Claims and litigations	74	47
Receivables	9	-
Unclaimed vacation	60	30
Other	71	–
Total provisions	**652**	**424**

(a) Provisions for off-balance sheet credit items

MCZK	
Balance at 1 October 2006	347
Created during the current year	161
Released during the current year	(70)
Balance of provisions for off-balance sheet credit items at 31 December 2007	**438**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation	Receivables	Other	Total
Balance at 1 October 2006	47	30	–	–	77
Creation during the current year	49	30	9	126	214
Use during the current year	–	–	–	(5)	(5)
Release of provisions no longer considered necessary	(22)	–	–	(50)	(72)
Balance of provisions at 31 December 2007	**74**	**60**	**9**	**71**	**214**

The creation of provisions of MCZK 30 for payments of unclaimed vacation entitlement is included in general operating costs, in "Wages and Salaries".

28 OTHER LIABILITIES

(a) Continued operations

MCZK	31. 12. 2007	1. 10. 2006
Deferred income and accrued expenses	222	372
Trade payables	1,281	957
Fair value of hedging derivatives	525	766
Income taxes payables	–	93
Other taxes payable	16	33
Estimated payables	742	1,633
Securities payables (dealings for clients)	–	445
Unsettled securities dealing	108	196
Suspense accounts	13,558	1,109
Other	15	91
Total other liabilities	**16,467**	**5,697**

The increase in "Suspense accounts" balance was cause by a change in reporting of "Payments in transfer" (see Note 24) and by two unsettled over the counter trades which were performed shortly before the year end. These trades were settled at the beginning of January 2008.

(b) Discontinued operations

MCZK	31. 12. 2007	1. 10. 2006
Deferred income and accrued expenses	33	–
Trade payables	41	–
Income taxes payable	6	–
Estimated payables	1,457	–
Other	27	–
Total other liabilities	**1,564**	**–**

The creation of estimated payables for interest bonuses had an impact on the estimated payables as at 31 December 2007 and 1 October 2006 (see continued operations in the table above). These interest bonuses are credited in accordance with the subsidiary's business terms and conditions to the clients' building saving accounts at the end of the saving cycle. As at 31 December 2007, an estimated payable was created for these future expenditures amounting to MCZK 388 (as at 1 October 2006: MCZK 300).

The increased creation of the estimated payable for interest bonuses (included within "Estimated payables") in 2007, as in 2006, was affected by changed coefficients for calculating the estimated item for interest bonuses. The coefficient was changed based on evaluation of the development of claims and utilisation of these bonuses in 2007. One of the main reasons for the change in the coefficients was the clients' behaviour. In a low-interest rate environment, clients prefer the higher interest rates offered by the of subsidiary company and comply with the terms for obtaining those interest advantages.

29 INCOME TAX

(a) Tax in income statement

MCZK	31. 12. 2007
Current year income tax	(886)
Income tax for previous period	2
Deferred tax	(23)
Total income tax	**(907)**

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

MCZK	31. 12. 2007
Current year profit (loss) before tax	4,198
Income tax calculated using tax rate 24% (2005: 26%)	1,008
Effect of the difference in Czech Accounting Standards used for calculation of tax base and IFRS	10
Effects of previous years and tax rate changes	(2)
Foreign income tax effect	(56)
Non-taxable income	(421)
Tax non-deductible expense	328
Change in deferred tax	43
Others	(3)
Total income tax	**907**

The effective tax rate of the Group is 22%.

(b) Tax in balance sheet

The Group made advanced payments for income tax of MCZK 985. When offsetting with the income tax payable, the Bank presents for the accounting period a net tax receivable of MCZK 99 in the item "Other assets" (as of 1 October 2006: net income tax payable MCZK 93 included in "Other liabilities").

(c) Deferred tax asset and liability

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

MCZK	31. 12. 2007 Deferred tax asset	Deferred tax liability	1. 10. 2006 Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	16	–	8	–
Social and health insurance from bonuses	25	–	18	–
Impairment of loans and receivables	213	–	258	–
Fixed assets net of book value differences	11	–	17	5
Other	16	–	2	3
Net deferred tax liability/asset recognised in income statement	**281**	**–**	**303**	**8**
Revaluation reserve for available-for-sale assets	122	–	43	–
Net deferred tax liability/asset recognised in equity	**122**	**–**	**43**	**–**
Net deferred tax liability/asset in total	**403**	**–**	**346**	**8**

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 recognised in equity are not offset against deferred tax liabilities and assets recognised in the profit and loss account.

The Bank's management believes that it is highly probable that the Bank will fully realise its deferred tax asset as at 31 December 2007 based on the Bank's current and expected future level of taxable profits.

30 SUBORDINATED LIABILITIES

MCZK	31. 12. 2007	1. 10. 2006
Subordinated loan, Bank Austria Creditanstalt AG, Vienna	–	663
Subordinated loan, Unicredito Italiano SPA	1,000	1,000
Total subordinated liabilities	**1,000**	**1,663**

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 amounted to TEUR 23,400, with a maturity date in March 2010. The interest period can be from 1 to 12 months and the interest rate was based on the market rate on the money market. The loan was in accordance with subordinated loan requirements of the Czech National Bank (CNB). In December 2007, the Bank made an early repayment of the subordinated loan amounting to TEUR 23,400.

On 29 December 2004, the Bank drew subordinated debt of BCZK 1 from the parent company UCI. The debt's interest will be set as PRIBOR + 0.6% until 29 December 2009; from this day onwards the interest will be calculated as PRIBOR + 1.2%. The interest is payable quarterly in arrears, and the principal is repayable on 29 December 2014. The principal may not be repaid before 29 December 2009 and without the CNB's consent. The loan is not collateralised, and it is subordinated to all the Bank's liabilities. It forms a part of the Bank's additional capital for the purpose of capital adequacy.

31 ISSUED CAPITAL AND SHARE PREMIUM

The issued capital (registered, subscribed and paid-up) as at 31 December 2007 and 1 October 2006 amounted to MCZK 5,125.

(a) The shareholders as at 31 December 2007 and 1 October 2006

Name	Registered office	Share nominal value (MCZK)	Share premium (MCZK)	Share in equity (%)
Bank Austria Creditanstalt AG, Vienna	Austria	5,125	3,357	100
Total		**5,125**	**3,357**	**100**

(b) Issued capital analysis

	31. 12. 2007 Number of shares	31. 12. 2007 MCZK	1. 10. 2006 Number of shares	1. 10. 2006 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 of issued capital		**5,125**		**5,125**

Shares are transferable with the general meeting's approval.
The Bank held none of its own shares in treasury as at 31 December 2007 and 1 October 2006.

32 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 its own shares.

33 RESERVE FUNDS AND RETAINED EARNINGS

The allocation of reserve funds is as follows:

MCZK	31. 12. 2007	1. 10. 2006
Legal reserve fund	1,025	1,025
Other reserve funds	1,824	1,824
Reserve funds total	**2,849**	**2,849**
Retained earnings	**12,267**	**9,600**

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 Managing Board. The reserve fund is 20% of the registered capital.

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 Managing Board.

The Bank intends to distribute the profit for the accounting period from 1 October 2006 to 31 December 2007 of 3,317 MCZK as follows: dividend payments of MCZK 1,000 and distribution to retained earnings of MCZK 2,317.

34 BORROWING AND LENDING OF SECURITIES, REPURCHASE AND RESALE COMMITMENTS

(c) Resale commitments

MCZK	31. 12. 2007	1. 10. 2006
Receivables from banks	12,328	24,078
Fair value of securities received	12,134	23,781
Receivables from clients	–	179
Fair value of securities received	–	221

(d) Repurchase commitments

MCZK	31. 12. 2007	1. 10. 2006
Payables to banks	7,903	8,659
Fair value of given securities (Financial assets held for trading)	4,278	–
Fair value of given securities (Financial investment)	3,549	8,500
Payables to clients	–	3,391
Fair value of given securities (Financial assets held for trading)	–	3,419

35 CONTINGENT LIABILITIES, CONTINGENT ASSETS AND DERIVATIVES

In its regular business operations, the Group enters into various financial operations which are not recognised 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 31 December 2007 and created appropriate provisions for litigation and claims (see Note 27). 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.

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 whereby 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. UOHS reached a decision whereby HYST was obliged to pay a fine amounting to MCZK 5. HYST accounted for this fine under expenses by using the provision created earlier.

Taxation

Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also uncertain which interpretation the tax authority will choose. The outcomes from this uncertainty cannot be quantified and can only be determined when the legal changes will be put into practice or official interpretation will become available.

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 commitments issued for loans or guarantees and also unused credit lines and overdraft facilities. The Group can revoke the revocable credit commitments at any time without stating reasons. On the other hand, irrevocable credit commitments represent the Group's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Group, even though it depends on the clients to fulfil the terms and conditions.

Liabilities from financial guarantees represent irrevocable commitments that the Group will realise payments when the conditions defined in guarantee certificate are fulfilled. These commitments bear a similar risk as loans, so the Group creates reserves for these commitments using a similar algorithm as when creating loan loss provisions (see Note 38).

Letters of credit represent written irrevocable liabilities of the Group to provide funds to the third party or to its order (beneficiary, commissioned) if a 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 38).

The Group has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2007 the total of these provisions amounted to MCZK 438 (1 October 2006: MCZK 347) (see Note 27 (a)).

MCZK	31. 12. 2007	1. 10. 2006
Irrevocable letters of credit and financial guarantees	19,768	16,536
Other irrevocable contingent liabilities (unused credit commitments)	89,185	65,420
Total	**108,953**	**81,956**

Values taken into administration and management

MCZK	31. 12. 2007	1. 10. 2006
Bonds	252,596	119,020
Shares	259,239	206,355
Depository notes	15,174	11,716
Total values taken into administration and management	**527,009**	**337,091**

(b) Contingent assets

As at 31 December 2007, 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 2,902 (MEUR 109) and with maturity in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 1,448 (MEUR 54.39) and with maturity 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 values	
MCZK	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Hedging instruments				
Interest rate swap contracts	53,666	47,256	(23)	(344)
Cross currency swap contracts	9,147	7,252	(47)	28
Trading instruments				
Forward rate agreements (FRA)	3,500	30,087	2	4
Interest rate swap contracts	81,006	74,033	48	(102)
Forward foreign exchange contracts			(201)	(116)
Purchase	7,717	22,890		
Sale	7,900	23,013		
Option contracts			10	15
Purchase	63,129	29,389		
Sale	63,129	29,396		
Cross currency swap contracts	59,002	42,012	192	220

Listed financial derivatives

	Contractual amounts		Fair values	
MCZK	31. 12. 2007	1. 10. 2006	31. 12. 2007	1. 10. 2006
Trading instruments				
Interest rate futures	956	722	60	42
Commodity instruments	10	–	1	–

Residual maturity of financial derivatives

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

As at 31 December 2007 MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Hedging instruments									
Interest rate swap contracts	4,833	54	2,414	15,754	8,150	2,150	3,374	16,937	53,666
Cross currency swap contracts	–	–	3,681	3,592	–	1,874	–	–	9,147
Trading instruments									
Forward rate agreements (FRA)	–	–	3,500	–	–	–	–	–	3,500
Interest rate swap contracts	4,231	3,099	11,865	12,043	8,068	8,937	12,054	20,709	81,006
Foreign exchange contracts (Purchase)	495	1,588	3,831	1,658	144	1	–	–	7,717
Foreign exchange contracts (Sale)	496	1,616	3,942	1,702	143	1	–	–	7,900
Option contracts (Purchase)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Option contracts (Sale)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Interest rate futures	–	956	–	–	–	–	–	–	956
Commodity instruments	–	–	10	–	–	–	–	–	10
Cross currency swap contracts	33,290	5,162	10,964	2,052	4,102	–	2,985	447	59,002

As at 1 October 2006									
Hedging instruments									
Interest rate swap contracts	655	45	12,893	3,408	10,551	1,885	4,460	13,359	47,256
Cross currency swap contracts	–	–	–	1,417	3,863	–	1,972	–	7,252
Trading instruments									
Forward rate agreements (FRA)	40	47	24,000	6,000	–	–	–	–	30,087
Interest rate swap contracts	–	1,526	19,721	14,542	2,817	5,620	4,277	25,531	74,033
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)	1,224	774	4,754	6,137	9,084	2,531	4,598	287	29,389
Option contracts (Sale)	1,224	774	4,754	6,137	9,091	2,531	4,598	287	29,396
Interest rate futures	–	722	–	–	–	–	–	–	722
Cross currency swap contracts	15,617	4,256	4,342	9,079	–	4,270	–	4,449	42,012

36 SEGMENT REPORTING

Primary segment reporting format is based on clients' business.

(a) Business segments

As at 31 December 2007 MCZK	Retail banking/ small and medium companies	Corporate banking	Investment banking	Other	Total
Net interest and dividend income	1,784	3,755	790	446	6,775
Other net income	780	2,262	323	93	3,458
Depreciation of property, plant and equipment and amortisation of intangible assets	(80)	(64)	(16)	(180)	(340)
Impairment and provisions	(229)	(328)	(4)	–	(561)
Segment expenses	(1,497)	(1,081)	(556)	(2,000)	(5,134)
Profit before tax	758	4,544	537	(1,641)	4 198
Income tax	–	–	–	(907)	(907)
Result of segment	758	4,544	537	(2,548)	3,291
Segment assets	**25,576**	**131,531**	**130,740**	**12,627**	**300,474**
Segment liabilities	**135,657**	**73,613**	**48,284**	**19,685**	**277,239**

As at 1 October 2006					
Segment assets	**21,596**	**124,442**	**108,900**	**3,016**	**257,954**
Segment liabilities	**114,504**	**67,756**	**48,219**	**6,227**	**236,706**

(b) Geographical segments

The Group's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In the period from 1 October 2006 to 31 December 2007, the Group generated the main part of its revenues from activities in the Czech Republic and the EU.

37 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 maximise the net income from trading.

The Group manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Market risk management" in Note 37 (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 arising from its open positions in credit, equity and foreign currency instruments and transactions that are sensitive to changes in financial market conditions..

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

The following Values at Risk of the consolidated entity relating to individual types of risks are calculated under the assumption that there is no correlation between the risks of the Bank and its subsidiaries.

MCZK	As at 31.12.2007	Average 1.10.2006 – 31.12.2007	As at 30.9.2006	Average 1.1.-30.9. 2006
VaR of interest rate instruments	78.8	35.8	45	51
VaR of currency instruments	1.1	1.5	1.9	1.8
VaR of equity instruments	1.2	1.1	0.5	0.9

Interest rate risk

The Group is exposed to interest rate 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 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 optimising the Group's net interest revenue in accordance with the strategy approved by the Managing Board.

The Group's position as at 31 December 2007 is characterised 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 CZK and EUR. Net interest income would decrease slightly 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 Managing Board. Part of the Group's income is generated by the intentional 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 of 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 restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

The Group carries out weekly stress testing of interest rates by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their 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:

As at 31 December 2007 MCZK	EIR	Up to 1 months	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
Cash in hand and balances with central banks	–	–	–	–	–	–	–	–	–	1,720	1,720
Financial assets held for trading	3.74	4,763	11,130	983	99	36	–	125	935	88	18,159
Receivables from banks	4.53	38,309	6,811	1,969	9	91	–	–	–	–	47,189
Receivables from customers	5.14	41,311	31,022	37,404	11,651	8,541	3,020	7,230	4,360	7,624	152,163
Financial investments	5.25	1,111	3,683	7,161	1,073	4,207	2,145	111	13,710	2,926	36,127
Deposits from banks	3.93	19,213	3,639	4,131	–	–	–	–	–	–	26,983
Deposits from customers	2.97	156,886	4,913	3,299	402	281	410	92	–	–	166,283
Debt securities issued	4.91	56	351	11,080	6,806	3,922	–	–	6,438	–	28,653
Financial liabilities held for trading	0.00	3,694	–	1,500	–	–	–	–	–	–	5,194
Subordinated liabilities	4.70	–	–	1,000	–	–	–	–	–	–	1,000

As at 1 October 2006 MCZK	EIR	Up to 1 months	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
Cash in hand and balances with central banks	–	–	–	–	–	–	–	–	–	1,494	1,494
Financial assets held for trading	2.91	662	2,757	1,251	321	–	–	240	–	2,973	8,204
Receivables from banks	2.38	39,715	1,525	1,144	5	–	68	–	–	104	42,561
Receivables from customers	4.26	22,647	29,431	40,865	8,175	10,122	4,869	3,586	7,458	15,966	143,119
Financial investments	4.73	9,506	3,041	20,510	2,870	2,947	2,967	1,469	11,841	2,575	57,726
Deposits from banks	3.09	26,627	5,327	759	102	–	–	–	–	–	32,815
Deposits from customers	2.20	104,989	7,229	17,337	6,266	4,984	438	991	310	25,459	168,003
Debt securities issued	4.43	3,901	3,580	11,038	1,125	2,696	785	259	1,224	–	24,608
Financial liabilities held for trading	0.00	–	–	546	–	–	–	–	–	2,926	3,472
Subordinated liabilities	3.37	–	–	1,663	–	–	–	–	–	–	1,663

Hedge accounting

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

Fair value hedge

Hedged instruments can be financial assets and liabilities recognised at their carrying amounts (except securities held-to-maturity) 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).

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

MCZK	Contractual amount 31. 12. 2007	Contractual amount 1. 10. 2006	Fair value 31. 12. 2007	Fair value 1. 10. 2006
Interest rate swaps	21,578	18,139	(12)	(82)
Cross currency swaps	–	–	–	–

Cash flow hedging

The Group uses the concept of cash flow hedging to eliminate interest risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense 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.

MCZK	Contractual amount 31. 12. 2007	Contractual amount 1. 10. 2006	Fair value 31. 12. 2007	Fair value 1. 10. 2006
Interest rate swaps	32,088	29,117	(11)	(262)
Cross currency swaps	9,147	7,252	(47)	28

MCZK	Fair value 31. 12. 2007	Fair value 1. 10. 2006
Hedged instruments		
Available for sale securities	39	64
Receivables from clients	105	28
Debt securities issued	181	36
The remaining part of formerly hedged financial instruments		
Available for sale securities	3	10
Receivables from clients	41	150
Debt securities issued	21	45

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 amortised till maturity.

Currency risk

Assets and liabilities denominated in foreign currency, including off-balance sheet exposures, represent the Group's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the profit and loss account. The Group has established a system of currency risk limits based on its net currency exposure in individual currencies. The Group has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD). For the remaining currencies, there are valid limits ranging from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

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

As at 31 December 2007 MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
Cash in hand and balances with central banks	1,245	310	71	25	19	–	50	1,720
Financial assets held for trading	18,159	–	–	–	–	–	–	18,159
Receivables from banks	24,765	18,850	2,318	17	388	155	696	47,189
Receivables from customers	107,099	41,855	929	1,475	800	–	5	152,163
Financial investments	21,038	9,567	1,027	–	–	4,495	–	36,127
Property, plant and equipment	1,662	–	–	–	–	–	–	1,662
Intangible assets	6	–	–	–	–	–	–	6
Deferred tax asset	403	–	–	–	–	–	–	403
Other assets	11,235	488	99	1	2	–	9	11,834
Deposits from banks	9,827	12,701	1,860	1,433	2	803	357	26,983
Deposits from customers	128,750	27,742	5,253	331	520	2,307	1,380	166,283
Debt securities issued	28,374	177	102	–	–	–	–	28,653
Financial liabilities held for trading	5,194	–	–	–	–	–	–	5,194
Provisions	652	–	–	–	–	–	–	652
Deferred tax liability	–	–	–	–	–	–	–	–
Other assets	14,306	1,865	245	17	6	–	28	16,467
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	23,235	–	–	–	–	–	–	23,235

As at 1 October 2006 MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
Cash in hand and balances with central banks	1,137	199	71	14	17	–	56	1,494
Financial assets held for trading	4,791	2,222	976	–	–	–	215	8,204
Receivables from banks	37,185	2,930	516	1	160	179	1,590	42,561
Receivables from customers	96,750	43,100	1,516	482	1,236	–	35	143,119
Financial investments	41,407	11,660	882	–	–	3,777	–	57,726
Property, plant and equipment	1,912	–	–	–	–	–	–	1,912
Intangible assets	213	–	–	–	–	–	–	213
Deferred tax asset	346	–	–	–	–	–	–	346
Other assets	2,200	101	66	1	–	2	9	2,379
Deposits from banks	17,317	12,169	2,041	199	45	709	335	32,815
Deposits from customers	132,312	24,462	7,370	138	703	1,884	1,134	168,003
Debt securities issued	24,210	247	151	–	–	–	–	24,608
Financial liabilities held for trading	3,379	44	45	–	–	–	4	3,472
Provisions	440	–	–	–	–	–	–	440
Deferred tax liability	8	–	–	–	–	–	–	8
Other assets	4,462	1,066	138	3	5	–	23	5,697
Subordinated liabilities	1,000	663	–	–	–	–	–	1,663
Equity	21,291	(43)	–	–	–	–	–	21,248

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 trade with equity instruments, although some equity risk also arises as a result of the Group's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods 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 Managing Board. 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

As at 31 December 2007 MCZK	Up to 1 months	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
Cash in hand and balances with central banks	107	–	–	–	–	–	–	–	1,613	1,720
Financial assets held for trading	1,190	11,198	2,274	833	944	–	343	1,230	147	18,159
Receivables from banks	38,302	6,847	2,025	15	–	–	–	–	–	47,189
Receivables from customers	17,943	11,151	34,560	20,985	11,054	7,969	12,625	35,876	–	152,163
Financial investments	6	483	1,995	2,059	9,102	–	–	19,606	2,876	36,127
Property, plant and equipment	–	–	–	–	–	–	–	–	1,662	1,662
Intangible assets	–	–	–	–	–	–	–	–	6	6
Deferred tax asset	–	–	18	–	–	–	–	–	385	403
Other assets	155	–	19	178	225	34	–	118	11,105	11,834
Total	**57,703**	**29,679**	**40,891**	**24,070**	**21,325**	**8,003**	**12,968**	**56,830**	**17,794**	**269,263**
Deposits from banks	19,213	155	4,152	2,288	1,078	–	–	–	97	26,983
Deposits from customers	149,704	8,394	3,604	409	291	410	92	–	3,379	166,283
Debt securities issued	–	–	1,628	8,919	6,644	–	–	11,462	–	28,653
Financial liabilities held for trading	367	123	1,157	854	713	339	–	1,421	220	5,194
Provisions	–	–	–	–	–	–	–	–	652	652
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other assets	232	1	78	97	152	33	–	225	15,649	16,467
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	23,235	23,235
Total	**169,516**	**8,673**	**10,619**	**12,567**	**8,878**	**782**	**92**	**14,108**	**43,232**	**268,467**
Gap	**(111,813)**	**21,006**	**30,272**	**11,503**	**12,447**	**7,221**	**12,876**	**42,722**	**(25,438)**	**796**
Cumulative gap	**(111,813)**	**(90,807)**	**(60,535)**	**(49,032)**	**(36,585)**	**(29,364)**	**(16,488)**	**26,234**	**796**	**–**

As at 1 October 2006 MCZK	Up to 1 months	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
Cash in hand and balances with central banks	662	–	–	–	–	–	–	–	832	1,494
Financial assets held for trading	62	155	1,222	741	1,347	434	788	283	3,172	8,204
Receivables from banks	38,585	2,161	1,398	5	46	–	49	212	105	42,561
Receivables from customers	19,118	10,701	36,957	8,878	13,844	7,764	6,472	32,036	7,349	143,119
Financial investments	2,711	1,077	7,134	4,717	5,500	5,570	4,235	24,194	2,588	57,726
Property, plant and equipment	–	–	–	–	–	–	–	–	1,912	1,912
Intangible assets	–	–	–	–	–	–	–	–	213	213
Deferred tax asset	–	–	244	–	–	–	–	–	102	346
Other assets	2	–	–	8	49	–	35	–	2,285	2,379
Total	**61,140**	**14,094**	**46,955**	**14,349**	**20,786**	**13,768**	**11,579**	**56,725**	**18,558**	**257,954**
Deposits from banks	26,627	1,883	759	102	2,325	–	1,119	–	–	32,815
Deposits from customers	130,229	7,272	17,443	6,271	4,984	438	993	313	60	168,003
Debt securities issued	154	193	599	1,125	13,234	785	3,484	5,034	–	24,608
Financial liabilities held for trading	287	18	32	115	68	–	22	3	2,927	3,472
Provisions	–	–	–	–	–	–	–	–	440	440
Deferred tax liability	–	–	8	–	–	–	–	–	–	8
Other assets	165	–	–	–	–	–	5	5	5,522	5,697
Subordinated liabilities	–	–	–	–	–	663	–	1,000	–	1,663
Equity	–	–	–	–	–	–	–	–	21,248	21,248
Total	**157,462**	**9,366**	**18,841**	**7,613**	**20,611**	**1,886**	**5,623**	**6,355**	**30,197**	**257,954**
Gap	**(96,322)**	**4,728**	**28,114**	**6,736**	**175**	**11,882**	**5,956**	**50,370**	**(11,639)**	**–**
Cumulative gap	**(96,322)**	**(91,594)**	**(63,480)**	**(56,744)**	**(56,569)**	**(44,687)**	**(38,731)**	**11,639**	**–**	**–**

38 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 and the credit model and reporting division are directly responsible for credit risk management. Both are organisationally independent of the trade divisions and are accountable to the member of the Managing Board responsible for risk management, finance and controlling.

(a) Credit risk management at individual client level

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

The internal rating system comprises 27 rating levels. In addition to its overdue period (if any), this system assesses the client's financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash-flow structure), quality of management, ownership structure, market position, quality of reporting, production equipment, etc.

If an external rating of the debtor prepared by a reputable 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 or her 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 client default for individuals 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 and SOLUS Association 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, and assignment of high quality receivables. In assessing the net realisable 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 realisable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realise the collateral if and when necessary.

Subsidiaries manage their credit risk at similar principles.

(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 individual countries, industrial sectors, and connected groups of debtors and regularly monitors its exposure to different segments.

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

The Group categorises its receivables arising from financial activities on a monthly basis, in accordance with regulation no. 123/2007 of the CNB.

The Group regularly identifies indication of impairment; if such indication is identified, the Group creates and recognises impairment according to IFRS.

Impairment of individual loans

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

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

Impairment of portfolio of loans

The Group recognises 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 the 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 time 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 off-balance sheet items

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

(i) Provisions for 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 watched loan or a loan with debtor's default category and the Bank creates provisions for such loans.
Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off-balance sheet items 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 the existence of such receivable the conditions for ranking into watched loan or a loan with debtor's default category would be fulfilled.

(iii) Provisions for selected off-balance sheet items that are ranked into portfolios. The Bank recognises such provisions in the same way as in creation of impairment of 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:
a) "revitalization" of the credit relationship, restructuring and potential reclassification to standard receivables
b) full repayment of the loan
c) minimisation of the loss from the loan (realisation of collateral, sale of receivable with a discount, etc.)
d) prevention of further losses from the loan (comparison of future income and expenses).

39 OPERATIONAL RISK

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's organisational structure and its internal rules fully respect the separation of duties and prevent any conflict of interests. The Bank has developed a complex system of internal rules and regulations that govern and define the working processes and related control activities.

As part of the preparation for Basel II, in 2007 the Bank continued with the creation and implementation of a complex system for operational risk identification, monitoring and management, including the arrangements needed for system unification at the newly established Bank. In the fourth quarter a management directive was issued that updated the principles of operational risk management, measurement and control. The Operational Risk Committee subsequently approved the new organisational structure at the merged Bank. The Operational Risk Management Committee is the main control and decisive body regarding operational risk. All members of the Managing Board are permanent members of the committee. The Operational Risk Division is an independent body that directly reports to the Managing Board member responsible for finance and operational risk management. The Operational Risk Division is entrusted with securing unified and coordinated operational risk management, congruent with the applicable regulation and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the particular departments. The Internal Audit Department identifies extraordinary trends, breach of or non-compliance with the directives, and assesses the control and management system functionality.

In order to ensure an effective operational risk monitoring, the Bank uses an on-line information system developed by the Bank Austria Creditanstalt Group. The system complies with the requirements for capital adequacy management in accordance with the new regulation of the Basel Committee on Banking Supervision. The data acquired through the system form one of the bases for the design of processes that will lead to a reduced number of particular events and the mitigation of their consequences. The data are also used for rechecking the reliability of the proposed measures for the operational risk mitigation. Data is collected continuously, in cooperation with the Bank's departments. All significant events are reported and resolved immediately. Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Bank's Managing Board, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or promptly, if needed.

In 2007, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) forms another important part of operational risk management. In 2007, the Bank updated the recovery plans (for crisis situations such as the floods in 2002) in order to ensure their full efficiency in the merged Bank. The updated recovery plans testing is planned for 2008. The Operational Risk Division is also increasing the overall awareness of the operational risk in the Bank and trains the Bank's staff. An e-learning training "Basel II – operational risks" was launched in 2007.

The Bank met all the conditions necessary to calculate the capital requirement for operational risk under the standardized approach (TSA) as at 1 January 2008, i.e. as at the Basel II implementation date. At the same time, the Bank started preparation of the planned sequential implementation of the AMA advanced approach for capital requirement calculation. The parent bank, UniCredito Italiano, and Bank Austria Creditanstalt (part of the sub-consolidated Bank Austria Creditanstalt group) are sponsoring this project.

40 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. 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 managers of the Bank.

MCZK	31. 12. 2007	1. 10. 2006
Assets		
Receivables from banks	15,862	8,095
thereof:		
Bank Austria Creditanstalt AG	13,792	4,808
Bayerische Hypo- und Vereinsbank AG	639	–
HVB Bank Serbia a Cerna Gora	201	1,277
Unicredito Italiano, Milano	400	1,000
Receivables from customers	4,673	6,662
thereof:		
BA/CA Leasing GmbH	4,623	4,539
Managing Board	–	–
Management	13	24
Financial investments	1,695	1,215
Bank Austria Creditanstalt AG	348	–
HVB Jelzalogbank, Hungary	1,347	1,215
Total	**22,230**	**15,972**

MCZK	31. 12. 2007	1. 10. 2006
Liabilities		
Deposits from banks	16,820	9,802
thereof:		
Bank Austria Creditanstalt AG	10,881	2,222
Bayerische Hypo- und Vereinsbank AG	4,650	7,529
Unicredito Italiano, Milano	54	–
Deposits from customers	749	621
thereof:		
BA/CA Leasing GmbH	131	370
Pioneer Asset Management	413	–
CAE PRAHA a.s. in the process of liquidation	1	2
Managing Board	–	18
Management	6	43
Debt securities issued	17	–
Pioneer Asset Management	17	–
Subordinated liabilities	1,000	1,663
Unicredito Italiano, Milano	1,000	1,000
Bank Austria Creditanstalt AG	–	663
Total	**18,586**	**12,086**

MCZK	1. 10. 2006–31. 12. 2007
Revenues	
Interest income and similar income	625
thereof:	
Bank Austria Creditanstalt AG	190
UniCredit Leasing Vienna	135
BA/CA Leasing	50
Fee and commission expense	47
thereof:	
Bayerische Hypo- und Vereinsbank AG	16
Bank Austria Creditanstalt AG	13
Total	**672**
Expenses	
Interest expenses and similar charges	587
thereof:	
Bayerische Hypo- und Vereinsbank AG	236
Bank Austria Creditanstalt AG	172
Fee and commission expense	46
thereof:	
Bank Austria Creditanstalt AG	16
Bayerische Hypo- und Vereinsbank AG	7

MCZK	1. 10. 2006–31. 12. 2007
General administrative expenses	1,073
thereof:	
Banking Transaction Services	251
UniCredit Servizi Informativi S.P.	734
Total	**1,706**

41 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, the market value of a group of financial instruments is not available. In such circumstances, the fair values are based on the management's estimates, discounted cash flows models or other commonly used valuation methods. Many of the methods mentioned above are characterised by certain levels of uncertainty; the fair value estimates cannot always be considered as market values, and, in many cases, these would not necessarily be achieved in selling a certain financial instrument. Changes of initial assumptions used in establishing fair value could have significant impact on this value determination.

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

	31. 12. 2007		1. 10. 2006	
MCZK	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	47,189	47,189	42,561	42,560
Receivables from customers	152,163	165,452	143,119	142,709
Securities held to maturity	–	–	13,016	13,423
Financial liabilities				
Deposits from banks	26,983	26,983	32,815	32,814
Deposits from customers	166,283	165,773	168,003	166,914
Debt securities issued	28,653	28,463	24,608	24,082
Subordinated liabilities	1,000	1,000	1,663	1,663

42 INCOME STATEMENT FOR COMPARABLE PERIODS

The following table presents income statement items relevant for the period from 1 January to 31 December 2007 and comparative information for the year 2006 prepared as the aggregated information from statutory financial statements of both banks for the period from 1 January 2006 to 30 September 2006 and of the merged bank for the period from 1 October 2006 to 31 December 2006.

MCZK	2007	2006	Consolidated HVB Bank 1. 1. – 30. 9. 2006	Živnostenská banka 1. 1. – 30. 9. 2006	UniCredit Bank 1.10. – 31.12.2006
Interest income and similar income	9,854	8,822	5,078	1,259	2,485
Interest expense and similar charges	(4,502)	(4,259)	(2,558)	(466)	(1,235)
Net interest income and similar income	**5,352**	**4,563**	**2,520**	**793**	**1,250**
Dividend income	173	172	166	6	–
Fee and commission income	3,368	3,358	2,032	402	924
Fee and commission expense	(462)	(573)	(357)	(41)	(175)
Net fee and commission income	**2,906**	**2,785**	**1,675**	**361**	**749**
Net trading income	147	424	195	236	(7)
Net income from financial investments	(130)	(51)	(119)	–	68
Other operating income	303	283	110	105	68
General administrative expenses	(4,166)	(4,127)	(1,717)	(1,018)	(1,392)
Impairment of loans and receivables	(393)	(280)	(44)	(68)	(168)
Other operating expenses	(453)	(347)	(130)	(108)	(109)
Profit before income tax	**3,739**	**3,422**	**2,656**	**307**	**459**
Current income tax	(764)	(756)	(487)	(149)	(120)
Deferred income tax	(26)	81	19	59	3
Profit for the period excluding discontinued operations	**2,938**	**2,747**	**2,188**	**217**	**342**
Profit from discontinued operations	90	–	–	–	–
Profit for the period	**3,039**	**2,747**	**2,188**	**217**	**342**

43 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 2007.

The Bank sold its 60% participation interest in its subsidiary HYPO stavební spořitelna a.s. on 7 March 2008 (see Note 5).

Vladimír Jarcovják / Proměna I – Metamorphosis I / 1983-1984 – partial view

Auditor's report on the consolidated annual report

KPMG

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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 UniCredit Bank Czech Republic, a.s.

Financial statements

On the basis of our audit, on 18 April 2008 we issued an auditor's report on the Company's statutory consolidated financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic, a.s., which comprise the balance sheet as of 31 December 2007, and the income statement the statement of changes in equity and the cash flow statement for the period from 1 October 2006 to 31 December 2007, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements of UniCredit Bank Czech Republic, a.s. in accordance with Czech accounting legislation and in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

KPMG

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

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the assets, liabilities and the financial position of UniCredit Bank Czech Republic, a.s. of 31 December 2007, and its expenses, revenues and financial performance and its cash flows for the period from 1 October 2006 to 31 December 2007 in accordance with Czech accounting legislation 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 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 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 consolidated financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

KPMG

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

Prague
28 April 2008

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner

Pavel Závitkovský
Partner
Licence number 69

Resolution of the sole shareholder of UniCredit Bank Czech Republic, a.s.

Bank Austria Creditanstalt AG, with its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Republic of Austria (Court File Number FN 150714 p), represented by Mag. Josef Duregger and Dr. Erhard Gehberger, **as the sole shareholder** of the commercial company UNICREDIT BANK CZECH REPUBLIC, A.S. (hereinafter referred to as the "Bank"), with the registered office at Prague 1, Na Příkopě 858/20, PSČ 111 21, Czech Republic, Id. No 64948242,

adopts hereby in exercising the powers of the general meeting of the Bank pursuant to Section 190 Par. 1 of Act No. 513/1991 Coll., as amended, **the following**

RESOLUTION

3. The Bank reported the following audited main consolidated financial results for the period from 1 October 2006 to 31 December 2007:

Total Assets:	CZK 300,474 million
Profit before Taxes:	CZK 4,295 million
Profit after Taxes:	CZK 3,381 million

4. The sole shareholder approves the final consolidated accounts stated under point 1) of this Resolution, which were audited by the company KPMG Česká republika Audit, spol. s r.o., Pobřežní 648/1a, Prague 8 (License number 71) and by the Auditor Pavel Závitkovský (License number 69).

In Vienna on 29 April 2008

BANK AUSTRIA CREDITANSTALT AG

Mag. Josef Duregger

Dr. Erhard Gehberger

Data from the financial statements of the entities not included in the consolidation

CAE PRAHA A.S. IN LIQUIDATION

UniCredit Bank and the consolidation group own 100% of this company's registered capital. Based upon a decision from 10 August 2006 of the sole shareholder executing the powers of the general meeting, the company was dissolved with liquidation as at 1 September 2006.

(CZK 000):	31. 12. 2007	30. 9. 2006
Registered capital	4,396	4,396
Equity	523	2,029
Total assets	663	2,182
Net profit/loss	(613)	(1,641)

CBCB – CZECH BANKING CREDIT BUREAU, A.S.

UniCredit Bank and the consolidation group own 20% of this company, whose main business activity is to operate a banking client information register.
Key financial characteristics of the company (CZK 000):

	31. 12. 2007	30. 9. 2006
Registered capital	1,200	1,200
Equity	4,995	6,783
Total assets	19,951	25,153
Net profit/loss	3,555	5,449

Adriena Šimotová / Z cyklu F. K. Dopisy Mileně II. – From the cycle F. K. Letters to Milena II / 1997 – partial view

Michael Rittstein / Našikmo – Askew / 1995-6