Annual Report of Živnostenská banka for the year 2005

CONTENTS

Composition of the Supervisory Board and Board of Directors

THE SUPERVISORY BOARD

Mr Carmine Ferraro, Chairman
Mr Massimiliano Moi, Deputy Chairman
Ms Ivana Burešová
Mr Vladimír Burian (until 30 April 2005)
Mr Alberto Devoto
Mr Uwe Kruschinski
Marco Iannaccone (since 11 May 2005)
Mr Franjo Luković (until 19 January 2005)
Ms Eva Mikulková
Ms Helena Špaňhelová (since 24 June 2005)
Mr Andrea Varese (until 22 April 2005)
Mr Giuseppe Vovk (since 3 February 2005)

THE BOARD OF DIRECTORS

Mr Jiří Kunert, Chairman
Mr Sandro Bianco, Deputy Chairman (until 31 July 2005)
Andrea Casini, Deputy Chairman (since 1 August 2005 until 17 October 2005)
Mr Aleš Barabas, Deputy Chairman (since 17 October 2005)
Mr Massimiliano Fossati (since 17 October 2005)

SUPERVISORY BOARD REPORT

The Supervisory Board reviewed the statutory and consolidated financial statements prepared as at 31 December 2005 together with the Auditor's Report by the company KPMG, which is the independent auditor of Živnostenská banka, a.s. for the year 2005, and the proposal for distribution of profit. The Supervisory Board acknowledge the conclusion drawn in the Auditor's Report that the financial statements clearly evidence the financial situation of Živnostenská banka, a.s. as at 31 December 2005 and its results for the 2005 accounting period. Considering the Auditor's Report, the Supervisory Board, based on their activity, state that the statutory and consolidated financial statements truly reflect assets, liabilities and the financial situation of Živnostenská banka, a.s. in all substantial matters and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations and the Articles of Association of Živnostenská banka, a.s.

In compliance with the Czech laws, Provisions of the CNB and the Articles of Association of the Bank, the Supervisory Board have been supervising the implementation of the Bank's business policy and the exercise of authorities by the Board of Directors. The Supervisory Board held eleven sessions and always asked for information from all spheres of the Bank's activities which had a relevant impact on the financial position and the financial management of the Bank. It approved, among others, its budget and the credit policy for 2006.

The Supervisory Board further state that, based on the statutory and consolidated financial statements and other documents provided to the Supervisory Board in 2005, it did not identify any material deficiencies or incorrectness which could lead to the conclusion that the Bank's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the situation of Živnostenská banka, a.s.

The Supervisory Board reviewed the Report on Relations between the Controlling Person and the Controlled Person and on Relations between the Controlled Person and Other Persons Controlled by the Same Controlling Person for 2005 as prepared by the Board of Directors of Živnostenská banka, a.s. and provided to the Supervisory Board. The Supervisory Board have no material objections to the Report.

March 2006

Carmine Ferraro
Chairman of the Supervisory Board

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders, Ladies and Gentlemen,

Živnostenská banka has become a member of the biggest banking group in Central and Eastern Europe. This message most distinctly characterized the year 2005, because two banking groups – UniCredit and HVB – joined their forces during the year. Živnostenská banka has its firm position within the structure of this emerging first truly European bank serving over 28 million clients in 19 European countries.

The 2005 figures confirmed good business results achieved by Živnostenská banka. We exceeded the projected volume of revenues, which approached the level of one billion seven hundred and fifty million Czech crowns. The net profit increased to CZK 198 million in 2005. We managed to raise the volume of total assets, while keeping expenses and risk exposure under control. We acquired about 12 thousand new clients. We were also successful in the area of mortgage loans; in small business segment financing, which has strong growth potential in the domestic market, we experienced a promising development, and we also acquired very interesting new clients in both the private and corporate banking segments.

Cooperation with our sister company, Pioneer Investments, in collective investment and asset management also successfully progressed. We offered new products to our clients, including both the popular EUROTOP and US TOP structured deposits and new CZK funds or foreign-currency mutual funds.

Looking back at the 2005 results, we cannot forget to mention our intensive work on the preparation of the new EuroSIG information system. The eyes of all the banks within the UniCredit Group are focused on Prague these days, because we have been developing and testing the system supposed to become a unified platform for all the banks within the Group. We are convinced that the new system, to be fully implemented in 2006, will not only increase the speed of internal processes in the Bank and simplify them, but also, in particular, further improve the comfort and quality of our services.

Each and every company consists primarily of the people who work for it, sharing their expertise and experience. Therefore, let me thank to all our colleagues who work hard every day to build up a good name of Živnostenská banka and UniCredit Group.

We are evaluating the past year at the moment of launching the process of integration of Živnostenská banka and HVB Bank in the Czech Republic. This will be a complicated and time consuming process, the outcome of which will be the fourth biggest domestic bank with ambitions to further strengthen its position, not only in the Czech Republic, but – being a part of UniCredit Group - also in Europe. I firmly believe that the merger of the two banks will produce new growth potential for our shareholders, bring improved services of a higher quality to our clients and open new opportunities of career development for our staff.

There is a new year ahead of us, the year with a number of demanding tasks ahead of Živnostenská banka, successful realization of which will help accomplish its mission within the UniCredit Group structure. I believe it will be a successful year.

March 2006

Jiří Kunert
Chairman of the Board of Directors

DIRECTORS' REPORT

Dear Clients and Business Partners,

let us present you the Annual Report of Živnostenská banka, a.s. for 2005.

Czech Economy in 2005

In 2005, the Czech economy substantially improved its condition. The gross domestic product (GDP) growth increased to respectable 6.0% from 4.7% in 2004. Thus, in terms of the dynamics of its growth, the Czech economy is now sharing with Slovakia the position of a leader among the countries of Central Europe.

The structure of the economic growth remained relatively healthy. The economy was driven by foreign demand to a considerable extent. The balance of trading with goods improved in particular. For the first time in the history of the Czech Republic, foreign trade ended up in surplus, namely CZK 40.4 billion. There was a substantial improvement by almost CZK 67 billion compared with 2004. The excellent foreign trade results of last year were based on the strengthening economic recovery in the countries of Western Europe, the boom of the Czech automotive industry and persisting positive effects of the accession of the Czech Republic to the European Union.

The domestic demand contribution to the GDP growth gradually increased during the year. The domestic consumption growth was primarily accelerated by higher government spending. However, despite the increased household equipment expenditure associated with a year-on-year increase in housing loans by over one third, the consumption of households did not record any noticeable revival. The decreasing unemployment rate did not stimulate private consumption, either. The high comparison level from the previous year, mostly in the first half of the year, restrained the investment demand.

The 2005 development in prices confirmed the fact that a strong economic growth is not a material inflation pressure source. The year-on-year inflation was below the target inflation of 3% announced by the Czech National Bank (CNB). Prices were pushed up almost exclusively by the increasing demand for housing-related services, while inflation pressures on the side of demand remained very low. This development was also strengthened by the minimum impact of high prices of fuel on prices of goods and services as well as by the strengthening Czech currency. Supported by strong exports and the massive inflow of foreign investment, the currency grew stronger by almost 5% compared to the Euro. The low inflation made it possible for the CNB to cut interest rates three times during the first half of the year (by 25 points each time), which resulted in the historically lowest level of the key 2-week repo rate of 1.75%. The rapidly growing prices of oil in the world markets and fears of their effect on the inflationary expectations and wages, however, forced the CNB to increase the rates by 25 points in October.

Again, the state budget developed better than expected by the Ministry of Finance. Due to improved tax collection, the deficit of the state budget was “only” CZK 56.4 billion, which was the lowest figure since 2002. The total public budget deficit calculated according to the EU criteria was 2.8%, which qualified the country to meet the Maastricht criterion of 3% for the second consecutive year. The fiscal program of the government, however, still missed more radical reform steps that would make it possible to free the Czech healthcare system of its debt and ensure the sustainability of the pension system in the future. In addition, generous social plans put in danger the transition to Euro planned for 2010.

Economic and Business Results

When evaluating the 2005 results, we can say that the demanding tasks set by the shareholders were fulfilled both in the revenues and the net income. A closer look at the results of the Bank shows that there was a revenue growth in all business segments.

Net income according to the Czech accounting standards increased year-on-year to CZK 198 million. The total revenues in 2005 were CZK 1,839 million and increased by 18% compared with 2004. Net interest revenues grew even by as much as 12 percent.

The total assets of Živnostenská banka increased to CZK 48.9 billion in 2005. The total costs slightly grew compared with last year to CZK 1,549 million, mostly due to the completion of the branch network development, resulting in 42 outlets open by the end of 2005.

Last year, Živnostenská banka successfully launched the development of a new information system called EuroSIG; the system is expected to be fully implemented in 2006. This is one of the most important projects realized by the Bank in 2005, with effects reaching beyond the borders of the Czech Republic. After its successful implementation in the Bank, the system is expected to become a unified technical platform within UniCredit Group.

In the area of human resources management, we focused on improving the efficiency of the MBO (Management by Objective) and TSR (Team Rewards System) employee remuneration systems, which already had positive effects on employee motivation in the previous year. The Bank organized a number of training programs, including the launch of a new e-learning system.

Private and Retail Banking

A new business strategy and a focus on proactive sales methods converted into the confirmation of positive trends in both the private and retail banking spheres started in 2004.

If viewed from the product perspective, it is obvious that we managed to surpass the plan in all the strategic areas. The most dynamic growth was recorded by the bank in the area of mortgage loans, even compared with the whole market. This means that by reaching the volume of CZK five billion, we increased the market share of the Bank in this segment. There was a boom in the area of loans provided to the small business segment, which provides a solid background for meeting the strategic goal of a substantial market share increase in this segment, offering high revenue growth potential in the future.

In 2005, we managed to meet the plans of new retail client acquisition. There were over 11.5 thousand new retail clients using the services of the bank last year. The proportion of clients in the Affluent and Small Business sub-segments, representing 65% of the client portfolio, further proves the strategic focus on retail banking.

In the Private Banking segment, we managed to successfully change the distribution model, which enabled us to provide our clients with more comfort in business negotiations, simpler communication and closer personal relations between the clients and private bankers. In cooperation with Pioneer Investments, we arranged new investment opportunities using the Private Asset Management service. We have substantially increased the offer of structured investments, including guaranteed-return investment, where we included third-party products in our product portfolio, including Merill Lynch, Lehman Brothers etc. Naturally, we also took part in the successful issues of the US TOP 50, US TOP 50 II and EUROTOP 50 II structured deposits.

Corporate Banking

In the corporate banking segment, 2005 was a year of strengthening the position of the Bank among its traditional clients in the segment of big corporations and a growth of the client base in the segment of medium-size corporations. Successful acquisitions in the Middle Corporate segment were reflected in a higher proportion of this sub-segment in the total corporate banking revenues. These reached CZK 783 million, which exceeds the target of the plan by over 2 percent. Excellent results were achieved by the Bank primarily in non-interest revenues and asset-based interest revenues. The Bank has considerably increased the volume of loans (year-on-year increase by approx. CZK 5 billion) and achieved the share of 3.5% of the corporate loans market.

Dynamic development in export and trade financing also continued. Results in this area, where some indicators show our market share to be even over 6%, are a proof of the fact that the stereotype of being perceived as a historically limited medium-size bank can be successfully broken.

In 2005, we intended to support business activities and provide better result-oriented incentives to our employees. This includes the efficient setup of the incentive system parameters as well. The Bank applied some new employee motivation methods, which resulted in providing attractive solutions for the clients and improving business support.

Risk management

Živnostenská banka has traditionally paid great attention to risk management processes. By early identification and monitoring of risks, by the high quality of measurement and the sophisticated structure of internal limits for individual types of risks and products, the Bank is able to reduce individual risks to an acceptable level. This trend is evidenced by a sustained low volume of non-performing loans, which is deep below the average in the whole banking sector. At the end of 2005, the share of work out loans in the whole portfolio was 1.5%.

With respect to the Basle Committee's requirements for banking supervision, the Bank has been preparing intensively for changes in the regulatory environment since 2003, and will continue this process in the years to come. Representatives of the Bank are engaged in the Basle II project jointly with representatives of the CNB, Czech Association of Banks and other banks.

The basic risk management methodology is the Value at Risk (VaR) method, applied by the Bank since 2003. In 2004 the Bank implemented a new internal rating system for the corporate banking segment. Internal rating is an integral part of the credit process of the Bank.

In the operating risk sphere, the Bank has built a comprehensive database of operating risk events. In addition to monitoring and assessing operating risk events, the Bank performed the so-called self-assessment of potential operating risk events in 2005.

Charity and Sponsorship

Živnostenská banka has developed a long-term charity and sponsorship program focused on providing support to cultural, sports and educational projects.

In 2005, we started cooperation with the Tereza Maxová Foundation, which successfully completed a number of projects providing assistance to abandoned children during its existence. This corresponds with the policy of supporting mostly projects in the social sphere adopted by Živnostenská banka.

Other activities were oriented toward financing the operation of specially adapted microbuses through the Jedlička Institute Foundation. These microbuses are used exclusively by children in the Institute to drive them to school and for other activities.

One year before the Winter Olympic Games in Turin, Italy, we intensified cooperation with the Czech Olympic Committee, a body representing the Czech Republic in the international Olympic movement and taking care of the representation of the Czech Republic in the Olympic Games and other events organized by the International Olympic Committee and national Olympic committees.

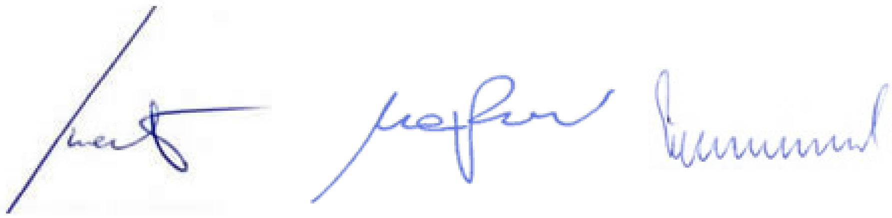
Živnostenská banka was the general partner of the prestigious 2005 Entrepreneur of the Year awards as well. The aim of this award is to award the work of people who have merit in the building and successful development of companies owned and managed by them. The Entrepreneur of the Year award was created by Ernst & Young in the United States of America in 1986.

Conclusion

The good results achieved in 2005 confirm that the good name of Živnostenská banka and traditionally high quality of services provided by the Bank, along with the dynamic approach and business model adopted by the Bank after its acquisition by UniCredito Italiano, offer big potential for the future development and successful operation of the Bank on the Czech market in the years to come. We are convinced that the planned integration of Živnostenská banka and HVB Bank in the Czech Republic will confirm these expectations.

March 2006

Board of Directors of Živnostenská banka



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 Živnostenská banka, a.s.

On the basis of our audit, on 10 February 2006 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 Živnostenská banka, a.s. for the year ended 31 December 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Živnostenská banka, a.s. as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic."

We have reviewed other financial information in the annual report for consistency with the audited financial statements. In our opinion, the information is consistent in all material respects with the audited financial statements.

The management of the Company is responsible for the completeness and accuracy of the report on relations between related parties. Our responsibility is to review the accuracy of the information included in the report. During our review nothing came to our attention that would cause us to believe that the information contained in the report is materially inaccurate.

Prague
21 April 2006

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner

Pavel Závitkovský
Partner
Licence number 69

Statutory Financial Statements audited by Czech Accounting Standards

BALANCE SHEET AS AT 31 DECEMBER 2005

	Assets:	Note	31 December 2005 MCZK	31 December 2004 MCZK
1.	**Cash and deposits with central banks**	**3**	**1 165**	**1 979**
2.	**State treasury and other bills eligible for CNB refinancing**	**6**	**344**	**606**
	a) issued by government institutions		344	606
3.	**Due from banks**	**4**	**9 468**	**12 428**
	a) repayable on demand		49	95
	b) other receivables		9 419	12 333
4.	**Due from customers**	**5**	**30 863**	**24 520**
	a) repayable on demand		13	6
	b) other receivables		30 850	24 514
5.	**Debt securities**	**6**	**5 162**	**5 170**
	b) issued by other entities		5 162	5 170
6.	**Shares, mutual shares and other interests**	**6, 7**	**29**	**22**
9.	**Intangible fixed assets**	**8**	**83**	**108**
10.	**Tangible fixed assets**	**8**	**1 238**	**1 456**
	of which: land and buildings for operating activities		998	1 196
11.	**Other assets**	**9**	**519**	**479**
13.	**Prepayments and accrued income**		**27**	**19**
	Total assets		**48 898**	**46 787**

BALANCE SHEET AS AT 31 DECEMBER 2005

Liabilities:		Note	31 December 2005 MCZK	31 December 2004 MCZK
1.	**Due to banks**	**11**	**5 512**	**5 389**
	a) repayable on demand		278	104
	b) other payables		5 234	5 285
2.	**Due to customers**	**12**	**34 204**	**33 228**
	a) repayable on demand		14 367	13 775
	b) other payables		19 837	19 453
3.	**Liabilities from debt securities**	**13**	**3 346**	**2 654**
	a) issued debt securities		3 346	2 654
4.	**Other liabilities**	**15**	**1 460**	**1 013**
5.	**Accruals and deferred income**		**1**	**38**
6.	**Provisions**	**10, 17**	**29**	**293**
	a) provisions for pensions and similar liabilities		2	2
	c) other provisions		27	291
7.	**Subordinated liabilities**	**14**	**1 000**	**1 000**
8.	**Share capital**	**16**	**1 360**	**1 360**
	a) share capital paid up		1 360	1 360
10.	**Reserve funds and revenue reserves**		**1 083**	**1 083**
	a) statutory reserve funds and risk funds		272	272
	b) other revenue reserves		811	811
13.	**Gains (losses) from revaluation**		**- 17**	**0**
14.	**Retained earnings from previous periods**		**722**	**534**
15.	**Profit for the accounting period**		**198**	**195**
	Total liabilities		**48 898**	**46 787**

OFF-BALANCE SHEET AS AT 31 DECEMBER 2005

	Assets:	Note	31 December 2005 MCZK	31 December 2004 MCZK
1.	Commitments and guarantees given	**17**	16 969	14 337
3.	Receivables from spot transactions		203	2 873
4.	Receivables from term instruments	**26**	19 909	16 352
5.	Receivables from option instruments	**26**	6 992	1 182
6.	Receivables written-off		133	85
	Total off-balance sheet assets		**44 206**	**34 829**
	Liabilities:			
9.	Commitments and guarantees received	**5**	5 227	4 326
10.	Collaterals received and pledges	**5**	30 632	28 467
	of which: Collaterals - securities	**17**	6 645	6 331
11.	Payables from spot transactions		203	2 873
12.	Payables from term instruments	**26**	19 858	16 275
13.	Payables from option instruments	**26**	6 992	1 182
14.	Assets under management	**17**	49 187	41 305
	Total off-balance sheet liabilities		**112 099**	**94 428**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

		Note	2005 MCZK	2004 MCZK
1.	**Interest receivable and similar income**	**18**	**1 532**	**1 432**
	of which: interest income from debt securities		199	143
2.	**Interest payable and similar expense**	**19**	**- 566**	**- 571**
	of which: interest expense on debt securities		- 48	- 47
	Interest margin		**966**	**861**
3.	**Income from shares and other interests**		**0**	**28**
	of which: a) income from interests in subsidiary undertakings		0	28
4.	Fee and commission income	**20**	**508**	**368**
5.	**Fee and commission expense**	**20**	**- 67**	**- 52**
	Gains or losses from fee and commission		**441**	**316**
6.	**Net gain from financial transactions**	**21**	**275**	**251**
7.	**Other operating income**	**22**	**158**	**103**
	Net income		**1 839**	**1 559**
8.	**Other operating expense**	**23**	**- 164**	**- 86**
9.	**Administrative expense**	**23**	**- 1 101**	**- 1 020**
	of which: a) staff costs		- 582	- 524
	of which: aa) wages and salaries		- 435	- 392
	ab) social and health insurance		- 147	- 132
	b) other administrative expenses		- 519	- 496
11.	**Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets**	**8**	**- 284**	**- 216**
	Net operating expense		**- 1 549**	**- 1 322**
12.	**Release of provisions and reserves for loans and guarantees, income from receivables already written-off**	**10**	**466**	**304**
13.	**Write-offs, additions and utilisation of provisions and reserves for loans and guarantees**	**10**	**- 486**	**- 340**
16.	**Release of other specific provisions**	**10**	**10**	**73**
17.	**Additions and utilisation of other specific provisions**	**10**	**- 6**	**- 21**
	Additions, usage and release of provisions		**- 16**	**16**
19.	**Profit on current activities before taxation**		**275**	**253**
	Profit on current and extraordinary activities for the year before taxation		**275**	**253**
23.	**Income tax**	**24**	**- 77**	**- 58**
24.	**Profit for the year after taxation**		**198**	**195**

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

	Share capital MCZK	Reserve fund MCZK	Revaluation gains (losses) MCZK	Retained earnings MCZK	Profit (loss) MCZK	Total MCZK
Balance as at 1 January 2004	**1 360**	**1 083**	**0**	**279**	**262**	**2 984**
Undistributed profit				255	-255	0
Social fund contributions					-7	-7
Net profit for the accounting period					195	195
Other changes						0
Balance as at 31 December 2004	**1 360**	**1 083**	**0**	**534**	**195**	**3 172**
Balance as at 1 January 2005	**1 360**	**1 083**	**0**	**534**	**195**	**3 172**
Undistributed profit				188	-188	0
Social fund contributions					-7	-7
Revaluation gains (losses) not included in the income statement			-17			-17
Net profit for the accounting period					198	198
Balance as at 31 December 2005	**1 360**	**1 083**	**-17**	**722**	**198**	**3 346**

Notes to Financial Statements For Year ended 31 December 2005

1 GENERAL INFORMATION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 - 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals in connection with income denominated in foreign currencies.

Živnostenská banka, a.s. (hereinafter referred to as "the Bank") was incorporated on 1 March 1992 as the legal successor of the original Živnostenská banka. The Bank has its registered office at Praha 1, Na Příkopě 858/20, and it is organised as eight domestic regional branches. The representative office in Bratislava, Slovak Republic was closed as at 30 June 2003.

The Bank's operations primarily consist of:

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

Since 11 February 2003 the Bank has been controlled by UniCredito Italiano SpA (hereinafter referred to as "UCI"). Until then the Bank had been controlled by Bankgesellschaft Berlin AG (hereinafter referred to as "BGB").

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting, the applicable accounting rules and regulations set by the Ministry of Finance of Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of selected financial instruments at fair values.

The financial statements are rounded to millions of Czech Crowns (MCZK) unless otherwise stated and are not consolidated. The Bank presents consolidated financial statements according to International Financial Reporting Standards separately.

(b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (hereinafter "CNB") effective at the balance sheet date. All resulting foreign exchange gains and losses are recognised in the income statement.

(c) Transaction date

Depending on the type of transaction, the transaction date is defined as the date of payment or collection of cash; the date of purchasing or selling of foreign currency or securities; date of payment or collection from a customer's account; date of order to a correspondent to make a payment, settlement date of the bank's payment orders with the ČNB clearing centre, the value date according to a statement received from a bank's correspondent (statement means SWIFT statement, bank's notice, received media, bank statement or other documents); the trade date and settlement date of transactions with securities, foreign currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit commitment; the date of acceptance of values into custody.

Accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions), as well as fixed term and option contracts, are recorded in off-balance sheet accounts from the trade date until the settlement date.

(d) Fair value of securities

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

- the share in the issuer's equity for equities or units;
- the risk adjusted net present value for debt securities and notes.

(e) Securities

(i) Securities valued at fair value through profit and loss

Securities valued at fair value through profit and loss include securities held for trading and securities which were determined as such by the Bank when recognized. Trading securities were either acquired to generate profit from short-term fluctuations in the price or in the dealer's margin, or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities valued at fair value through profit and loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in the income statement as "Net gain from financial transactions". Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on trading securities is reported as" Interest income on securities".

(ii) Available-for-sale securities

Available-for-sale securities are neither securities valued at fair value through profit and loss nor securities held to maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for the purpose of liquidity management. Available-for-sale securities are valued at fair value and gains (losses) from this revaluation are recognised in equity as "Revaluation gains (losses) not included in the income statement". On sale the relevant gain (loss) is recorded in the income statement as "Net gain from financial transactions". Non-securitised shares other than shares in subsidiaries and associates are measured at cost less impairment.

(iii) Securities held-to-maturity

Securities held-to-maturity are securities with fixed maturity where the Bank has both the intent and the ability to hold them to maturity.

Securities held-to-maturity are measured at amortised cost less impairment.

(f) Transfers between portfolios of securities

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

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

(g) Operations in securities carried on for clients

Securities accepted by the Bank for custody or deposition are generally valued by their real value at the moment of their takeover and posted in the off-balance sheet in the item "Values taken over for custody and deposit". Securities taken over by the Bank for the purpose of their management are accounted for in their market value and registered in an off-balance sheet in the item "Values taken over for management". Bank's liabilities toward clients, mainly those from the cash received from clients and designed for the purchase of securities, cash designed to be returned to the client, etc., are accounted for in liabilities of the balance sheet.

(h) Investments in subsidiary and associated undertakings

A subsidiary is an enterprise that is controlled by the Bank, which means that the Bank has the power to govern the financial and operating policies as to obtain benefits from its activities.

An associated undertaking is an enterprise where the Bank has significant influence, which is the power to participate in the financial and operating policy decisions, but not control.

Investments in subsidiary and associated undertakings are measured at cost less any impairment other than temporary.

(i) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (resale or reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cash-flows are recorded as loans and borrowings respectively on a settlement date basis.

(j) Derivative financial instruments and hedging

Derivative financial instruments including term foreign exchange contracts, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are recognized at the date of purchase at their notional value in off-balance sheet and from the settlement date they are re-measured at their fair value in the balance sheet. Fair values are obtained from quoted market prices and discounted cash-flow models. All derivatives are presented in “Other assets” or in ”Other liabilities” when their fair value is positive or negative respectively.

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

Changes in the fair value of derivatives held for trading are included in the income statement as “Net gain from financial transactions”.

The Bank designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

(i) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
(ii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
(iii) the hedge is effective on an ongoing basis.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

(k) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments on an accrual basis. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

Income on non-performing loans is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing loans.

(l) Penalty interest

Penalty interest income is suspended or forgiven and excluded from interest income until received.

Accrual of penalty interest income is suspended when loans become overdue by more than 90 days, or on other default events of a debtor and is recognised off-balance sheet. Such income is excluded from interest income until received.

(m) Fee and commission income

Fixed fee income for arrangement of loans, guarantees and other activities is recognised immediately, whereas commission is accrued over the period to maturity.

(n) Receivables

Receivables are stated at nominal value less specific allowances for watched and doubtful receivables and less alowances for portfolio of standard receivables, in the amount of impairment of standard loans. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor. If a receivable is purchased, the purchase price includes all expenses connected with the purchase, e.g. expenses for specialist valuation of purchased receivables, fees to lawyers and commissions.

(o) Provisions

Specific provisions are recognised when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. In addition, general provisions for banking risk recorded prior to 1 January 2002 were recognised in the balance sheet as at 31 December 2004, however, these were utilised or written back to income as required by law by 31 December 2005. All provisions are presented in liabilities.

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

Provisions are set aside in the currency, in which the settlement is expected to be made, so that related exchange differences arising are also recognised in the same way as the provision.

(p) Allowances

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet date.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses, connected with the decrease of assets, in the income statement. The release of allowances no longer considered necessary is recognised in the income.

Allowances for assets denominated in foreign currency are created in foreign currency.

(q) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives:

	Depreciation period (years)
Buildings and constructions	50
Technical improvement on buildings classified as historical monuments	15
Technical improvement on leasehold buildings	10
Energy equipment	12
Machinery and equipment	6
Furniture and fittings	6
Motor vehicles	4
Software and other intangible property	2 – 5
IT Equipment	4

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

(r) Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). The bank claims full and reduced deduction of input VAT since 2005. Acquired fixed assets with no claimed deduction of input VAT are recorded including VAT in the appropriate fixed asset accounts. Purchased supplies with no claimed deduction of input VAT are recorded including VAT in the purchased supplies accounts. Acquired fixed assets where reduced input VAT deduction was claimed are recorded including the unclaimed part of the VAT in the appropriate fixed asset accounts. Purchased supplies where reduced input VAT deduction was claimed are recorded including the unclaimed part of the VAT in the purchased supplies accounts.

(s) Deferred tax

Deferred tax is determined at the tax rate effective for the period, when its realisation is expected.

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

(t) Staff costs and pensions

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

The Bank provides to its employees contributions to a defined pension plan. Contributions paid by the Bank are reflected directly as an expense.

Regular contributions are made to the state budget to fund the national pension plan.

The Bank creates social fund. The social fund contributions are not charged to the income statement in accordance with Czech accounting rules and are presented in other liabilities.

(u) Related parties

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

- members of Board of Directors, Supervisory board, senior management and their relatives;
- corporates controlling the Bank and their shareholders holding more than 10% of capital, their senior management and its relatives;
- corporates in which board members of the Bank or senior management hold at least 10% shareholding;
- corporates in which entities controlling the Bank or their shareholders hold at least a 10% shareholding (thereinafter “related parties”);
- subsidiaries of the Bank.

In accordance with the Czech accounting rules the following related party balances and transactions are disclosed in Notes 4, 5, 6, 7, 9, 11, 12, 14, 15, 16, 17 and 23:

- total amount of loans provided by the Bank to members of Board of Directors, Supervisory Board, and to employees participating in the management of the Bank and related parties;
- total amount of deposits received by the Bank from the members of the Board of Directors, Supervisory Board, and from employees participating in the management of the Bank and related parties;
- total amount of guarantees issued by the Bank for the members of Board of Directors, Supervisory Board, and to employees participating in the management of the Bank and related parties;
- name and the place of incorporation of the Bank’s shareholders holding more than 10% of share capital or voting rights;
- all salaries and remuneration of members of Board of Directors, Supervisory Board in aggregated amounts for each body, and of employees participating in the management of the Bank.

During 2005 a merger between UniCredito Italiano Spa and Baverische Hypo- und Vereinsbank AG, Munich was agreed. The number of companies that are considered as “related parties” has therefore increased significantly.

(v) Subsequent events

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

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

(w) Changes in accounting policy

In 2004 the Bank presented changes in fair values of available-for-sale securities in the income statement. In 2005 the changes are presented in equity. The Bank decided in accordance with current legislation to reclassify selected available-for-sale securities from 1 January 2005 into the portfolio of securities valued at fair value through profit and loss .

3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2005 MCZK	31 December 2004 MCZK
Cash on hand	651	548
Obligatory reserves	507	1 428
Current accounts with central banks	7	3
	1 165	1 979

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 2.00% p.a. as at 31 December 2005 (31 December 2004: 2.50% p.a.).

4 DUE FROM BANKS

	31 December 2005 MCZK	31 December 2004 MCZK
Current accounts with banks	49	95
Term deposits with other banks	2 908	5 428
Standard loans to banks	278	437
Loans provided in reverse REPO transactions with CNB	6 233	6 468
	9 468	12 428

Loans to related parties	31 December 2005 MCZK	31 December 2004 MCZK
Parent company (UCI)	5	2
Companies in the group (UCI)	70	62
	75	64

In 2005 and 2004, the Bank did not restructure any of its receivables from banks. In 2005 and 2004 the Bank classified all claims from banks as standard.

5 DUE FROM CUSTOMERS

	31 December 2005 MCZK	31 December 2004 MCZK
Public sector	86	98
Financial sector	2 133	863
Non-financial sector - legal persons	24 138	20 873
Physical persons	5 300	3 307
	31 657	25 141
Allowance for portfolio of standard receivables (Note 10)	- 117	0
Allowance for impaired loans (Note 10)	- 677	- 621
	- 794	- 621
	30 863	24 520

In addition to the allowance for impaired loans the Bank has reflected a general provision for loans of MCZK 256 as at 31 December 2004. This provision was partially utilised and partially written back to income by 31 December 2005 (Note 2(p), Note 2(o), Note 10).

The bank recognized an allowance for the portfolio of standard receivables of MCZK 117 for the first time as at 31 December 2005. The methodology and principles for calculating this allowance are stated in Note 26(b).

The Bank restructured MCZK 101 of its loans and receivables in 2005 (31 December 2004: MCZK 159). Loans and other receivables are considered as restructured in case that the Bank grants relief to clients because it is likely that the Bank would incur losses if acting otherwise. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case where the client has fulfilled all requirements of loan agreements.

As at 31 December 2005 the Bank did not lead any syndicate loan (31 December 2004: MCZK 167).

(a) Quality of loan portfolio

Loans are categorised in accordance with the definitions issued by the CNB in five categories (standard, watch, substandard, doubtful, loss). Impaired loans include substandard, doubtful and loss loans and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance. Watch loans are usually overdue between 30 – 90 days or other risks characteristic are presented. Administration of impaired receivables, including their recovery, is performed by a separate department in the Bank.

The Bank additionally applies a portfolio approach to the categorisation of homogenous standard receivables, for which impairment on individual basis was not identified but where objective evidence of impairment on portfolio basis exists. Each receivable is considered individually, as is also the case for the creation of provisions.

	31 December 2005 MCZK	31 December 2004 MCZK
Standard	27 179	20 713
Watch	3 983	3 961
Substandard	147	16
Doubtful	97	186
Loss	251	265
	31 657	25 141

The Bank accepts collaterals for loans, but they are not taken into account for categorisation of the loans.

Book value of pledges accepted to secure client's loans:

	31 December 2005 MCZK	31 December 2004 MCZK
Accepted undertakings	5 227	4 326
Cash	561	425
Securities	18	462
Land and buildings	18 022	12 709
Other assets	5 386	8 540
	29 214	26 462

(b) Loans to related parties and major shareholders

Standard loans to companies and individuals include the following loans to related parties:

Loans to related parties	31 December 2005 MCZK	31 December 2004 MCZK
Companies in the group (UCI)	651	156
Board of Directors of the Bank	10	11
Supervisory Board of the Bank	2	2
Other members of management	19	23
Total loans to related parties	682	192

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

6 SECURITIES

	State treasury and other bills eligible for CNB refinancing at 31 December 2005 MCZK	2004 MCZK	Debt securities at 31 December 2005 MCZK	2004 MCZK	Shares, mutual share and other interests at 31 December 2005 MCZK	2004 MCZK
Valued at fair value through profit and loss	**344**	**606**	**4 453**	**4 413**	**0**	**0**
of which Trading:	**344**	**606**	**3 751**	**4 413**	**0**	**0**
- issued by government	344	606	0	0	0	0
- issued by financial sector	0	0	3 751	4 413	0	0
of which Determined as such on first recognition:	**0**	**0**	**702**	**0**	**0**	**0**
- issued by financial sector	0	0	521	0	0	0
- issued by non-financial sector	0	0	181	0	0	0
Available-for-sale:	**0**	**0**	**709**	**757**	**28**	**22**
- issued by financial sector	0	0	709	524	28	22
- issued by non-financial sector	0	0	0	233	0	0
	344	606	5 162	5 170	28	22

The Bank decided in accordance with current legislation to reclassify selected available-for-sale securities into portfolio of securities valued at fair value through profit and loss with effect from 1 January 2005. The Bank transferred debt securities of MCZK 552.

(a) Securities valued at fair value through profit and loss

State treasury bills and other securities accepted by Central bank for re-financing

	31 December 2005 MCZK	31 December 2004 MCZK
State treasury bills	100	357
Main or auxiliary market of recognised domestic stock exchanges	244	249
	344	606

Other debt securities

	31 December 2005 MCZK	31 December 2004 MCZK
Main or auxiliary market of recognised foreigner stock exchanges	4 453	4 413
	4 453	4 413

Securities valued at fair value through profit and loss as at 31 December 2005 include MCZK 503 of bonds issued by the related parties (31 December 2004: MCZK 153).

(b) Securities available-for-sale

Bonds and similar debt securities

	31 December 2005 MCZK	31 December 2004 MCZK
Main or auxiliary market of recognised foreigner stock exchanges	709	757
	709	757

Shares and similar equity securities

	31 December 2005 MCZK	31 December 2004 MCZK
Traded on main or auxiliary market of recognised stock exchanges		
Open mutual funds	14	12
Not traded on main or auxiliary market of recognised stock exchanges		
Joint stock company	15	10
Net value	29	22

Securities available-for-sale as at 31 December 2005 include securities at fair value of MCZK 14, which were issued by related company Pioneer investiční společnost, a.s. (at 31 December 2004: MCZK 12).

(c) Securities held-to-maturity

At 31 December 2005 and 31 December 2004 the Bank did not have any securities in a held to maturity portfolio.

7 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

(a) Investments in associated undertakings

At 31 December 2005 and 31 December 2004 the Bank did not have any investments in associated undertakings.

(b) Investments in subsidiary undertakings

At 7. January 2004 the Bank sold its interest in associated undertaking, ŽB - Trust, investiční společnost, a.s., to Pioneer Global Asset Management S.p.A. The selling price was 4 735 800 CZK for one share. Total selling price was MCZK 94.

At 31 December 2005

Name, registered office and major business	Number of shares pieces	At cost MCZK	Nominal value MCZK	Equity MCZK	Share capital MCZK	Shareholding %
Zivnostenska Finance B. V. Haaksbergweg Zuidoost, The Nenterlands; Financial and investment services	n/a*	1	1	0	1	100
Allowance for diminution in value (Note 10)		- 1				
Net value		0				

* n/a – not applicable

At 31 December 2004

Name, registered office and major business	Number of shares pieces	At cost MCZK	Nominal value MCZK	Equity MCZK	Share capital MCZK	Shareholding %
Zivnostenska Finance B. V. Haaksbergweg Zuidoost, The Netherlands; Financial and investment services	n/a*	1	1	0	1	100
Allowance for diminution in value (Note 10)		- 1				
Net value		0				

* n/a – not applicable

Investments in subsidiary and associated undertakings comprise solely investments in common stock. Voting rights are equal to the shareholders in each company.

(c) Movements in investments in subsidiary and associated undertakings

The movements in investment in subsidiary and associated undertakings during 2005 and 2004 can be analyzed as follows

	Subsidiary undertakings		Associated undertakings	
	At cost MCZK	Nominal value MCZK	At cost MCZK	Nominal value MCZK
At 1 January 2004	5	21	0	0
Sale of investment in ŽB - Trust, investiční společnost, a.s.	-5	-20	0	0
At 31 December 2004	0	1	0	0
At 31 December 2005	0	1	0	0

8 INTANGIBLE AND TANGIBLE FIXED ASSETS

Intangible fixed assets

	Software MCZK	Other MCZK	Total MCZK
Cost			
At 1 January 2004	**622**	**17**	**639**
Additions	72	1	73
Disposals	0	0	0
At 31 December 2004	**694**	**18**	**712**
At 1 January 2005	**694**	**18**	**712**
Additions	48	2	50
Disposals	- 30	0	- 30
At 31 December 2005	**712**	**20**	**732**
Depreciation and adjustments			
At 1 January 2004	**541**	**13**	**554**
Charge for the year	47	3	50
Disposals	0	0	0
At 31 December 2004	**588**	**16**	**604**
At 1 January 2005	**588**	**16**	**604**
Charge for the year	74	1	75
Disposals	-30	0	-30
At 31 December 2005	**632**	**17**	**649**
Net book value			
At 31 December 2004	**106**	**2**	**108**
At 31 December 2005	**80**	**3**	**83**

The Bank wrote-off software in the amount of MCZK 22.9 as at 31 December 2005 due to planned replacement of this software in April 2006. The extraordinary depreciation is part of the "Charge of the year".

Tangible fixed assets

	Land and works of art MCZK	Buildings MCZK	Equipment MCZK	Tangible FA not yet in use and advanced payments MCZK	Total MCZK
Cost					
At 1 January 2004	**45**	**1 576**	**1 127**	**22**	**2 770**
Additions	0	85	142	52	279
Disposals	0	0	-29	0	- 29
At 31 December 2004	**45**	**1 661**	**1 240**	**74**	**3 020**
At 1 January 2005	**45**	**1 661**	**1 240**	**74**	**3 020**
Additions	0	81	108	0	189
Other adjustments	0	0	0	- 67	- 67
Disposals	-10	-182	-121	0	-313
At 31 December 2005	**35**	**1 560**	**1 227**	**7**	**2 829**
Depreciation and adjustments					
At 1 January 2004	**0**	**499**	**928**	**0**	**1 427**
Charge for the year	0	61	105	0	166
Disposals	0	0	- 29	0	- 29
At 31 December 2004	**0**	**560**	**1 004**	**0**	**1 564**
At 1 January 2005	**0**	**560**	**1 004**	**0**	**1 564**
Charge for the year	0	100	109	0	209
Disposals	0	- 66	-116	0	-182
At 31 December 2005	**0**	**594**	**997**	**0**	**1 591**
Net book value					
At 31 December 2004	**45**	**1 101**	**236**	**74**	**1 456**
At 31 December 2005	**35**	**966**	**230**	**7**	**1 238**

The Bank wrote-off operating buildings of MCZK 32.5 as at 31 December 2005 due to the permanent impairment of these buildings. The extraordinary depreciation is part of the “Charge of the year”.

The Bank wrote-off hardware in the amount of MCZK 13.9 as at 31 December 2005 due to the planned replacement of this hardware in April 2006. The extraordinary depreciation is part of the “Charge of the year - Equipment”.

Fixed assets held under finance lease contracts

The Bank does not hold any assets under finance lease contracts.

Pledged assets

At 31 December 2005 and and 31 December 2004 no long-term fixed assets were provided by the Bank as security.

9 OTHER ASSETS

	31. December 2005 MCZK	31. December 2004 MCZK
Receivables from securities transactions	1	1
Operating advances granted	37	35
Positive fair value of derivative instruments (Note 26(d))	273	260
Deferred tax asset (Note 24)	40	41
Receivables from tax authorities	36	0
Other assets	132	142
	519	479

The item Positive fair value of derivative instruments as at 31 December 2005 includes 131 MCZK due from related parties (31 December 2004: MCZK 52).

10 ALLOWANCES, PROVISIONS AND WRITE OFFS

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

Provisions	31 December 2005 MCZK	31 December 2004 MCZK
General provisions for loans (Note 5)	0	256
Specific provisions for guarantees (Note 17)	0	4
Others	29	33
	29	293
Allowances		
Impaired loans to customers (Note 5)	677	621
Homogenous standard loans to customers (Note 5)	117	0
Equity investments (Note 7)	1	1
	795	622

The movements in provisions can be analysed as follows:

	General provisions for loans MCZK	Specific provisions for guarantees MCZK	Others provisions MCZK	Total provisions MCZK
At 31 January 2004	410	8	85	503
Creation	0	0	21	21
Release	- 154	- 4	- 73	- 231
At 31 December 2004	256	4	33	293
Creation	0	0	6	6
Usage	- 2	0	0	- 2
Release	- 254	- 4	-10	- 268
At 31 December 2005	0	0	29	29

The movements in allowances can be analysed as follows:

	Impaired loans to customers MCZK	Homogenous standard loans to customers MCZK	Investments in subsidiary undertakings MCZK	Total MCZK
At 1 January 2004	432	0	1	433
Additions	348	0	0	348
Usage	- 17	0	0	- 17
Release	- 133	0	0	- 133
Foreign exchange adjustment	- 9	0	0	- 9
At 31 December 2004	621	0	1	622
Additions	365	117	0	482
Usage	- 102	0	0	- 102
Release	- 207	0	0	- 207
At 31 December 2005	677	117	1	795

Write-offs and recovery of amounts written off previously

	31 December 2005 MCZK	31 December 2004 MCZK
Amounts due from clients written off	- 108	- 18
Recovery of amounts written off previously	1	13
Net loss amounts written off	- 107	- 5

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

11 DUE TO BANKS

	31 December 2005 MCZK	31 December 2004 MCZK
Due to other banks	5 512	5 389

Liabilities to related parties	31 December 2005 MCZK	31 December 2004 MCZK
Parent company (UCI)	231	13
Companies in UCI group	600	47
Deposits from related parties Total	831	60

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

12 DUE TO CUSTOMERS

	31 December 2005 MCZK	31 December 2004 MCZK
Amounts due to governmental entities	1 275	1 435
Amounts due to municipalities	89	18
Amounts due to private customers	32 840	31 775
	34 204	33 228

	31 December 2005 MCZK	31 December 2004 MCZK
Liabilities repayable on demand	14 367	13 775
Term accounts for fixed term	18 095	17 785
Term accounts with fixed notice period	1 362	1 460
Other	380	208
	34 204	33 228

Liabilities to related parties	31 December 2005 MCZK	31 December 2004 MCZK
Companies in UCI group	390	727
Board of Directors	11	11
Supervisory Board	3	3
Other management	19	29
Deposits from related parties Total	423	770

Except for certain bona fide employee deposits at preferential interest rates, management considers that deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavourable features.

13 LIABILITIES FROM DEBT SECURITIES

	31 December 2005 MCZK	31 December 2004 MCZK
Mortgage backed securities	1 811	737
Promissory notes and bills of exchange	1 345	1 725
Bonds	190	192
	3 346	2 654

14 SUBORDINATED DEBT

On 29 December 2004 the Bank repay a subordinated debt of EUR 1 milliard from BGB, and the same day receive a subordinated debt from parent company UCI in the same amount. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2009 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2014, with no repayment being possible before 29 December 2009 and without the consent of the CNB. The debt, which is unsecured, is subordinated to all other liabilities of the Bank and forms a part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy.

15 OTHER LIABILITIES

	31 December 2005 MCZK	31 December 2004 MCZK
Settlement clearance accounts	1 148	731
Negative fair value of derivative instruments (Note 26(d))	310	256
Current income tax liability	0	24
Social fund	2	2
	1 460	1 013

The item Negative fair value of derivative instruments as at 31 December 2005 includes balances with related parties of 30 MCZK (31 December 2004: MCZK 23).

16 EQUITY AND PROFIT DISTRIBUTION

Share capital

Issued and paid share capital of MCZK 1,360 is represented by 1,360,410 shares of a nominal value of CZK 1,000 per share.

Issues of shares

ISIN	Date of issue	Date of registration	Nominal value of share CZK	Number of shares pieces	Nominal value MCZK
CZ0008002557	17 April 1992	24 May 1993	1 000	633 407	633
CZ0008002557	17 April 1992	30 August 1993	1 000	727 003	727
					1 360

Shareholders and shares

Name and registered office	31 December 2005 %	31 December 2004 %
Unicredito Italiano SpA	96.63	96.61
Other shareholders holding individually less than 5% of share capital	3.37	3.39
	100.00	100.00

In compliance with the Act on operations on capital market, the Bank squeezed out the shares of minority shareholders. All remaining shares were transferred to Unicredito Italiano Spa on 9 January 2006, which became 100 the % shareholder of Živnostenská banka.

Bank shares owned by members of the Board of Directors, Supervisory Board and members of management can be summarised as follows:

	31 December 2005 pieces	31 December 2004 pieces
Board of Directors	0	0
Other management	137	137
	137	137

Profit distribution

The following table shows the distribution of net profit in 2004 and the proposed distribution of net profit for 2005:

	31 December 2005 MCZK	31 December 2004 MCZK
Social fund contributions	11	7
Retained earnings	187	188
	198	195

Social fund contributions are not charged to the income statement in accordance with Czech accounting rules.

As the balance of the statutory reserve fund reached 20% of registered capital, the bank is not obliged to contribute 5% of the profit for accounting period to the statutory reserve fund. This fund cannot be used for dividends payout.

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	31 December 2005	31 December 2004
Net profit attributable to shareholders (in MCZK)	187	188
Number of ordinary shares in issue (in thousand pieces)	1 360	1 360
Basic earnings per share (in CZK)	137.50	138.23

17 CONTINGENCIES AND COMMITMENTS

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

The Bank is the subject of several legal disputes. At 31 December 2005 a provision of MCZK 21 (31 December 2004: MCZK 21) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes.

Contingent liabilities include:

	31 December 2005 MCZK	31 December 2004 MCZK
Commitments	14 152	12 440
Guarantees granted on behalf of:		
Customers	2 456	1 821
Letters of credit	361	76
Total value of guarantees	2 817	1 897
Total commitments and guarantees	16 969	14 337

Provisions for guarantees and commitments as at 31 December 2005 was released in full amount (31 December 2004: MCZK 4) (Note 10).

Contingent assets with related parties	Loan commitments		Guarantees granted	
	31 December 2005 MCZK	31 December 2004 MCZK	31 December 2005 MCZK	31 December 2004 MCZK
Management	2	2	0	1
Companies in UCI group	0	23	10	0
	2	25	10	1

At 31 December 2005 and 2004 the Bank had no assets placed in custody or under management of a third party.

	31 December 2005 MCZK	31.December 2004 MCZK
Assets under custody		
Shares and mutual shares	1 451	1 096
Other	1 570	1 954
	3 021	3 050
Assets under management		
Shares and mutual shares	6 341	4 839
Bonds	39 825	33 416
	46 166	38 255

These assets are generally measured at fair value at the inception date.

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

The Bank acts as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds as at 31 December 2005 was MCZK 47.546 (31 December 2004: MCZK 39.777). Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2004.

Assets purchased under resale agreements (Reverse Repo transaction)

	31 December 2005 MCZK	31 December 2004 MCZK
Bonds	6 645	6 331

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

At 31 December 2005, the Bank sold under repurchase agreement debt securities in the fair value of MCZK 610 (2004: MCZK 0) recognized as purchased under resale agreement.

Capital expenditures

At 31 December 2005, the Bank had contractual commitments for capital expenditure of MCZK 27 (31 December 2004: MCZK 30).

18 INTEREST RECEIVABLE AND SIMILAR INCOME

	31 December 2005 MCZK	31 December 2004 MCZK
Interest on inter-bank transactions	253	362
Interest on loans to customers and state	1 080	927
Interest and discount on debt securities	199	143
	1 532	1 432

For the year ended 31 December 2005 and 31 December 2004, interest income does not include any interest income on impaired loans. In 2005, overdue penalty interest income of MCZK 14 (2004: MCZK 6) was not accrued to revenues.

At 31 December 2005 and 2004 the cumulative amount of penalty interest had not been forgiven.

19 INTEREST PAYABLE AND SIMILAR EXPENSE

	31 December 2005 MCZK	31 December 2004 MCZK
Interest on inter-bank transactions	159	138
Interest on deposits from customers and state	359	386
Interest and discount on issued certificates of deposit	12	21
Interest and discount on issued mortgage backed securities	32	24
Interest from financial derivatives	4	2
	566	571

20 COMMISSION AND FEE INCOME AND EXPENSES

	31 December 2005 MCZK	31 December 2004 MCZK
Commission and fee income		
Domestic and foreign countries payments	139	110
Loans	115	75
Maintenance of accounts	78	57
Transactions with cards	41	35
Assets under management fee	23	22
Cash and checks	21	20
Guarantees	23	17
Direct banking	9	9
Custody fee income	33	8
Brokerage from purchase and sale of securities and derivatives	10	7
Trade finance	10	6
Other	5	2
	508	368
Cost fees and commissions		
Transactions in payment cards	24	23
Foreign and domestic payments	12	11
Brokering of trades	19	8
Deposition of, custody of and trading in securities	5	7
Other cost fees and commission	7	3
	67	52
Net profit on fees and commission	**441**	**316**

21 NET GAIN FROM FINANCIAL TRANSACTIONS

	31 December 2005 MCZK	31 December 2004 MCZK
Realised gains less losses from the sale of securities held for trading	21	45
Realised gains less losses from the sale of available-for-sale securities	0	- 2
Gains less losses from foreign currency transactions	100	41
Other foreign exchange differences	186	181
Realised gains less losses from other transactions derivates	- 32	- 14
	275	251

22 OTHER OPERATING INCOME

	31 December 2005 MCZK	31 December 2004 MCZK
Income from sale of fixed assets	139	1
Income form written off liabilities	14	0
Gain from sale of subsidiaries and associates undertakings	0	89
Other income	5	13
	158	103

23 ADMINISTRATIVE EXPENSES

	31 December 2005 MCZK	31 December 2004 MCZK
Staff costs	582	524
Advertising & representation	93	106
Information technology	75	78
Telecommunications	80	73
Rent and lease charges	72	60
Consumption of material, fuel & energy	34	40
Stationery and similar expenses	44	38
Consumption of low value fixed assets	9	15
Other consulting	3	10
Audit, tax and legal advisory services	10	8
Other administration expenses	99	68
Total	1 101	1 020
Insurance of clients' deposits and contribution to Guarantee fund	34	61
Tax penalty	0	22
Loss from transfer of fixed assets	130	0
Other operating expenses	0	3
Total other operating expenses	164	86

Staff costs can be analysed as follows:

	31 December 2005 MCZK	31 December 2004 MCZK
Emoluments of Board of Directors	27	23
Emoluments of Supervisory board	1	1
Management	34	35
Other wages, personnel costs and emoluments of employees	373	333
Social security and health insurance	147	132
	582	524

Staff statistics

	31 December 2005	31 December 2004
Average number of employees	790	802
Number of members of the Board of Directors	3	3
Number of members of the Supervisory Board	9	9

24 TAXATION

	31 December 2005 MCZK	31 December 2004 MCZK
Profit before taxation	275	253
Permanent differences between profit and tax base:		
Non-taxable income	- 249	- 132
Non-deductible expenses	228	164
Net taxable profit/(loss)	254	285
10% investment relief	0	- 10
Utilised losses brought forward	0	0
Deductible gifts	- 1	- 1
Adjusted tax base	253	274
28% (31%) corporate tax charge	66	77
Additional tax charge for the year 2003 (2002)	5	1
Additional income tax assessment	0	21
Deferred income tax assets	6	- 41
Total	**77**	**58**
Deferred income tax liabilities		
Accelerated tax depreciation	- 4	-10
Deferred income tax assets		
Loan loss provisions	28	44
Revaluation of available-for-sale securities	5	0
Other provisions	1	0
Tax loss carry forwards	0	0
Expenses tax-deductible on cash flow basis	10	7
	44	51
Potential net deferred tax asset	40	41

On basis of audit by Financial ministry the bank paid additional income tax assessment for period 1999-2002 in amount of MCZK 21. The found properties presented by tax administrator in control report are in recall proceeding that was not finished yet.

A net deferred tax asset of MCZK 40 was recognized as at 31 December 2005 (2004: MCZK 41).The amount includes deferred tax liabilities of MCZK 4 (2004: MCZK 10), which is difference between tax and accounting depreciations of assets, and deferred tax asset in total amount MCZK 44 (2004: MCZK 51). The change in deferred tax presented in income statement does not include deferred tax asset from revaluation of available-for-sale securities, which is presented in Equity within "Revaluation gains (losses)".

25 BUSINESS SEGMENTATION

Assets	Private and retail banking	Corporate banking	Other	Total
	MCZK	MCZK	MCZK	MCZK
At 31 December 2005				
Cash and balances with central bank	0	0	1 165	1 165
Due from banks	0	0	9 468	9 468
Due from customers	5 548	25 315	0	30 863
Trading securities	0	0	4 798	4 798
Securities available-for-sale	0	0	737	737
Investments	0	0	0	0
Other assets	101	41	1 725	1 867
	5 649	25 356	17 893	48 898
At 31 December 2004				
Cash and balances with central bank	0	0	1 979	1 979
Due from banks	0	0	12 428	12 428
Due from customers	3 292	21 228	0	24 520
Trading securities	0	0	5 019	5 019
Securities available-for-sale	0	0	779	779
Investments	0	0	0	0
Other assets	19	120	1 923	2 062
	3 311	21 348	22 128	46 787

26 FINANCIAL RISKS

(a) Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives. The Bank policy allows to use derivatives only for hedge Bank's position or for clients deals. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

(b) Credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by industry sector and by country are approved by the Board of Directors.

In the course of 2004, the Bank implemented a new internal rating system for corporate banking segment. The internal rating system was developed in cooperation with the Bank's parent company. The internal rating system takes regard both to the client's financial system and to qualitative indices, such as the quality of management or position of the respective person on the market.

Individual entities are classified into nine classes. Based on the internal rating system, clients classified from 6 to 8 are included into the group of followed loans. Class 9 has been reserved for threatened loans.

The Bank creates allowances for watched and doubtful receivables in accordance with CNB notice No. 9. The Bank further creates allowance in the amount of any impairment of standard receivables. Objective evidence of impairment is any information that indicates a reduction in the expected future cash flows, although the reduction cannot be attributed to individual receivables. Portfolio allowances were created as at 31 December 2005 for the first time.

Geographical segmentation

	Domestic MCZK	European union MCZK	Other Europe MCZK	Other MCZK	Total MCZK
At 31 December 2005					
Cash and balances with central bank	1 165	0	0	0	1 165
Due from banks	8 573	484	147	264	9 468
Due from customers	28 668	1 264	392	539	30 863
Trading securities	526	2 722	58	1 492	4 798
Securities available-for-sale	28	709	0	0	737
Investments	0	0	0	0	0
Other assets	1 677	188	0	2	1 867
	40 637	5 367	597	2 297	48 898
At 31 December 2004					
Cash and balances with central bank	1 979	0	0	0	1 979
Due from banks	8 889	3 011	309	219	12 428
Due from customers	23 595	287	285	353	24 520
Trading securities	607	2 875	61	1 476	5 019
Securities available-for-sale	255	524	0	0	779
Investments	0	0	0	0	0
Other assets	1 960	61	41	0	2 062
	37 285	6 758	696	2 048	46 787

(c) Market risk

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

The Bank started been using “Value at Risk” (“VaR”) during the second half of year 2003 as a tool for estimating market risk of all open positions and the highest expected loss. The estimation is based on several assumptions of changes of market conditions. The Board of Directors sets the limits of maximum acceptable risk. The limits are monitored on a daily basis.

Daily VaR is considered to be an estimate of the potential loss with a 99% confidence level on the assumption that the actual position will not be changed in the following working day. The value of VaR is thus the value of loss, which the Bank can incur within one day and with a 99% probability the loss will not be higher than the VaR calculated. The Bank uses a methodology based on historical simulation for the VaR calculation. The calculation is set up in such a way, that a daily loss exceeding the VaR will not occur (on average) more frequently than each 100th working day. Daily revaluation of portfolios is compared to VaR on a daily basis (so-called “back testing”) with the purpose of potential re-calibration of parameters of the VaR model.

The Bank performs stress testing for main trading currencies (CZK, USD, EUR) on parallel shift of the yield curve by 1%. The Bank also performs stress testing describing foreign currency shocks, if exchange rates change by 3%.

(d) Derivative financial instruments

The Bank has outstanding derivative financial instruments contracts, which can be analysed as follows:

I. Trading derivatives

	31 December 2005			31 December 2004		
	Nominal value MCZK	Fair value positive MCZK	Fair value negative MCZK	Nominal value MCZK	Fair value positive MCZK	Fair value negative MCZK
Interest rate derivatives						
Forwards	501	2	1	5 261	4	2
Swaps	4 362	7	69	3 743	15	51
	4 863	9	70	9 004	19	53
Foreign exchange derivatives						
Forwards	1 151	2	22	1 805	27	41
Swaps	13 243	103	36	4 722	163	69
Option purchased	749	4	0	0	0	0
Option sold	749	0	4	0	0	0
	15 892	109	62	6 527	190	110
Credit derivatives						
Option purchased	2 747	155	0	591	51	0
Option sold	2 747	0	151	591	0	50
	5 494	155	151	1 182	51	50
Total	26 249	273	283	16 713	260	213

Changes in fair value of trading derivatives are recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific Czech accounting rules and are therefore presented above as trading derivatives. Gains and losses from fair value changes of these derivatives are recognised in the income statement.

II. Fair value hedging derivatives

	31 December 2005			31 December 2004		
	Nominal value MCZK	Fair value positive MCZK	Fair value negative MCZK	Nominal value MCZK	Fair value positive MCZK	Fair value negative MCZK
Interest rate derivatives						
Swaps	652	0	27	821	0	43

Changes in fair value of the above qualifying fair value hedging instruments are recognised in the income statement together with corresponding changes in the fair value of the hedged items as a result of the hedged risk. In case of hedged loans the changes in fair value of derivatives are recognised as "Interest on loans to customers and state" (Note 18). In case of hedged debt securities valued at fair value through profit and loss, which were determined as such by the bank at recognition, the changes in fair value of the derivative are recognised in "Net gain from financial transactions".

(e) Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

Other assets includes also prepayments and accrued income. The item Other liabilities includes Other liabilities, Accruals and deferred income and Provisions.

The VaR amount for foreign currency risk for all open foreign currency positions was MCZK 0.35 as of 31 December 2005 (31 December 2004: MCZK 0.3). The average VaR amount for foreign currency risk for the period from 1 January 2005 to 31 December 2005 was MCZK 0.4 (2004: MCZK 1.0).

As at 31 December 2005

Assets	CZK MCZK	EUR MCZK	USD MCZK	SKK MCZK	GBP MCZK	Other MCZK	Total MCZK
Cash and balances with central bank	978	89	41	9	13	35	1 165
Due from banks	8 443	190	250	423	7	155	9 468
Due from customers	24 342	5 458	873	3	26	161	30 863
Trading securities	739	2 166	1 467	0	426	0	4 798
Securities available-for-sale	28	709	0	0	0	0	737
Investments	0	0	0	0	0	0	0
Other assets	1 739	51	76	0	1	0	1 867
	36 269	8 663	2 707	435	473	351	48 898
Liabilities							
Due to banks	3 552	582	0	827	0	550	5 512
Due to customers	22 649	6 408	4 149	24	467	507	34 204
Liabilities from debt securities	2 828	272	244	0	0	2	3 346
Subordinated liabilities	1 000	0	0	0	0	0	1 000
Provisions	29	0	0	0	0	0	29
Other liabilities	4 254	372	155	9	11	6	4 807
	34 312	7 635	4 548	860	478	1 065	48 898
Net assets/(liabilities)	1 957	1 028	-1 841	-425	-5	-714	0
Net off-balance sheet assets from spot transactions and term instruments	- 1 912	- 1 029	1 829	427	9	727	51
Net open currency position	45	- 1	- 12	2	4	13	51

As at 31 December 2004

Assets	CZK MCZK	EUR MCZK	USD MCZK	SKK MCZK	GBP MCZK	Other MCZK	Total MCZK
Cash and balances with central bank	1 826	80	38	6	10	19	1 979
Due from banks	8 523	465	2 811	276	33	320	12 428
Due from customers	19 833	3 670	739	0	36	242	24 520
Trading securities	867	2 366	1 351	0	435	0	5 019
Securities available-for-sale	22	326	431	0	0	0	779
Investments	0	0	0	0	0	0	0
Other assets	1 979	70	5	2	3	3	2 062
	33 050	6 977	5 375	284	517	584	46 787
Liabilities							
Due to banks	3 006	1 260	1 016	0	1	106	5 389
Due to customers	21 695	6 048	4 091	299	533	562	33 228
Liabilities from debt securities	2 108	212	278	0	56	0	2 654
Subordinated liabilities	1 000	0	0	0	0	0	1 000
Provisions	293	0	0	0	0	0	293
Other liabilities	3 850	309	56	1	5	2	4 223
	31 952	7 829	5 441	300	595	670	46 787
Net assets/(liabilities)	1 098	- 852	- 66	-16	-78	-86	0
Net off-balance sheet assets from spot transactions and term instruments	- 961	808	63	18	67	82	77
Net open currency position	137	-44	-3	2	-11	-4	77

(f) Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase
as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The VaR amount for interest rate risk of the trading book was MCZK 2.4 as of 31 December 2005 (31 December 2004: MCZK 2.0). The average VaR amount for interest rate risk of the trading book for the period from 1 January 2004 to 31 December 2005 was MCZK 2.9 (2004: MCZK 2.0).

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2005

Assets	Within 3 months MCZK	3 – 12 months MCZK	1 – 5 years MCZK	Over 5 years MCZK	Unspecified MCZK	Total MCZK
Deposits with central bank	0	0	0	0	1 165	1 165
Due from banks	9 043	383	42	0	0	9 468
Due from customers	15 522	11 387	4 055	353	-454*	30 863
Trading securities	3 545	93	666	494	0	4 798
Securities available-for-sale	0	0	281	428	28	737
Investments	0	0	0	0	0	0
Other assets	101	136	10	0	1 620	1 867
	28 211	11 999	5 054	1 275	2 359	48 898
Liabilities						
Due to banks	5 311	101	100	0	0	5 512
Due to customers	32 243	1 304	277	0	380	32 204
Liabilities from debt securities	1 338	5	921	1 082	0	3 346
Subordinated liabilities	1 000	0	0	0	0	1 000
Provisions	0	0	0	0	29	29
Other liabilities	- 2	- 42	195	134	4 522	4 807
	39 890	1 368	1 493	1 216	4 931	48 898
Net assets/(liabilities)	- 11 679	10 631	3 561	59	-2 572	0
Net off-balance sheet assets from spot transactions and term instruments	878	1 221	- 1 578	- 470	0	51
Net open position	- 10 801	11 852	1 983	- 411	- 2 572	51

* MCZK - 454 is stated net of an amount of MCZK – 794 representing allowance for impaired loans (Note 5).

The Bank monitors interest sensitivity of assets, liabilities and off-balance sheet items over interest rates changes on models that simulate he shifts of yield curves by 1%..

At 31 December 2004

Assets	Within 3 months MCZK	3 – 12 months MCZK	1 – 5 years MCZK	Over 5 years MCZK	Unspecified MCZK	Total MCZK
Deposits with central bank	0	0	0	0	1 979	1 979
Due from banks	12 083	345	0	0	0	12 428
Due from customers	17 067	4 619	2 970	191	- 327*	24 520
Trading securities	4 214	279	431	95	0	5 019
Securities available-for-sale	0	233	198	326	22	779
Investments	0	0	0	0	0	0
Other assets	133	60	32	0	1 837	2 062
	33 497	5 536	3 631	612	3 511	46 787
Liabilities						
Due to banks	4 674	715	0	0	0	5 389
Due to customers	32 047	550	423	0	208	33 228
Liabilities from debt securities	1 722	0	932	0	0	2 654
Subordinated liabilities	1 000	0	0	0	0	1 000
Provisions	0	0	0	0	293	293
Other liabilities	13	0	205	79	3 926	4 223
	39 456	1 265	1 560	79	4 427	46 787
Net assets/(liabilities)	-5 959	4 271	2 071	533	- 916	0
Net off-balance sheet assets from spot transactions and term instruments	1 094	606	-1 318	-305	0	77
Net open position	-4 865	4 877	753	228	-916	77

* MCZK - 327 is stated net of an amount of MCZK - 621 representing allowance for impaired loans.

The Bank monitors interest sensitivity of assets, liabilities and off balance sheet items over interest rate changes on models that simulate shifts of yield curves by 1%.

(g) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

In case of unexpected outflow of liquid resources, the Bank has a back up portfolio of highly liquid government bonds and back up liquidity line with its main shareholder.

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

Debt securities can be realised on financial markets prior to their contractual maturity.

At 31 December 2005

Assets	Within 3 months MCZK	3 – 12 months MCZK	1 – 5 years MCZK	Over 5 years MCZK	Unspecified MCZK	Total MCZK
Deposits with central bank	658	0	0	0	507	1 165
Due from banks	8 886	442	140	0	0	9 468
Due from customers	8 473	7 040	8 231	7 484	-365*	30 863
Trading securities	552	93	3 302	851	0	4 798
Securities available-for-sale	0	0	281	428	28	737
Investments	0	0	0	0	0	0
Other assets	100	8	139	0	1 620	1 867
	18 669	7 583	12 093	8 763	1 790	48 898
Liabilities						
Due to banks	5 311	101	100	0	0	5 512
Due to customers	32 043	587	1 194	0	380	34 204
Liabilities from debt securities	1 342	0	922	1 082	0	3 346
Subordinated liabilities	0	0	0	1 000	0	1 000
Provisions	0	0	0	0	29	29
Other liabilities	52	20	172	41	4 522	4 807
	38 748	708	2 388	2 123	4 931	48 898
Net financial assets/(liabilities)	-20 079	6 875	9 705	6 640	-3 141	0

* MCZK - 365 is stated net of an amount of MCZK - 794 representing allowance for impaired loans.

At 31 December 2004

Assets	Within 3 months MCZK	3 – 12 months MCZK	1 – 5 years MCZK	Over 5 years MCZK	Unspecified MCZK	Total MCZK
Deposits with central bank	551	0	0	0	1 428	1 979
Due from banks	11 991	164	273	0	0	12 428
Due from customers	5 665	7 247	7 181	4 770	- 343*	24 520
Debt securities	650	697	3 311	361	0	5 019
Other assets	0	233	198	326	22	779
Deposits with central bank	0	0	0	0	0	0
Due from banks	129	62	43	0	1 828	2 062
	18 986	8 403	11 006	5 457	2 935	46 787
Liabilities						
Due to banks	4 674	715	0	0	0	5 389
Due to customers	31 992	611	417	0	208	33 228
Liabilities from debt securities	1 722	0	932	0	0	2 654
Subordinated liabilities	0	0	0	1 000	0	1 000
Provisions	0	0	0	0	293	293
Other liabilities	92	30	91	19	3 991	4 223
	38 480	1 356	1 440	1 019	4 492	46 787
Net financial assets/(liabilities)	- 19 494	7 047	9 566	4 438	- 1 557	0

* MCZK -343 is stated net of an amount of MCZK 621 representing allowance for impaired loans.

27 SUBSEQUENT EVENTS

The majority shareholder of the Bank effected squeeze-out in January 2006 and became the sole shareholder of the Bank, for more details, see Note 16.

Date

10 February 2006 Signature of the statutory representative

KPMG Česká republika, 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 Živnostenská banka, a.s.

On the basis of our audit, on 10 March 2006 we issued an auditor's report on the Company's 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 Živnostenská banka, a.s. for the year ended 31 December 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Živnostenská banka, a.s. as of 31 December 2005 and the results of its operations for the year then ended in accordance with International Financial Reporting Standards."

We have reviewed other financial information in the annual report for consistency with the audited consolidated financial statements. In our opinion, the information is consistent in all material respects with the audited consolidated financial statements.

Prague
21 April 2006

KPMG Česká republika

KPMG Česká republika, s.r.o.

Consolidated Financial Statements audited by International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 CZK million	2004 CZK million
Interest income	2	1 532	1 432
Interest expense	2	-566	-571
Net interest income		**966**	**861**
Fee and commission income	3	508	368
Fee and commission expense	3	-67	-52
Net fee and commission income		**441**	**316**
Net income from financial operations	4	275	251
Other operating income	5	42	87
General administrative and other operating expenses	6	-1 432	-1 350
Impairment losses, recovery and write off of loans and advances	7	-29	-107
Net operating income		**263**	**58**
Gains on disposal of subsidiaries	8	0	67
Profit before tax		**263**	**125**
Income tax expense	9	-77	-58
Net profit	10	**186**	**67**
Earnings per share (expressed in CZK per share) - basic and diluted	10	136,7	49.2

The following notes form an integral part of these consolidated financial statements.

	Notes	2005	2004
		As at 31 December	
		CZK million	CZK million
ASSETS			
Cash and balances with central bank	11	1 165	1 979
Trading securities	12	4 095	5 019
Derivative financial instruments held for trading	15	273	260
Due from other banks	13	9 468	12 428
Loans and advances to customers	16	30 863	24 269
Investment securities	14	1 440	779
Current tax asset		36	0
Deferred tax asset	9	40	41
Property, plant and equipment	19	1 238	1 456
Intangible assets	19	83	108
Other assets	20	197	197
Total assets		**48 898**	**46 536**
LIABILITIES			
Due to other banks	21	5 512	5 389
Due to customers	22	34 204	33 228
Derivative financial instruments and other trading liabilities	15	310	256
Debt securities in issue	23	3 346	2 654
Subordinated debt	24	1 000	1 000
Other liabilities	25	1 151	771
Provisions	26	29	37
Current tax liability		0	24
Total liabilities		**45 552**	**43 359**
SHAREHOLDERS' EQUITY			
Ordinary shares (1,360,410 shares fully paid)		1 360	1 360
Retained earnings		920	734
Statutory reserve fund		272	272
Revaluation reserve		-17	0
Other reserves		811	811
Total shareholders' equity		**3 346**	**3 177**
Total shareholders' equity and liabilities		**48 898**	**46 536**

These consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2006 and signed on its behalf by Mr Jiří Kunert, Chairman of the Board of Directors and by Mr Aleš Barabas, Member of the Board of Directors.

The following notes form an integral part of these consolidated financial statements.

	Share capital CZK million	Statutory reserve fund CZK million	Revaluation Reserve CZK million	Other Reserves CZK million	Retained earnings CZK million	Total Equity CZK million
Balance at 1 January 2004	**1 360**	**272**	**0**	**811**	**667**	**3 110**
Net profit	0	0	0	0	67	67
Balance at 31 December 2004	**1 360**	**272**	**0**	**811**	**734**	**3 177**
Net profit	0	0	0	0	186	186
Revaluation reserve			-17			-17
Balance at 31 December 2005	**1 360**	**272**	**-17**	**811**	**920**	**3 346**

Nature and purpose of the reserve balances is presented in Note 27.

The following notes form an integral part of these consolidated financial statements.

	Notes	Year ended 31 December 2005 CZK million	2004 CZK million
Cash flows from operating activities			
Interest income receipts		1 524	1 431
Interest payments		-603	-562
Fee and commission receipts		441	316
Net trading and other income received		374	674
Recoveries on loans previously written off		1	13
Cash payments to employees and suppliers		-1 148	-1 113
Income taxes paid		-108	-206
Operating cash flows before changes in operating assets and liabilities		481	553
Changes in operating assets and liabilities:			
Net decrease in trading securities		825	-398
Net (increase)/decrease in loans and advances to banks		776	415
Net (increase) in loans and advances to customers		-6 594	-1 959
Net decrease in other assets		0	-17
Net (decrease)/increase in deposits from other banks		123	610
Net (decrease) in amounts due to customers		976	-1 447
Net (decrease) in securities in issue		692	-758
Net increase in other liabilities		380	-795
Net cash (used in)/from operating activities		-2 341	-3 796
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	8	0	122
Purchase of property, plant and equipment and intangible assets		-239	-352
Proceeds from sale of property, plant and equipment and intangible assets		139	0
Dividend receipts		0	0
Purchases of available-for-sale securities		-911	-326
Proceeds from sales and redemption of securities		250	256
Net cash flow from investing activities		-761	-300
Effect of exchange rate changes on cash and cash equivalents		5	-420
Net (decrease)/increase in cash and cash equivalents		**-3 097**	**-4 516**
Cash and cash equivalents at beginning of year	31	13 193	17 709
Cash and cash equivalents at end of year	31	**10 096**	**13 193**

There was no cash flow from financing activities in 2005 and 2004.
The following notes form an integral part of these consolidated financial statements.

INTRODUCTION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 – 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals which related to their income denominated in foreign currencies.

Živnostenská banka, a.s. (hereinafter referred to as “the Bank”) was incorporated on 1 March 1992 as the legal successor of the original Živnostenská banka. The Bank has its registered office at Praha 1, Na Příkopě 858/20, and is organised as eight domestic regional branches. The representative office in Bratislava, Slovak Republic was closed on 30 June 2003.

The Bank’s operations primarily consist of:

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

These consolidated financial statements include the Bank’s subsidiaries involved in fund and other assets management (ŽB – Trust, investiční společnost, a.s. and ŽB – Asset Management, a.s.), hereby referred to together as “the Bank”. The Bank sold its interest in ŽB – Asset Management, a.s. to a related party, Pioneer Global Asset Management SpA (“PGAM”), with the effect from 30 December 2003 and subsequent to the year-end, on 7 January 2004, the interest in ŽB – Trust, investiční společnost, a.s. was also sold to PGAM. These consolidated financial statements include the Bank’s dormant subsidiary Zivnostenska Finance, B.V. The subsidiary is not material to the financial position, performance and cash-flow of the Group and was not therefore consolidated.

Since 11 February 2003 the Bank has been controlled by UniCredito Italiano Spa (hereinafter referred to as “UCI”). Until then the Bank had been controlled by Bankgesellschaft Berlin AG (hereinafter referred to as “BGB”).

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) including International Accounting Standards (“IAS”) and Interpretations issued by International Accounting Standards Board (“IASB”), as adopted by EU. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of selected financial instruments at fair values.

All amounts are shown in millions of Czech Crowns unless otherwise stated.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Consolidation

Subsidiary undertakings are those companies in which the Bank, directly or indirectly, has power to exercise control over financial and operating policies.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

The Bank sold its subsidiary ŽB – Trust, investiční společnost, a.s. on 7 January 2004. Currently the Bank owns only one subsidiary, Zivnostenska Finance BV, which is considered immaterial for the consolidation purposes. Therefore 2005 figures do not include the net assets and the results of any subsidiary. Comparative figures per 2004 include only the result from the sale of ŽB – Trust, investiční společnost, a.s.

(c) Foreign currencies

The consolidated financial statements are presented in Czech crowns ("CZK") which is the functional currency of the Bank.

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

(d) Derivative financial instruments

Derivative financial instruments including term foreign exchange contracts, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are recognized at the date of purchase at their notional value in off-balance sheet and from the settlement date they are re-measured at their fair value in the balance sheet. Fair values are obtained from quoted market prices and discounted cash-flow models. All derivatives are presented in "Other assets" or in "Other liabilities" when their fair value is positive or negative respectively.

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

Changes in the fair value of derivatives held for trading are included in "Net trading income".

On the acquisition date, the Bank designates certain derivatives as a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

b) The hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and

c) The hedge is effective on an ongoing basis.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the income statement, along with the corresponding change in the fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 15.

(e) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis.

Interest income includes coupons earned on fixed income available-for-sale and trading securities and accrued discount and premium on fixed income securities and other discounted instruments.

(f) Fee and commission income

Fixed fee income for arrangement of loans, guarantees and other activities is recognised immediately, whereas commission is accrued over the period to maturity. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised pro rata over the period the service is provided.

(g) Securities valued at fair value through profit and loss

Securities valued at fair value through profit and loss include Trading securities and Securities which were determined as such by the Bank when recognized (presented on the face of balance sheet within “Investment securities”). Trading securities were either acquired to generate profit from short-term fluctuations in the price or in the dealer’s margin, or included in a portfolio in which a pattern of short-term profit taking exists. Securities valued at fair value through profit and loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in the income statement as “Net trading income” or “Net income from investment securities”. Interest earned whilst holding trading securities is reported as “Interest income”. Dividends received are included in “Dividend income”.

All purchases and sales of securities valued at fair value through profit and loss that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at the settlement date. Such transactions are revaluated as derivatives until settlement occurs.

(h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (“repos”) are retained in the financial statements as originally recognized (securities valued at fair value through profit and loss or available-for-sale securities) and related liability to counterparty is included in amounts due to other banks, other deposits, or due to customers, as appropriate. Securities purchased under agreements to resell (“reverse repos”) are not recognized in the balance sheet and related receivable from counterparty is recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements. Securities lent to counterparties are retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(i) Securities available-for-sale

Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Securities are initially recognised at cost. Available-for-sale securities are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity investments are estimated using information from market makers to reflect the specific circumstances of the issuer. Gains (losses) from this revaluation are recognised in equity as “Revaluation reserve”. On sale the relevant gain (loss) is recorded in the income statement as “Net income from investment securities”.

Interest earned whilst holding available-for-sale securities is reported as “Interest income”.

All spot purchases and sales of available-for-sale securities are recognised at settlement date. All other purchases and sales are recognised as derivative forward transactions until settlement.

(j) Securities held-to-maturity

Securities where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

At 31 December 2005 and 2004 the Bank did not have any securities in the held-to-maturity category.

(k) Loans and receivables and the allowances for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as “Loans and receivables” and are carried at amortised cost less impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

For receivables, which are purchased, the purchase price includes all expenses connected with the purchase, e.g. expenses for specialist valuation of purchased receivables, fees to lawyers and commissions. Such receivables are carried at purchase price less impairment and are categorized as “Loans and receivables”.

An individual allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan loss allowance also covers losses where there is objective evidence that probable losses are present in the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each type of loan. The credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is uncollectible, it is written off against the related allowance for impairments; subsequent recoveries are credited to the impairment losses on loans and advances in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the impairment losses on loans and advances.

(l) Property, plant and equipment and intangible assets

All property and equipment and intangible assets are stated at historical cost less accumulated depreciation or amortisation.

Depreciation or amortisation is calculated on the straight-line method over its estimated useful life as follows:

	Useful life (years)
Buildings and constructions	50
Technical improvement on buildings classified as historical monuments	15
Technical improvement on leasehold buildings	10
Energy equipment	12
Machinery and equipment	6
Furniture and fittings	6
Motor vehicles	4
Software and other intangible property	2 – 5
IT Equipment	4

Property, plant and equipment and intangible assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Net gains and losses on disposal of property, plant and equipment and intangible assets are determined by reference to their net book value and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred, value enhancements are capitalised.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank excluding mandatory reserve deposits, treasury bills, amounts due from other banks and trading securities except equities.

(n) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the net present value of the obligation can be made.

(o) Employee benefits

During the year the Bank provides its employees with contributory pension insurance based on a defined contributory pension plan. These pension insurance contributions are accounted for directly into costs. In addition, in order to finance a state pension system, the Bank makes regular payments into the national pension plan.

(p) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted at the balance sheet date are used to determine deferred income tax.

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

(q) Leases

For operating leases, lease payments are recognised as an expense in the income statement over the lease term. The Bank did not enter into any (material) finance lease contracts.

(r) Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

(s) Fiduciary activities

Assets managed and revenues arising from such assets, as well as obligations to return such assets to clients, are not entered in these financial statements if the Bank acts as the agent, trustee or broker.

(t) Changes in accounting policies

In accordance with changes in IAS 39, the Bank presents changes in fair values of available-for-sale securities in equity. Because this change is treated as change in accounting policy, the Bank restated 2004 comparative information to be in line with new policy (Note 27). The Bank also decided in accordance with IAS 39 to re-designate selected available-for-sale securities from 1 January 2004 into the portfolio of securities valued at fair value through profit and loss.

2 NET INTEREST INCOME

	31 December 2005	31 December 2004
	CZK m	CZK m
Interest income		
Interest on inter-bank transactions	253	362
Interest on loans to customers and state	1 080	927
Interest and discount on debt securities	199	143
	1 532	1 432
Interest expense		
Interest on inter-bank transactions	159	138
Interest on deposits from customers and state	359	386
Interest and discount on issued certificates of deposit	12	21
Interest and discount on issued mortgage backed securities	32	24
Interest from financial derivatives	4	2
	566	571
Net interest income	**966**	**861**

For the year ended 31 December 2005 and 31 December 2004, interest income does not include any interest income on impaired loans. In 2005, overdue penalty interest income of MCZK 14 (2004: MCZK 6) was not accrued to revenues.

At 31 December 2005 and 2004 the cumulative amount of penalty interest had not been forgiven.

3 NET FEE AND COMMISSION INCOME

	31 December 2005	31 December 2004
	CZK m	CZK m
Fee and commission income		
Domestic and foreign countries payment	139	110
Loans	115	75
Maintenance of accounts	79	57
Transactions with cards	41	35
Asset under management fee	23	22
Cash and checks	21	20
Guarantees	23	17
Direct banking	9	9
Custody fee income	33	8
Brokerage from purchase and sale of securities and derivatives	10	7
Trade finance	10	6
Other	5	2
	508	368
Fee and commission expense		
Expense from interbank transactions	12	11
Fee expense in respect of payment card transactions	24	23
Brokerage fees paid	24	15
Expense from other operations	7	3
	67	52
Net fee and commission income	**441**	**316**

4 NET INCOME FROM FINANCIAL OPERATIONS

	31 December 2005 CZK m	31 December 2004 CZK m
Net trading income		
Trading securities and derivative instruments	-2	32
Foreign exchange gains	286	222
	284	254
Net income from investment securities		
Realised (losses)/gains from available-for-sale securities	0	1
Unrealised (losses)/gains from securities valued at fair value through profit and loss (including effect from fair value hedging derivatives)	-9	-4
	-9	-3
Net income from financial operations	**275**	**251**

Foreign exchange gains include gains and losses from spot and forward contracts, and gains and losses from translation of foreign currency assets and liabilities. Trading securities and derivative instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps and other derivatives. Equities trading income includes the results of making markets in equity securities.

5 OTHER OPERATING INCOME

	31 December 2005 CZK m	31 December 2004 CZK m
Release of provisions for guarantees and other specific provisions (note 26)	14	77
Net income from sales of tangible and intangible fixed assets	9	0
Other operating income	19	10
	42	87

6 GENERAL ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	31 December 2005 CZK m	31 December 2004 CZK m
General administrative and other operating expenses		
Staff costs	594	536
Depreciation of fixed assets	229	216
Impairment on fixed assets	55	0
Advertising and representation	93	106
Telecommunications	80	73
Information technology	75	78
Rent and lease charges	72	60
Stationery and similar expenses	44	38
Consumption of material, fuel and energy	34	40
Insurance client deposit and contribution to guarantee fund	34	61
Audit, tax and legal advisory services	10	8
Consumption of low value fixed assets	9	15
Other consulting	3	10
Tax penalty	0	22
Other expenses	100	87
	1 432	1 350

Staff costs		
Wages and salaries	435	392
Social security costs and social fund contributions	154	139
Pension costs	5	5
	594	536

The average number of employees of the Bank during 2005 was 790 (2004: 802).

7 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	31 December 2005 CZK m	31 December 2004 CZK m
Release/(additions) to allowance		
Release/(additions) to allowance for impairment	78	-102
Write-offs and recovery of amounts written off previously		
Amounts due from clients written off	-108	-18
Recovery of loans previously written off	1	13
	-107	-5
Total impairment losses on loans for the period	**-29**	**-107**

Movements in allowances for impairment are as follows:

	Individual impaired loans to customers CZK m	Homogenous standard loans to customers CZK m	Total CZK m
At 1 January 2004	432	338	770
Additions	348	0	348
Usage	- 17	0	- 17
Release	- 133	-87	- 220
Foreign exchange adjustment	- 9	0	- 9
At 31 December 2004	621	251	872
Additions	365	117	482
Usage	- 102	0	- 102
Release	- 207	-251	- 458
At 31 December 2005	677	117	794

8 DISPOSAL OF SUBSIDIARIES

On 7 January 2004 the Bank sold its interest in subsidiary, ŽB - Trust, investiční společnost, a.s., to Pioneer Global Asset Management S.p.A. The selling price was CZK 4 735 800 for one share. Total selling price was MCZK 94 and gain on disposal was MCZK 67.

No subsidiaries were disposed of during 2005.

	31 December 2004 CZK m
Due from banks	-39
Tangible and intangible assets	-8
Other assets	-19
Due to clients	0
Other liabilities	11
Gain on disposal	-67
Selling price	-94
Dividends received	-28
Consideration received	-122
Cash and cash equivalents disposed of	0
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	-122

9 INCOME TAX EXPENSE

	31 December 2005	31 December 2004
	CZK m	CZK m
Current tax expense	71	99
Deferred tax expense/(income)	6	-41
Income tax expense	77	58

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the Czech Republic as follows:

	31 December 2005	31 December 2004
	CZK m	CZK m
Profit before tax	263	125
Prima facie tax calculated at a tax rate of 26% (28%)	68	35
Income not assessable for tax purposes	-65	-37
Expenses not deductible for tax purposes	59	46
10% investment relief	0	-3
Tax effect of consolidation adjustments including tax shield	0	36
Additional tax charge for the year 2004 (2003)	5	1
Additional income tax assessment	4	21
Changes in deferred tax	6	-41
	77	58

The effective tax rate for the Bank is 29.3% (31 December 2004: 46.4%).

The movement in the deferred income tax asset comprises the following temporary differences:

	31 December 2005	31 December 2004
	CZK m	CZK m
Changes in deferred tax recognized in income statement		
Deferred income tax assets		
Tax non-deductible provisions for loans	28	44
Other timing differences	11	7
	39	51
Deferred income tax liabilities		
Differences between carrying amount and tax base of fixed assets	-4	-10
Changes in deferred tax recognized in Equity		
Deferred income tax assets		
Revaluation of available-for-sale securities	5	0
Net deferred income tax asset	**40**	**41**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 26 and 24% for the temporary differences expected to be realised in 2005 and the following years respectively (2004: 28%, 26% and 24%).

10 EARNINGS PER SHARE

A basic earning per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	31 December 2005	31 December 2004
Net profit attributable to shareholders (CZK m)	186	67
Weighted average of shares in issue (number)	1 360 410	1 360 410
Basic and diluted earnings per share (CZK per share)	136.7	49.2

11 CASH AND BALANCES WITH CENTRAL BANK

	31 December 2005 CZK m	31 December 2004 CZK m
Cash in hand	651	548
Balances with central bank other than mandatory reserve deposits	7	3
Included in cash and cash equivalents (Note 31)	658	551
Mandatory reserve deposits with central bank	507	1 428
	1 165	1 979

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 2.00% p.a. as at 31 December 2005 (31 December 2004: 2.50% p.a.).

12 TRADING SECURITIES

	31 December 2005 CZK m	31 December 2004 CZK m
State Treasury bills	100	357
Listed bonds issued by financial institutions	3 995	4 662
	4 095	5 019

State treasury bills include cash equivalents of CZK 70 million (31 December 2004: CZK 160 million) with less than 90 days maturity at balance sheet date (Note 31). Bills are categorised as assets held for trading and carried at their fair value.

Listed bonds issued by financial institutions include cash equivalents of MCZK 482 (31 December 2004: MCZK 491) with less than 90 days maturity at balance sheet date (Note 32). Bonds are categorised as assets held for trading and carried at their fair value.

13 DUE FROM OTHER BANKS

	31 December 2005	31 December 2004
	CZK m	CZK m
Current accounts	49	95
Reverse repos with central bank	6 233	6 468
Placements with other banks	2 908	5 428
Loans to other banks	278	437
	9 468	12 428

The total balance includes cash equivalents of MCZK 8 886 (31 December 2004: MCZK 11 991) due from banks with less than 90 days maturity (Note 31).

14 INVESTMENT SECURITIES

	31 December 2005	31 December 2004
	CZK m	CZK m
Available for sale securities		
Listed bonds	709	0
Listed open mutual funds	14	12
Non-listed stock	15	10
	738	22
Securities valued at fair value through profit and loss		
Listed bonds issued by financial institutions	521	482
Listed bonds issued by non-financial institutions	181	275
	702	757
	1 440	779

Bonds and other debt securities in investment securities at 31 December 2005 include MCZK 1 411 of securities bearing fixed interest until maturity (31 December 2004: MCZK 757).

15 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES

The Bank utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Except for certain currency swaps, no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The nominal and fair values of derivative instruments held are set out in the following table.

	31 December 2005			31 December 2004		
	Nominal value CZK m	Fair value Positive CZK m	Fair value Negative CZK m	Nominal Value CZK m	Fair value positive CZK m	Fair value negative CZK m
Derivatives designated as fair value hedges						
Interest rate swaps	652	0	27	821	0	43
Derivatives held for trading						
Interest rate derivatives						
Forwards	501	2	1	5 261	4	2
Swaps	4 362	7	69	3 743	15	51
	4 863	9	70	9 004	19	53
Foreign exchange derivatives						
Forwards	1 151	2	22	1 805	27	41
Swaps	13 243	7	69	4 722	163	69
Option purchased	749	4	0	0	0	0
Option sold	749	0	4	0	0	0
	15 892	109	62	6 527	190	110
Equity derivatives						
Option purchased	2 747	155	0	591	51	0
Option sold	2 747	0	151	591	0	50
	5 494	155	151	1 182	51	50
Total derivatives and other trading liabilities						
Interest rate	5 515	9	97	9 825	19	96
Foreign exchange	15 892	109	62	6 527	190	110
Equity	5 494	155	151	1 182	51	50
	26 901	273	310	17 534	260	256

The Bank undertakes approximately 70% of its transactions in foreign exchange and interest rate contracts with other financial institutions (2004: 70%). Management has established stop loss and maturity limits.

16 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2005	31 December 2004
	CZK m	CZK m
Public sector	86	98
Financial sector	2 133	863
Non – financial sector – legal persons	24 138	20 873
Physical persons	5 300	3 307
	31 657	25 141
Allowance for portfolio of standard receivables	-117	-251
Allowance for impaired loans	-677	-621
	-794	- 872
Net loans and advances to customers	30 863	24 269

The loan balances as at 31 December 2005 and 2004 include loans to related parties that are described further below.

The gross amounts as at 31 December 2005 and 2004 best represent maximum credit risk exposure of the Bank on these transactions without taking account of the fair value of any collateral.

17 SECURITIES HELD-TO-MATURITY

The Bank does not classify any securities as held-to-maturity.

18 NON CONSOLIDATED ENTITIES

At 7 January 2004 the Bank sold its interest in associated undertaking, ŽB - Trust, investiční společnost, a.s., to Pioneer Global Asset Management S.p.A. The selling price was 4 735 800 CZK for one share. Total selling price was MCZK 94.

At 31 December 2005

Name, registered office and major business	Number of shares pieces	At cost CZK m	Nominal value CZK m	Equity CZK m	Share capital CZK m	Shareholding %
Zivnostenska Finance B. V. Haaksbergweg Zuidoost, The Nenterlands; Financial and investment services	n/a*	1	1	0	1	100
Allowance for diminution in value		- 1				
Net value		0				

* n/a – not applicable

At 31 December 2004

Name, registered office and major business	Number of shares pieces	At cost CZK m	Nominal value CZK m	Equity CZK m	Share capital CZK m	Shareholding %
Zivnostenska Finance B. V. Haaksbergweg Zuidoost, The Netherlands; Financial and investment services	n/a*	1	1	0	1	100
Allowance for diminution in value		- 1				
Net value		0				

* n/a – not applicable

19 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets

	Software CZK m	Other CZK m	Total CZK m
Cost			
At 1 January 2004	622	17	639
Additions	72	1	73
Disposals	0	0	0
At 31 December 2004	694	18	712
At 1 January 2005	694	18	712
Additions	48	2	50
Disposals	- 30	0	- 30
At 31 December 2005	712	20	732
Depreciation and adjustments			
At 1 January 2004	541	13	554
Charge for the year	47	3	50
Disposals	0	0	0
At 31 December 2004	588	16	604
At 1 January 2005	588	16	604
Charge for the year	51	1	52
Impairment	23	0	23
Disposals	-30	0	-30
At 31 December 2005	632	17	649
Net book value			
At 31 December 2004	**106**	**2**	**108**
At 31 December 2005	**80**	**3**	**83**

The Bank wrote-off software in the amount of MCZK 22.9 as at 31 December 2005 due to planned replacement of this software in April 2006.

Property, plant and equipment

	Land and works of art	Buildings	Equipment	Tangible FA not yet in use and advanced payments	Total
	CZK m	CZK m	CZK m	CZK m	CZK m
Cost					
At 1 January 2004	45	1 576	1 127	22	2 770
Additions	0	85	142	52	279
Disposals	0	0	-29	0	- 29
At 31 December 2004	45	1 661	1 240	74	3 020
At 1 January 2005	45	1 661	1 240	74	3 020
Additions	0	81	108	0	189
Other adjustments	0	0	0	- 67	- 67
Disposals	-10	-182	-121	0	-313
At 31 December 2005	35	1 560	1 227	7	2 829
Depreciation and adjustments					
At 1 January 2004	0	499	928	0	1 427
Charge for the year	0	61	105	0	166
Disposals	0	0	- 29	0	- 29
At 31 December 2004	0	560	1 004	0	1 564
At 1 January 2005	0	560	1 004	0	1 564
Charge for the year	0	68	109	0	177
Impairment	0	32	0	0	32
Disposals	0	- 66	-116	0	-182
At 31 December 2005	0	594	997	0	1 591
Net book value					
At 31 December 2004	**45**	**1 101**	**236**	**74**	**1 456**
At 31 December 2005	**35**	**966**	**230**	**7**	**1 238**

The Bank wrote-off operating buildings of MCZK 32.5 as at 31 December 2005 due to the permanent impairment of these buildings.

20 OTHER ASSETS

	31 December 2005 CZK m	31 December 2004 CZK m
Accrued expense	27	19
Estimated receivables	15	10
Other debtors	84	44
Operating advances given	37	35
Other	34	89
	197	197

21 DUE TO OTHER BANKS

	31 December 2005 CZK m	31 December 2004 CZK m
Current accounts	278	104
Loans received from other banks	0	10
Term deposits of other banks	4 623	5 275
Credit received under Repo operations	611	0
	5 512	5 389

22 DUE TO CUSTOMERS

	31 December 2005 CZK m	31 December 2004 CZK m
Amounts due to governmental entities	1 275	1 435
Amounts due to municipalities	89	18
Amounts due to private customers	32 840	31 775
	34 204	33 228
Liabilities repayable on demand	14 367	13 775
Term accounts for fixed term	18 095	17 785
Term accounts with fixed notice period	1 362	1 460
Other	380	208
	34 204	33 228

23 DEBT SECURITIES IN ISSUE

	31 December 2005 CZK m	31 December 2004 CZK m
CZK medium term mortgage bonds	1 811	737
Promissory notes and bills of exchange	1 345	1 725
Bonds	189	192
	3 346	2 654

24 SUBORDINATED DEBT

On 29 December 2004 the Bank repaid a subordinated loan of CZK 1 billion from parent company UCI, and the same day received a subordinated debt from parent company UCI in the same amount. The subordinated loan bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2009 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2014, with no repayment being possible before 29 December 2009 and with the consent of the CNB. The loan, which is unsecured, is subordinated to all other liabilities of the Bank and forms a part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy

25 OTHER LIABILITIES

	31 December 2005 CZK m	31 December 2004 CZK m
Accruals	1	38
Estimated payables	211	50
Payments in transit	715	478
Other creditors	185	100
Amounts payable to employees	29	102
Other	10	3
	1 151	771

26 PROVISIONS

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

Provisions	31 December 2005 CZK m	31 December 2004 CZK m
Specific provisions for guarantees (Note 16)	0	4
Others	29	33
	29	37

The movements in provisions can be analysed as follows:

	Specific provisions for guarantees CZK m	Other provisions CZK m	Total provisions CZK m
At 1 January 2004	8	85	93
Creation	0	21	21
Release	- 4	- 73	- 77
At 31 December 2004	4	33	37
Creation	0	6	6
Release	- 4	-10	- 14
At 31 December 2005	0	29	29

The Bank is the subject to several legal disputes. At 31 December 2005 a provision of MCZK 6 (31 December 2004: MCZK 21) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes.

27 RESERVES AND RETAINED PROFIT

If the balance of the statutory reserve fund has not reached 20% of the share capital, the Bank is required under the Commercial Code to allocate 5% of annual statutory profit to this non-distributable fund.

Other reserves are allocated from retained profit as supplementary funds above the statutory reserve fund legal requirement of 20% of share capital. Utilisation of these reserves is not subject to ratification by the Annual General Meeting. These reserves can be used based on Board of Directors proposal approved by Supervisory Board.

The revaluation reserve includes the changes in fair values of available-for-sale securities (unrealized gain/loss and related deferred tax expense/income). The Bank restated 2004 comparative information to be in line with new accounting policy, however the unrealized gain on available-for-sale securities for 2004 was only MCZK 0.1).

28 DIVIDENDS PER SHARE

No dividends were paid in 2005 and 2004.

29 EMPLOYEE BENEFITS

The Bank contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees. Contributions are made based on a defined pension insurance plan and within the framework of this plan the Bank makes fixed pension insurance contributions on behalf of its employees. In addition, within this contributory pension insurance plan the Bank may pay its employees a certain percentage of the annual net profit proportionally to their annual income.

30 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceeding. The Bank is subject to several legal disputes (Note 26) related to its business activities.

Capital commitments. At 31 December 2005, the Bank had contractual commitments for capital expenditure of MCZK 27 (31 December 2004: MCZK 30).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate.

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit the Bank to extend credit to customers.

Credit commitments	31 December 2005	31 December 2004
	CZK m	CZK m
Original term to maturity of one year or less	2 034	6 300
Original term to maturity of more than one year	12 118	6 140
	14 152	12 440
Guarantees, acceptances and letters of credit	2 817	1 897

Operating lease commitments. The future minimum lease payments for buildings entered into by the Bank are as follows:

Year	31 December 2005	31 December 2004
	CZK m	CZK m
Within 1 year	73	67
2 years	74	64
3 years	76	63
4 years	78	62
5 years	78	36
Later than five years	0	18
	379	310

Assets held in custody and depository

The Bank acts as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds at 31 December 2005 was MCZK 39 777 (31 December 2004: MCZK 39 777). The amount of assets under management and under custody at 31 December 2005 is MCZK 41 305 (31 December 2004: MCZK 41 305). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2005.

31 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following balances with less than 90 days maturity at balance sheet date:

	31 December 2005 CZK m	31 December 2004 CZK m
Cash and balances with central bank (Note 11)	658	551
Treasury bills (Note 12)	70	160
Listed bonds issued by financial institutions (Note 12)	482	491
Due from other banks (Note 13)	8 886	11 991
	10 096	13 193

32 USE OF FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives. The Bank's policy allows use of derivatives only to hedge net Bank's position or for clients dealings. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Fair value hedges

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets using interest rate swaps (Note 16).

(b) Capital adequacy

To monitor the adequacy of its capital the Bank uses ratios established by the Czech National Bank ("CNB"), which are based on the rules of the Bank for International Settlements ("BIS"). These ratios measure capital adequacy (the required minimum is 8%) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Tier 1 capital consists of shareholders' equity less goodwill. Tier 2 capital includes the Bank's eligible subordinated debt.

The Bank's capital adequacy level was as follows:

	Capital		Capital adequacy	
	2005	2004	2005	2004
	CZK m	CZK m	%	%
CNB Capital Ratios - Czech GAAP				
Tier 1 capital	3 082	2 978	7.26	8.02
Tier 1 + Tier 2 capital	4 083	4 234	9.62	11.52
BIS Capital Ratios – IFRS				
Tier 1 capital	3 094	3 111	7.29	8.45
Tier 1 + Tier 2 capital	4 095	4 111	9.65	11.26

(c) Credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by industry sector and by country are approved by the Board of Directors.

In the course of 2004, the Bank implemented a new internal rating system for corporate banking segment. The internal rating system was developed in cooperation with the Bank's parent company. The internal rating system takes regard both to the client's financial system and to qualitative indices, such as the quality of management or position of the respective person on the market.

Individual entities are classified into nine classes. Based on the internal rating system, clients classified from 6 to 8 are included into the group of followed loans. Class 9 has been reserved for threatened loans.

The Bank creates allowances for impaired loans as the difference between the carrying amount of the loan and the estimated discounted future cash flows. The Bank further creates allowances for identified impairment on portfolios of homogenous standard receivables. Objective evidence of impairment is information that indicates a reduction in the expected future cash flows, although the reduction cannot be attributed to individual receivables.

Derivatives

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

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining commitments. The risk is viewed as modest, since it results from the possibility of unused portions of loan authorisation being drawn by the customer and, secondly, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being drawn.

Geographical concentrations of assets, liabilities, revenues and off balance sheet items

As at 31 December 2005

	Total assets CZK m	Total liabilities CZK m	Credit commitments CZK m	Revenues CZK m
Czech Republic	40 637	44 612	13 404	n/a
Other OECD countries	7 177	3 834	671	n/a
Non – OECD Central and Eastern Europe countries	567	43	12	n/a
Other countries	517	409	65	n/a
	48 898	48 898	14 152	2 357*

As at 31 December 2004

	Total assets CZK m	Total liabilities CZK m	Credit commitments CZK m	Revenues CZK m
Czech Republic	37 034	42 640	12 058	n/a
Other OECD countries	8 503	3 187	354	n/a
Non – OECD Central and Eastern Europe countries	621	102	19	n/a
Other countries	378	607	9	n/a
	46 536	46 536	12 440	2 138*

* The information system of the Bank is not able to distinguish revenues according to geographical regions.
n/a – not applicable

The Czech Republic is the home country of the Bank, which is also the main operating country.

Geographical concentrations of assets, liabilities, revenues and off balance sheet items (continued)

As an active participant in the international money markets, the Bank has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions was MCZK 10 627 at 31 December 2005 of which
MCZK 256 consisted of derivative financial instruments (31 December 2004: MCZK 12 549 of which derivative financial instruments: MCZK 121).

Interest and fee income, total assets, total liabilities and contingent liabilities are allocated based on the country in which the counterparty is located.

The following table presents the geographic sector risk concentration for the customer portfolio and advances to customers, credit commitments and guarantees given.

As at 31 December 2005

	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	28 668	93	15 450	91
Other OECD countries	1 360	4	1 440	9
Non – OECD Central and Eastern Europe countries	392	1	66	0
Other countries	443	2	13	0
	30 863	100	16 969	100

As at 31 December 2004

	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	23 344	96	13 917	97
Other OECD countries	285	1	378	3
Non – OECD Central and Eastern Europe countries	333	2	30	0
Other countries	307	1	12	0
	24 269	100	14 337	100

Geographical concentrations of assets, liabilities, revenues and off balance sheet items (continued)

Loans and advances are further analysed in Note 16.

Economic sector risk concentrations within the customer loan portfolio were as follows:

	31 December 2005		31 December 2004	
	CZK m	%	CZK m	%
Services	14 296	46	11 236	46
Manufacturing	9 750	32	8 686	36
Private individuals	4 868	16	3 090	13
Other	1 949	6	1 257	5
	30 863	100	24 269	100

(d) Market risk

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

The Bank started to apply "Value at Risk" ("VaR") during the second half of year 2003 as a tool for estimating market risk of all open positions and the highest expected loss. The estimation is based on several assumptions of changes of market conditions. The Board of Directors sets the limits of maximum acceptable risk. The limits are monitored on a daily basis.

Daily VaR is considered to be an estimate of the potential loss with a 99% confidence level on the assumption that the actual position will not be changed in the following working day. The value of VaR is thus the value of loss, which the Bank can incur within one day and with a 99% probability the loss will not be higher than the VaR calculated. The Bank uses a methodology based on historical simulation for the VaR calculation. The calculation is set up in such a way, that a daily loss exceeding the VaR will not occur (on average) more frequently than each 100th working day. Daily revaluation of portfolios is compared to VaR on a daily basis (so-called "back testing") with the purpose of potential re-calibration of parameters of the VaR model.

The Bank performs stress testing for main trading currencies (CZK, USD, EUR) on parallel shift of the yield curve by 1%. The Bank also performs stress testing describing foreign currency shocks, if exchange rates change by 3%.

(e) Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

Other assets includes also prepayments and accrued income. The item Other liabilities includes Other liabilities, Accruals and deferred income and Provisions.

The VaR amount for foreign currency risk for all open foreign currency positions was MCZK 0.35 as of 31 December 2005 (31 December 2004: MCZK 0.3). The average VaR amount for foreign currency risk for the period from 1 January 2005 to 31 December 2005 was MCZK 0.4 (2004: MCZK 1.0).

Concentrations of assets, liabilities and off balance sheet items

The Bank has the following significant currency positions:

	CZK	USD	GBP	EUR	Other	Total
As at 31 December 2005	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets						
Cash and balances with central bank	978	41	13	89	44	1 165
Trading securities	558	1 259	426	1 852	0	4 095
Due from other banks	8 443	250	7	190	578	9 468
Derivative financial instruments	229	25	0	19	0	273
Loans and advances to customers	24 342	873	26	5 458	164	30 863
Investment securities	209	208	0	1 023	0	1 440
Intangible assets	83	0	0	0	0	83
Property, plant and equipment	1 238	0	0	0	0	1 238
Other assets	189	51	1	32	0	273
Total assets	36 269	2 707	473	8 663	786	48 898
Liabilities						
Due to other banks	3 552	0	0	583	1 377	5 512
Derivative financial instruments and other trading liabilities	239	31	0	40	0	310
Debt securities in issue	2 828	244	0	272	2	3 346
Subordinated debt	1 000	0	0	0	0	1 000
Due to customers	22 649	4 149	467	6 408	531	34 204
Other liabilities	698	124	11	332	15	1 180
Current tax liability	0	0	0	0	0	0
Total liabilities	30 966	4 548	478	7 635	1 925	45 552
Net balance sheet position	5 303	-1 841	-5	1 028	-1 139	3 346
Off balance sheet net notional position	-1 912	1 829	9	-1 029	1 154	51
Credit commitments	12 304	192	21	1 489	146	14 152

As at 31 December 2004	CZK CZK m	USD CZK m	GBP CZK m	EUR CZK m	Other CZK m	Total CZK m
Assets						
Cash and balances with central bank	1 826	38	10	80	25	1 979
Trading securities	867	1 351	435	2 366	0	5 019
Due from other banks	8 523	2 810	34	465	596	12 428
Derivative financial instruments	251	1	0	8	0	260
Loans and advances to customers	19 582	739	35	3 671	242	24 269
Investment securities	22	431	0	326	0	779
Intangible assets	108	0	0	0	0	108
Property, plant and equipment	1 456	0	0	0	0	1 456
Other assets	164	5	3	61	5	238
Total assets	32 799	5 375	517	6 977	868	46 536
Liabilities						
Due to other banks	3 006	1 015	1	1 260	107	5 389
Derivative financial instruments and other trading liabilities	197	28	0	31	0	256
Debt securities in issue	2 108	278	56	212	0	2 654
Subordinated debt	1 000	0	0	0	0	1 000
Due to customers	21 695	4 092	533	6 048	860	33 228
Other liabilities	494	28	5	278	3	808
Current tax liability	24	0	0	0	0	24
Total liabilities	28 524	5 441	595	7 829	970	43 359
Net balance sheet position	4 275	-66	-78	-852	-102	3 177
Off balance sheet net notional position	-961	63	67	808	101	78
Credit commitments	11 023	161	8	1 167	81	12 440

(f) Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase
as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The VaR amount for interest rate risk of the trading book was MCZK 2.4 as of 31 December 2005 (31 December 2004: MCZK 2.0). The average VaR amount for interest rate risk of the trading book for the period from 1 January 2004 to 31 December 2005 was MCZK 2.9 (2004: MCZK 2.0).

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	0	0	0	0	0	1 165	1 165
Trading securities	697	2 848	93	145	312	0	4 095
Due from other banks	9 042	1	383	42	0	0	9 468
Derivative financial instruments	65	36	136	10	0	26	273
Loans and advances to customers	9 033	6 489	11 387	4 055	353	-454*	30 863
Investment securities	0	0	0	802	610	28	1 440
Intangible assets	0	0	0	0	0	83	83
Property, plant and equipment	0	0	0	0	0	1 238	1 238
Other assets	0	0	0	0	0	237	237
Current tax asset	0	0	0	0	0	36	36
Total assets	18 837	9 374	11 999	5 054	1 275	2 359	48 898
Liabilities							
Due to other banks	4 368	943	101	100	0	0	5 512
Derivative financial instruments and other trading liabilities	4	-6	-42	195	134	25	310
Debt securities in issue	1 272	66	5	921	1 082	0	3 346
Subordinated debt	0	1 000	0	0	0	0	1 000
Due to customers	30 659	1 584	1 304	277	0	380	34 204
Other liabilities	0	0	0	0	0	1 180	1 180
Current tax liability	0	0	0	0	0	0	0
Total liabilities	36 303	3 587	1 368	1 493	1 216	1 585	45 552
On balance sheet interest sensitivity gap	-17 466	5 787	10 631	3 561	59	774	3 346
Off balance sheet interest sensitivity gap	410	468	1 220	-1 578	-470	0	50

* MCZK -454 is stated net of an amount of MCZK 794 representing allowance for impaired loans.

The Bank monitors interest sensitivity of assets, liabilities and off-balance sheet items over interest rates changes on models that simulate he shifts of yield curves by 1%.

As at 31 December 2004	Up to 1 month CZK m	1-3 months CZK m	3-12 months CZK m	1-5 years CZK m	Over 5 years CZK m	Non-interest Bearing CZK m	Total CZK m
Assets							
Cash and balances with central bank	0	0	0	0	0	1 979	1 979
Due from other banks	11 881	202	345	0	0	0	12 428
Trading securities	1 149	3 065	278	432	95	0	5 019
Derivative financial instruments	66	102	60	32	0	0	260
Loans and advances to customers	9 225	7 842	4 619	2 970	191	-578*	24 269
Investment securities	0	0	233	198	326	22	779
Intangible assets	0	0	0	0	0	108	108
Property, plant and equipment	0	0	0	0	0	1 456	1 456
Other assets	0	0	0	0	0	238	238
Current tax asset	0	0	0	0	0	0	0
Total assets	22 321	11 211	5 535	3 632	612	3 225	46 536
Liabilities							
Due to other banks	3 463	1 211	715	0	0	0	5 389
Derivative financial instruments and other trading liabilities	63	35	35	104	19	0	256
Debt securities in issue	1 675	47	0	932	0	0	2 654
Subordinated debt	0	1 000	0	0	0	0	1 000
Due to customers	30 471	1 577	549	423	0	208	33 228
Other liabilities	0	0	0	0	0	808	808
Current tax liability	0	0	0	0	0	24	24
Total liabilities	35 672	3 870	1 299	1 459	19	1 040	43 359
On balance sheet interest sensitivity gap	-13 351	7 341	4 236	2 173	593	2 185	3 177
Off balance sheet interest sensitivity gap	157	937	606	-1 318	-305	0	77

* MCZK -578 is stated net of an amount of MCZK 872 representing allowance for impaired loans.

The Bank monitors interest sensitivity of assets, liabilities and off balance sheet items over interest rate changes on models that simulate shifts of yield curves by 1%.

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2005	CZK	USD	GBP	EUR
	%	%	%	%
Assets				
Cash and balances with central bank	1.04	0	0	0
Due from other banks	1.99	4.71	0	2.56
Trading securities and securities at fair value through profit and loss – debt securities	3.54	4.89	4.78	2.83
Loans and advances to customers	3.88	5.89	5.91	3.91
Securities available-for-sale – debt securities	0	0	0	3.69
Liabilities				
Due to other banks	1.84	0	0	2.27
Due to customers	0.91	1.67	2.63	0.83
Debt securities in issue	3.25	3.59	0	1.34

Assuming the financial assets and liabilities at 31 December 2005 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would reduce net income and the Bank's equity for the following year by approximately MCZK 27 (31 December 2004: MCZK 27).

The calculation is made on the assumption that the change will take place simultaneously on both assets and liabilities sides, which would not be the case in reality. The Bank would make re-pricing decisions with a certain delay after the change of market conditions, thus limiting the effect on the overall net income and the Bank's equity.

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2004	CZK	USD	GBP	EUR
	%	%	%	%
Assets				
Cash and balances with central bank	1.95	0	0	0
State treasury and other bills eligible for CNB refinancing	2.83	0	0	0
Due from other banks	2.50	2.25	4.25	2.57
Trading securities and securities at fair value through profit and loss – debt securities	4.78	2.69	5.03	2.36
Loans and advances to customers	4.33	4.97	5.58	4.08
Securities available-for-sale – debt securities	0	7.33	0	4.63
Liabilities				
Due to other banks	2.69	2.30	0	2.26
Debt securities in issue	1.26	0.89	2.97	0.70
Due to customers	2.89	1.84	4.34	1.21

(g) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

In case of unexpected outflow of liquid resources, the Bank has a back up portfolio of highly liquid government bonds and back up liquidity line with its main shareholder.

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

Debt securities can be realised on financial markets prior to their contractual maturity.

Maturities of assets and liabilities

As at 31 December 2005	Up to 1 month CZK m	1-3 months CZK m	3-12 months CZK m	1-5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Assets							
Cash and balances with central bank	658	0	0	0	0	507	1 165
Trading securities	136	416	93	2 781	669	0	4 095
Due from other banks	8 883	3	442	140	0	0	9 468
Derivative financial instruments	64	36	8	139	0	26	273
Loans and advances to customers	2 925	5 548	7 040	8 231	7 484	-365*	30 863
Investment securities	0	0	0	802	610	28	1 440
Intangible assets	0	0	0	0	0	83	83
Property, plant and equipment	0	0	0	0	0	1 238	1 238
Other assets	0	0	0	0	0	237	237
Current tax asset	0	0	0	0	0	36	36
Total assets	12 666	6 003	7 583	12 093	8 763	1 790	48 898
Liabilities							
Due to other banks	4 368	943	101	100	0	0	5 512
Derivative financial instruments and other trading liabilities	31	21	20	172	41	25	310
Debt securities in issue	1 272	70	0	922	1 082	0	3 346
Subordinated debt	0	0	0	0	1 000	0	1 000
Due to customers	28 974	3 069	587	1 194	0	380	34 204
Other liabilities	0	0	0	0	0	1 103	1 103
Current tax liability	0	0	0	0	0	77	77
Total liabilities	34 645	4 103	708	2 388	2 123	1 585	45 552
Net liquidity gap	-21 979	1 900	6 875	9 705	6 640	205	3 346

* MCZK -365 is stated net of an amount of MCZK 794 representing allowance for impaired loans.

The nature of the retail deposits held by the Bank is such that these have a short-term contractual maturity, although in practice their effective maturity is longer term.

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	551	0	0	0	0	1 428	1 979
Due from other banks	11 789	202	164	273	0	0	12 428
Trading securities	160	491	696	3 311	361	0	4 095
Derivative financial instruments	25	104	62	69	0	0	260
Loans and advances to customers	2 315	3 350	7 247	7 181	4 770	-594*	24 269
Investment securities	0	0	233	198	326	22	779
Intangible assets	0	0	0	0	0	108	108
Property, plant and equipment	0	0	0	0	0	1 456	1 456
Other assets	0	0	0	0	0	238	238
Current tax asset	0	0	0	0	0	0	0
Total assets	14 840	4 147	8 402	11 032	5 457	2 658	46 536
Liabilities							
Due to other banks	2 988	1 686	715	0	0	0	5 389
Derivative financial instruments and other trading liabilities	51	40	30	91	44	0	256
Debt securities in issue	1 674	48	0	932	0	0	2 654
Subordinated debt	0	0	0	0	1 000	0	1 000
Due to customers	28 838	2 946	819	417	0	208	33 228
Other liabilities	0	0	0	0	0	808	808
Current tax liability	0	0	0	0	0	24	24
Total liabilities	33 551	4 720	1 564	1 440	1 044	1 040	43 359
Net liquidity gap	-18 711	-573	6 838	9 592	4 413	1 618	3 177

* MCZK -594 is stated net of an amount of MCZK 872 representing allowance for impaired loans.

The nature of the retail deposits held by the Bank is such that these have a short-term contractual maturity, although in practice their effective maturity is longer term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(h) Fair values of financial assets and liabilities

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

	Carrying value		Fair value	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	CZK m	CZK m	CZK m	CZK m
Financial assets				
Due from other banks	9 428	12 428	9 428	12 428
Loans and advances to customers	30 863	24 269	30 863	24 269
	40 291	36 697	40 291	36 697
Financial liabilities				
Due to other banks	5 512	5 389	5 512	5 389
Due to customers	32 204	33 228	32 204	33 228
Debt securities in issue	3 346	2 654	3 317	2 632
	41 062	41 271	41 033	41 249

Due from other banks

Due from other banks includes short-term inter-bank placements and items in the course of collection at approximately their fair values. It also includes loans and advances to other banks, the majority of which reprice within relatively short time spans; therefore it is assumed their carrying values approximate their fair values.

Loans and advances to customers

Loans and advances are net of specific and portfolio provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair value.

Due to other banks

The carrying values of current account balances are, equal to their fair values. For other amounts due to banks with equal or less then one year remaining maturity, it is assumed their carrying values approximate their fair values.

Due to customers

The fair values of current accounts as well as term deposits with equal to or less then one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturity. A substantial majority of the term deposits reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair value.

Debt securities in issue

The fair values of issued bonds are estimated by discounting their future cash flows using rates currently offered for bond similar remaining maturities. The carrying values of promissory notes approximate their fair value as all matured within three months.

(i) Fiduciary activities

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. These services give rise to the risk that the Bank will be accused of mal-administration or under-performance. The amount of assets under management and under custody at 31 December 2005 is MCZK 49 187 (31 December 2004: MCZK 41 305). At the balance sheet date the Bank had investment custody and fund depository accounts amounting to approximately MCZK 47 546 (31 December 2004: MCZK 39 777).

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Bank, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or a party and Bank are under common control.

A number of other banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and guarantees granted. These transactions were carried out on commercial terms and conditions and at market rates.

The volumes of other related party transactions, outstanding balances as at the balance sheet date, and relating expense and income for the year 2005 and 2004 are as follows:

	Parent company		Companies within UCI Group		Board members and other directors	
	2005	2004	2005	2004	2005	2004
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets and income						
Loans at 31 December	0	0	651	217	31	36
Term deposits at 31 December	2	0	70	0	0	0
Current accounts at 31 December	3	2	0	1	0	0
Interest income	1	6	7	16	1	1
Fee income	0	0	1	1	0	0
Trading income	0	0	51	51	0	0
Other income	0	0	0	1	0	0
Liabilities and expense						
Term deposits at 31 December	0	0	703	672	13	10
Current accounts at 31 December	231	13	287	102	20	33
Subordinated debt 31 December	1 000	1 000	0	0	0	0
Interest expense	30	30	5	7	1	1
Trading expense	0	0	0	0	0	0
Other expense	21	5	0	0	0	0
Guarantees issued at 31 December	10	0	0	0	0	1

Items are sorted by type of products and include both due from/to banks and due from/to customers.

No provisions have been recognised in respect of loans or other amounts due from related parties.

A listing of the members of the Board of Directors and directors is shown in the annual report. In 2005 the total remuneration of the Board of Directors and the Supervisory Board was MCZK 28 (31 December 2004: MCZK 24). This amount consisted solely of short-term benefits.

Related parties transactions including foreign exchange trading, intermediation of sale and purchase of certificates of deposits and shares have been carried out on an arm's length basis.

The Bank has granted loans to its directors, management and their related parties. These transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

34 SUBSEQUENT EVENTS

The majority shareholder of the Bank effected squeeze-out in January 2006 and became the sole shareholder of the Bank.

Date

10 February 2006 Signature of the statutory representative

NON-AUDITED RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT

	As at 31 December 2005			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
ASSETS				
Cash and balances with central bank	1 165	0	1 165	
Trading securities	4 095	0	4 095	
Due from other banks	9 468		9 468	
Derivative financial instruments	0	273	273	(1)
Loans and advances to customers	30 863		30 863	
Investment securities	1 440		1 440	
Other assets	519	-322	197	(1), (3), (4), (5)
Current tax asset	0	36	36	(4)
Deferred tax asset	0	40	40	(3)
Property, plant and equipment	1 238		1 238	
Intangible assets	83		83	
Prepayments and accrued income	27	-27	0	(5)
Total assets	**48 898**	**0**	**48 898**	
LIABILITIES				
Due to other banks	5 512	0	5 512	
Due to customers	34 204	0	34 204	
Derivative financial instruments and other trading liabilities	0	310	310	(2)
Debt securities in issue	3 346	0	3 346	
Subordinated debt	1 000	0	1 000	
Other liabilities	1 460	-309	1 151	(2), (6)
Provisions	29	0	29	
Current tax liability	0	0	0	
Accruals and deferred income	1	-1	0	(6)
Total liabilities	**45 552**	**0**	**45 552**	
SHAREHOLDERS' EQUITY				
Ordinary shares	1 360	0	1 360	
Reserves and retained profit	1 986	0	1 986	
Total shareholders' equity	**3 346**	**0**	**3 346**	
Total equity and liabilities	**48 898**		**48 898**	

(1) Reclassification of derivative financial instruments of CZK 273 million within the separate caption "Derivative financial instruments" for IFRS purposes from "Other assets", where derivatives were recorded under CAS.

(2) Reclassification of derivative financial instruments of CZK 310 million within the separate line "Derivative financial instruments and other trading liabilities" for IFRS purposes from item "Other liabilities", where derivatives were recorded under CAS.

(3) Reclassification of deferred tax asset of CZK 40 million within the separate caption "Deferred tax asset" for IFRS purposes from "Other assets", where tax asset were recorded under CAS.

(4) Reclassification of current tax asset of CZK 36 million within the separate caption "Current tax asset" for IFRS purposes from "Other assets", where tax asset were recorded under CAS.

(5) Reclassification of prepayments and accrued income of CZK 27 million within the separate caption "Prepayments and accrued income" for CAS purposes from "Other assets", where prepayments and accrued income were recorded under IFRS.

(6) Reclassification of accruals and deferred income of CZK 1 million within the separate caption "Accruals and deferred income" for CAS purposes from "Other liabilities", where accruals and deferred income were recorded under IFRS.

NON-AUDITED RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT

	For the year ended 31 December 2005			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
Net interest income	966	0	966	
Net fee and commission income	441	0	441	
Net income from financial operations	275	0	275	
Other operating income	158	-116	42	(2), (4), (5)
General administrative and other operating expenses	-1 549	117	-1 432	(1), (3), (5)
Impairment losses, recovery and write off of loans and advances	-16	-13	-29	(2), (3), (4), (6)
Net operating income	**275**	**-12**	**263**	
Gains on disposal of subsidiaries	0	0	0	
Profit before tax	**275**	**-12**	**263**	
Income tax expense	-77	0	-77	
Net profit	**198**	**-12**	**186**	

(1) Under IFRS, reclassification of payment to social fund of CZK 7 million from “Reserves and retained profit” to “General administrative and other operating expenses”.

(2) Under IFRS, reclassification of release of provisions of CZK 10 million from “Impairment losses on loans and advances” to “Other operating income”.

(3) Under IFRS, reclassification of additions to provisions of IRS of CZK 6 million from “Impairment losses on loans and advances” to “General administrative and other operating expenses”.

(4) Reclassification of release of specific provision for guarantees of CZK 4 million from “Impairment losses on loans and advances” to “Other operating income” for IFRS purposes.

(5) Reclassification of loss from transfer of fixed assets of CZK 130 million from “General administrative and other operating expenses” into “Other operating income”, where it is netted under IFRS with proceeds from this sale.

(6) Adjustment of opening balance of allowances for loans for year 2005 reflecting the higher creation of allowances under IFRS unlike CAS by CZK 5 million as of 2004 year end required by IAS 39.

Report on Relations between the Controlling Person and the Controlled Person and on Relations between the Controlled Person and Other Persons Controlled by the Same Controlling Person

Under Section 66a (9) of Act No. 513/1991 Coll., the Commercial Code as amended, the Board of Directors of Živnostenská banka, a.s., registered office Prague 1, Na Příkopě 858/20, identification number 00001368 incorporated in the Commercial Register kept by the Municipal Court in Prague, Part B, entry No. 1350 ("Živnostenská banka" or "ŽB") has worked out the **Report on Relations between the Controlling Person and the Controlled Person and on Relations between the Controlled Person and other Persons Controlled by the Same Controlling Person for the 2005 accounting period.**

During the whole accounting period of 2005 Živnostenská banka was controlled by **UniCredito Italiano S.p.A.** ("UCI"), registered office Via Dante 1, 16121 Genoa, Italy, incorporated in the Register of Companies under No. 1812 and in the Commercial Register under the number GE025-22 maintained with the Commercial, Industrial, Handicraft and Agricultural Chamber for Genoa.

Živnostenská banka controls the company **Zivnostenska Finance B.V.**, Haaksbergweg Ziudoost, the Netherlands. It is a dormant company which did not show any activity during the accounting period.

In the accounting period 2005, other relations existed with other interconnected persons, specifically with the following companies: **Unicredit Banca, UBM SPA, Unicredit Banca SA, Unicredit Banca d´Impresa, Unicredit Banca d´Impresa SA, Unicredit Factoring SPA**, **UniCredit Servizi Informativi SPA, Zagrebaćka Banka DD**, **Bank Pekao SA**, **IKB Deutsche Industriebank AG**, **Unibanka, a.s.**, **Unicredit Leasing Romania SA, KOC Bank AS, HVB Bank AG, HVB Bank ČR a.s., HVB Bank SR a.s., Hypovereinsbank Finance NV, HYPO Stavební spořitelna a.s., Bank Austria Creditanstalt AG, CAC Leasing a.s., Fiat ČR s.r.o., Pioneer Global Asset Management S.p.A, Pioneer česká investiční společnost, a.s., Pioneer česká finanční společnost, a.s., Pioneer Global Funds Distributor, Ltd** and **Pioneer – Asset Management, a.s.**

The Board of Directors of Živnostenská banka hereby declares that only relations with the above mentioned companies existed between Živnostenská banka and persons interconnected with it in the 2005 accounting period.

1. **Contracts** concluded between Živnostenská banka and interconnected persons in the 2005 accounting period:

1.1. Živnostenská banka and UCI entered into the following contracts in the accounting period 2005:

Name of the Contract	Subject-matter	Date of entering
Agency agreement (in relation to the squeeze-out)	Payment by ŽB, on behalf of UCI and with UCI funds of the consideration due to minority shareholders)	8.8.2005

1.2. Živnostenská banka and the Pioneer Group entered into the following contracts in the accounting period 2005:

Name of the Contract	Subject-matter	Date of entering
Contract for alternative operation + Appendix No. 1-5	Contract for ensuring the alternative operation in extraordinary cases when no standard operation in standard premises of the Pioneer Investments companies is possible	3.1.2005
Amendment No. 5 to the Contract for Distribution	An amendment to the Contract for Distribution of Participation Certificates of open-end mutual funds and related services	1.9.2005
Amendment No. 1 to the Contract for Arranging contracts for management	An amendment to the Contract for Arranging contracts for management	1.4.2005
Amendment No. 2 to the Contract for Arranging contracts for management	An amendment to the Contract for Arranging contracts for management	1.7.2005
Agreement on termination of a contract	An agreement on terminating the Contract for Mutual Co-operation in selling a combined product – a VISA Sporokonto payment card	9.5.2005
Amendment C to the Contract for Distribution	Contract for distributing Pioneer Global Funds Luxembourg mutual funds	10.6.2005
Business terms and conditions	Business terms and conditions for investments funds under the Irish and Bermudan legal order	5.10.2005

1.3. Živnostenská banka and UniCredit Servizi Informativi entered into the following contracts in the accounting period 2005:

Name of the Contract	Subject-matter	Date of entering
Contract for the trade secret protection	Contract for the protection of trade secret	16.3.2005
Contract for the personal data processing	Contract for processing personal data	16.3.2005
Letter of Intent	An intention related to the project of transforming IT systems of ŽB	16.3.2005
Contract for software licences and system maintenance	Contract for software licences and maintenance of systems (MX Generation 2000 and MUREX)	7.11.2005

1.4.Živnostenská banka and HVB Bank Czech Republic a.s.entered into the following contracts in the accounting period 2005:

Name of the Contract	Subject-matter	Date of entering
Agreement (minutes of the meeting) on co-operation in ensuring the acceptance of payment cards with Živnostenská banka's clients	Agreement (minutes of the meeting) on co-operation in ensuring the acceptance of payment cards with Živnostenská banka's clients	19.9.2005 and 23.9.2005

1.5. In addition to the above mentioned contracts, in the accounting period of 2005 Živnostenská banka made interbank, derivatives and other business deals contracts under standard market conditions.

1.6. No contracts between Živnostenská banka and other interconnected persons were made in the accounting period of 2005.

2. **Payments** provided by Živnostenská banka to interconnected persons and **considerations** in 2005:

The Board of Directors declares that between Živnostenská banka and its interconnected persons all payments and considerations were provided within the scope of ordinary trade relations, or under standard business conditions.

3. **Other legal actions made** by Živnostenská banka in the interest of interconnected persons:

The Board of Directors of Živnostenská banka, a.s. declares that in the accounting period of 2005 Živnostenská banka did not execute any other legal actions in the interest of interconnected persons which are beyond the scope of common legal actions within the scope of ordinary trade relations or usual legal actions executed by Živnostenská banka within the standard exercise of rights of UCI as the majority shareholder of Živnostenská banka.

4. **Other measures** taken or implemented by Živnostenská banka in the interest or based on initiative of interconnected persons, their advantages and disadvantages:

The Board of Directors of Živnostenská banka declares that in the accounting period of 2005 Živnostenská banka did not take or implement, in the interest or based on initiative of interconnected persons any measures beyond the scope of ordinary trade relations or off the standard exercise of rights of UCI as the majority shareholder of Živnostenská banka.

5. **Detriment** to Živnostenská banka in connection with contracts and measures made:

The Board of Directors of Živnostenská banka declares that Živnostenská banka suffered no detriment in connection with contracts and measures made.

Prague, dated 28 February 2006

On behalf of the Board of Directors of Živnostenská banka

Jiří Kunert
Chairman of the Board of Directors

Aleš Barabas
Member of the Board of Directors

Supplementary data in conformity with the Measure of the Ministry of Finance of the Czech Republic, ref 282/73391/2001, from 7 December 2001

1. Data about the members of the Supervisory Board and the Board of Directors

1.1. The Supervisory Board as at 31 December 2005

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Carmine Ferraro	Chairman	29 July 2003	university and many years of practical experience in banking	Vice Chairman of the SupB: UniBanka, a.s.
Massimiliano Moi	Deputy Chairman	29 July 2003	university and many years of practical experience in banking	none
Ivana Burešová	member	24 June 2004	university and many years of practical experience in banking	none
Alberto Devoto	member	11 March 2004	university and many years of practical experience in banking	none
Marco Iannaccone	member	11 May 2005	university and many years of practical experience in banking	Member of the SupB: UniBanka, a.s.
Uwe Kruschinski	member	12 March 2003	university and many years of practical experience in banking	Member of the BoDir: Bankgesellschaft Berlin AG Landesbank Berlin AG Berliner Sparkasse Förderkreis der Evangelischen Stiftung Alsterdorf Member of the SupB: Berlin Capital Fund GmbH BIH Berliner Immobilien Holding FWU AG Hanseatische Wertpapaierbörse Vice Chairman of the SupB: BB-Data Gesselschaft für Informations-und Kommunikationssysteme mbH

Eva Mikulková	member	10 June 2003	secondary school and many years of practical experience in banking	none
Helena Špaňhelová	member	24 June 2005	secondary school and many years of practical experience in banking	none
Giuseppe Vovk	member	3 February 2005	university and many years of practical experience in banking	Member of the BoDir: KocBank S.A.(Turkey) KFC Turkey Member of the SupB: Zagrebaćka banka UniBanka, a.s.

There were the following personal changes during the year 2005: Messrs. Vladimír Burian, Franjo Luković and Andrea Varese resigned, newly elected Messrs. Giuseppe Vovk, Marco Iannaccone and Ms Helena Špaňhelová.

1.2. The Board of Directors as at 31 December 2005

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Jiří Kunert	Chairman	12 May 2003	university and many years of practical experience in banking	Chairman of the SupB: UniBanka, a.s.
Aleš Barabas	Deputy Chairman	17 October 2005	university and many years of practical experience in banking	Executive Director: Zivnostenska Finance B.V.
Massimiliano Fossati	member	17 October 2005	university and many years of practical experience in banking	none

There were the following personal changes during the year 2005: Messrs. Sandro Bianco and Andrea Casini resigned, newly elected was Mr Massimiliano Fossati

2. Selected quantitative ratios

-	capital adequacy:		9,62 %
-	Tier 1:		CZK 3,082,301,000
-	Tier 2:		CZK 1,000,230,000
-	Tier 3:		CZK 0
-	total capital:		CZK 4,082,531,000
-	individual capital requirements pursuant to special regulations:	A:	CZK 3,127,375,000
		B:	CZK 267,127,000
-	return on average assets (ROAA):		0.41%
-	return on average equity (ROAE):		6.08%
-	assets per one employee:		CZK 61,896,000
-	administration costs per one employee:		CZK 1,394,000
-	net profit per one employee:		CZK 250,632

Additional information

Anticipated future developments in the activities of Živnostenská banka, a.s.

In 2006, Živnostenská banka, a.s. expects stable developments in its financial situation, continuing the trend of the previous three years.

Subject of business of Živnostenská banka, a.s. as per the Articles of Association

Activities resulting from the banking licence:

- the performance of the activities specified in the Act on Banks in Section 1, letter

a) acceptance of deposits from the public,
b) provision of credits

- the performance of the activities specified in the Act on Banks in Section 1 (3), letter

a) investments in securities for own account,
b) financial leases,
c) money transmission services and settlement of payments,
d) issuance and administration of means of payment,
e) provision of guarantees,
f) opening of letters of credit,
g) arrangement of payment collection,
h) provision of investment services including

- the principal investment service under Section 8(2)(a) of Act No. 591/1992 Coll; on Securities, as amended (the "Securities Act"), reception and transmission of orders relating to investment instruments on the client's account, that being in respect of the investment instruments under Section 8a (1)(a) through (g) of the Securities Act,

- the principal investment service under Section 8(2)(b) of the Securities Act, execution of orders relating to investment instruments on a foreign account, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- the principal investment service under Section 8(2)(c) of the Securities Act, trading in investment instruments on own account, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- the principal investment service under Section 8(2)(e) of the Securities Act, subscription in respect of issues of investment instruments or placement of such issues, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Section 8(3)(a) of the Securities Act, safekeeping and administration of one or several investment instruments, that being in respect of the investment instruments under Section 8a(1)(a) through (c) of the Securities Act,

- supplementary investment services under Section 8(3)(d) of the Securities Act, advisory activities regarding capital structure, industrial strategy and related matters, as well as the provision of advice and services regarding mergers and acquisitions of businesses,

- supplementary investment services under Section 8(3)(e) of the Securities Act, services relating to the subscription of securities pursuant to Section 8(2)(e) of the Securities Act, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Section 8(3)(f) of the Securities Act, advisory activities regarding investments into investment instruments, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Secrion 8(3)(g) of the Securities Act, execution of foreign exchange transactions related to the provision of investment services,

i) issuance of mortgage bonds,
j) financial brokerage,
k) acting as a depositary,
l) currency exchange services (purchases of foreign exchange),
m) provision of banking information,
n) trading for own account or for account of clients in foreign exchange and gold,
o) lease of safe deposit boxes,
p) activities directly associated with the activities specified in the banking license of the bank.

Information about judicial proceedings

Živnostenská banka, a.s. is party to several legal disputes. As at 31 December 2005, the Bank had created a provision of CZK 21 million (31 December 2004: CZK 21 million) based on an estimate by the Bank as to the outcome of these legal disputes. The Bank's management expects that the judicial proceedings for which the provisions has been created will be completed within twelve months of the balance sheet date. Given this estimated period, the provision has not been discounted.

Živnostenská banka, a.s. is also party to several active legal disputes where the outcome is uncertain. Even if the Bank wins these disputes, in the overwhelming majority of cases the recoverability of the court-awarded amounts is by no means guaranteed. Therefore, as a precaution the Bank does not record potential yields from these disputes in its accounts.

Information about main investments

In 2005, Živnostenská banka, a.s., invested CZK 50 million into intangible assets and CZK 121 million into tangible assets.

Future investments into tangible assets will be related in particular to the planned expansion of the Bank's branch network. Živnostenská banka, a.s. anticipates no significant changes in the current trend associated with investments into intangible assets.

Risk Management

The risk management process is an integral part of activities of the Bank and a basic tool to ensure its sound operation. A need to deepen and improve risk management processes has resulted from the fact that the Bank is exposed to various risks in its dealing with clients, namely credit risk, market risk, liquidity and operational risk. Živnostenská banka pays great attention to the risk management processes and has reduced individual risks to an acceptable level, mainly by identifying risks timely, by their monitoring and measuring, and also due to a sophisticated structure of internal limits for individual types of risks and products. This has been proved by a relatively low volume of classified loans and by general business results of the Bank.

Risk Management Organization

The risk management process is independent of all types of commercial activities of the Bank. Responsibility for the risk management in Živnostenská banka lays on the following divisions:

- Risk Management Division is responsible mainly for market and operational risks
- Credit Division is responsible for credit risk

Both these divisions are directly accountable to Chief Operating Officer. The Board of Directors cover the whole risk management process and report regularly to the Supervisory Board.

The decision-making authority in the risk management area is in hands of respective committees, i.e. "Asset and Liabilities Committee" and "Credit Committee" permanent members of which are also Directors of the Board.

In 2005, the Bank had been making preparations for changes in the sphere of banking regulation with respect to requirements of the Basel Committee for banking supervision and this process will continue also in the years to come. Representatives of the Bank charged with individual spheres of the risk management participate in the mutual project developed jointly with representatives of the ČNB, Banking Association, Chamber of Auditors and with other banks and improve their qualification in various seminars.

The Bank is trading on OTC markets and uses following financial derivatives for risk management purposes:

- Interest rates swaps (subdivided to hedging and trading purposes)
- Currency swaps
- Currency forwards
- Forward rate agreements

Operational Risks

Operational risks are such to which the Bank is exposed and which cannot be qualified as market, credit or liquidity risks. In 2003, the operational risk in Živnostenská banka was monitored mainly on the level of individual organisational divisions. During 2003, a project was launched aimed to introduce the active operational risk management on a central basis, including the implementation of instruments for its monitoring and measuring. Output of this project was to build a single database of operational risks on the overall bank's level, in compliance with the Basel Committee's requirements. The project, a guarantor of which is the parent company UniCredito Italiano (UCI), will continue also in future. The UCI Group plans to introduce one of advanced measurement systems. All banks within the UCI Group were familiarized with the Group's strategy and its objectives in the operational risk management sphere and these banks have appointed contact persons and persons responsible for this area matter.

The database having been built has become one of underlying documents for proposing procedures which should lead to a decrease in the number of negative events and to mitigation of their impacts. Such database shall be used as a back control of reliability of the proposed system of measures aimed to restrict operational risks. Apart from the monitoring and assessment of operating risk events occurred, in 2005 the Bank carried out so-called self-assessment of potential operational risk events.

Market Risks

Due to unfavourable movements in interest rates, foreign exchange rates and due to changes in volatility the Bank is exposed to the risk of potential losses arising from its balance sheet and off balance sheet positions. All these three factors are deemed to be a source of market risks. The Bank has available a number of instruments, such as Value at Risk, gap analysis by maturities and repricing, stress tests and calculators of sensitivity by use of which it is measuring the size of market risks. In co-operation with UCI the Bank created a strategic document "Investment Policy" which describes in detail all sources of market risks and processes through which it is able to identify individual market risks by using the following rules:

- All market risk limits shall be checked on a daily basis
- Risk control shall be independent of the Financial Markets Division
- All new financial markets activities/products must be always thoroughly analyzed from the point of view of impact on the risk management before they are introduced on the market or included into the respective portfolio of the Bank.
- The risk management of UCI and the top management of Živnostenská banka must be always informed of all major changes in the risk profile of the Bank, of any excess of limits, newly planned financial market products and all significant decisions related to market risks.

At least once a year the Risk Management Division of the Bank shall review market risks limits. Newly proposed adjustments of limits must be subsequently approved by the Board of Directors.

The main achievement in the sphere of the market risks management in 2003 was the implementation of Value at Risk methodology. This methodology continues to be developed and re-tested. Value at Risk methodology is used to quantify the interest risk of a Trading Book, Available for Sale Portfolio, newly also for the risk of the Bank’s total position and to quantify the currency risk of the general open-end position in foreign currencies.

Credit Risks

In 2005, the Bank has implemented internal rating systems designed for corporate clients and personal banking clients. These systems have been developed in cooperation with the Bank's parent company in order to deepen efficiency of the credit risk management.

Other top managers of Živnostenská banka, a.s.

Managing Directors

Mr Pasquale Barbaro - Retail Banking
Mr Petr Bartel - Risk Management Division
Mr Jan Boček – Marketing Division
Mr Massimiliano Fossati – Credits (until 17 October 2005)
Mr Pavel Chlumský - Corporate Banking (until 31 August 2005)
Ms Vladimíra Josefiová, MBA – Human Resources Division
Mr Martin Macko – Financial Markets (since 1 June 2005)
Mr Josef Pitra – Logistics
Mr Michal Provazník – Information Technology (since 1 July 2005)
Mr Michal Vančík – Private Banking Division
Mr Josef Vanžura – Organization Division
Mr Tomáš Zralý – Financial Markets (until 31 May 2005)

Directors

Mr Miloš Bádal – Retail Credit Division
Mr Vladimír Bareš – Support Sales Division (until 31 August 2005)
Ms Ivana Burešová - Legal Division
Mr George Briford – Retail Strategy and Controlling Division
Mr Josef Ciglanský – Regional Branch Karlovy Vary, Corporate Banking
Mr Michael Dománek – Regional Branch Liberec, Corporate Banking
Mr Jakub Dusílek – Support Sales Division (since 1 September 2005)
Mr Jiří Eigel – Retail Sales and Distribution Management Division
Ms Monika Halířová – Regional Branch Liberec, retail Banking (since 1 February 2005)
Mr Petr Hladký – Corporate Credit Division
Mrs. Olga Hudcová – Regional Branch Brno, Corporate Banking
Mr Vladimír Chudárek - Regional Branch Zlín, Retail Banking
Mr Luděk Klíma – Regional Branch Liberec, Retail Banking
Mr František Klufa – Regional Branch České Budějovice, Retail Banking
Mr Radim Kolek – Regional Branch Ostrava, Retail Banking (since 1 September 2005)
Mr Aleš Krátký – Regional Branch Brno, retail Banking (since 1 December 2005)
Mr Martin Macků – Regional Branch České Budějovice, Retail Banking (since 3 January 2005)
Ms Lýdie Matajová – Regional Branch Pardubice, Retail Banking
Mr Miroslav Matoušek – Operations Division
Mr Petr Merežko - Structured Finance and Product Management Division
Mr Aleš Novák – Regional Branch Praha, Corporate Banking
Ms Veronika Panáčková – Financial Division
Ms Jaroslava Pelechová - Internal Audit Division
Mr Michal Provazník - Information Technology Division (until 30 June 2005)
Mr Pavel Rauscher – Regional Branch Karlovy Vary, Retail Banking (since 1 October 2005)
Mr Ladislav Řehák – Regional Branch Pardubice, Corporate Banking
Mrs Helena Suchánková – Retail Segment and Product Development Division
Mr Vladimír Štefánik – Regional Branch Zlín, Corporate Banking
Mr Jiří Štégl – Regional Branch Praha, Retail Banking
Mr Luboš Váňa – Regional Branch Liberec, Corporate Banking (since 2 February 2005)

Contacts

Head Office

Na Příkopě 858/20
P.O.Box 421
113 80 Praha 1
Czech Republic
Tel: +420 224 121 111
Fax: +420 224 125 555
Web Page: www.zivnobanka.cz
Central E-mail Address: info@zivnobanka.cz

Regional Branches

Na Příkopě 858/20
P.O.Box 421
113 80 Praha 1
Czech Republic
Tel: +420 224 121 111
Fax: +420 224 125 555
E-mail: info@zivnobanka.cz

Divadelní 2
P.O.Box 57
601 57 Brno
Czech Republic
Tel: +420 542 515 111
Fax: +420 542 515 150
E-mail: brno@zivnobanka.cz

nám. Přemysla Otakara II. č.122/35
P.O.Box 178
370 21 České Budějovice
Czech Republic
Tel: +420 387 711 111
Fax: +420 387 711 777
E-mail: ceske.budejovice@zivnobanka.cz

Zeyerova 892/7
360 01 Karlovy Vary
Czech Republic
Tel: +420 353 108 111
Fax: +420 353 108 108
E-mail: karlovy.vary@zivnobanka.cz

Široká 5/28
P.O.Box 24
460 01 Liberec
Czech Republic
Tel: +420 485 395 111
Fax: +420 485 395 555
E-mail: ostrava@zivnobanka.cz

Kostelní 13
701 57 Ostrava 1
Czech Republic
Tel: +420 596 275 111
Fax: +420 596 275 112
E-mail: liberec@zivnobanka.cz

Třída míru 1400
530 01 Pardubice
Czech Republic
Tel: +420 466 861 111
Fax: +420 466 861 102
E-mail: pardubice@zivnobanka.cz

Rašínova 68
P.O.Box 275
760 01 Zlín
Czech Republic
Tel: +420 577 697 111
Fax: +420 577 697 555
E-mail: zlin@zivnobanka.cz