


ANNUAL REPORT 2005



In the Czech Republic, we represent a promotional bank aimed at contributing to the efficient development of national infrastructure and economic sectors that have been approved for public support according to the economic policies of the Czech Republic government and its regions.

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Dear clients, business partners and shareholders,

the year 2005 was once again a successful one for Českomoravská záruční a rozvojová banka, a. s. If 2004 could be called a landmark year because of the Czech Republic's accession to the European Union, then to look at the year just passed represents an opportunity to evaluate the first results and experience of that membership.

During 2005, the Bank carried out its role as the final recipient of financing from EU Structural Funds, and it made use of these, together with financial resources from the state budget, to provide preferential loans under the START and CREDIT programmes through the Operational Programme Industry and Enterprise. One can assert without exaggeration that the lending programmes stand among the most successful of all within this operational programme.

Our clients' strong demand for available financing confirmed the correctness of launching the new PROGRESS lending programme that provides subordinated loans, which were used primarily by medium-sized companies. By effectively combining funds from the financial market with those from the state budget, the Bank succeeded in reacting flexibly to the needs of entrepreneurs and to accommodate their interest also in other types of preferential loans. The Bank also achieved very good results in the operation of its guarantee programme, which has been functioning successfully and without interruption for more than 10 years.

In addition to supporting small and medium-sized enterprises, the Bank was also successful in financing infrastructure. This essentially involves continuing the programme in support of water sector investments, which is carried out in collaboration with the Ministry of Agriculture and using funds received from the European Investment Bank and Council of Europe Development Bank. It also includes financing transport infrastructure projects in co-operation with the State Fund of Transport Infrastructure. The programme for repairing panel-block apartment houses continued at a stable level. That programme is financed with funds of the State Housing Development Fund, notwithstanding some complications associated with the uncompleted process of its notification from the European Union.

We are well aware that 2006 represents for the Czech Republic, and therefore also for the Bank, an exceptional challenge in preparing to make use of the increased dimension of financing from EU Structural Funds. The Bank's intention is to work actively to ensure that finances from these Funds are not just consumed with a short-term effect but that they will be to a greater extent also directed to effective instruments of support that are able to ensure their repeated utilisation, work with a high leverage effect, support growth in competitiveness, and contribute to maintaining or even growing employment.

The past year confirmed that by offering new instruments of support and improving the quality of internal processes the Bank is able not only to provide for its efficient functioning but also to accommodate the further needs of its clients, actively participate in fulfilling the objectives of the Government's economic policy, and carry out its function as a specialised financial institution in the banking sector.

Ing. Ladislav Macka
Chairman of the Board of Directors
and Chief Executive Officer

Company profile

The Government of the Czech Republic adopted a resolution on 23 October 1991 for the founding of a specialised banking institution to support small and medium-sized enterprises. This institution was entered into the Commercial Register in January 1992 under the name Českomoravská záruční a rozvojová banka, a.s. (hereinafter referred to in this annual report as "CMZRB" or the "Bank").

The Bank's initial scope of business was directed only towards the implementation of Government programmes for the support of small and medium-sized enterprises. In the years to follow, the Bank's activity was extended to provide support in housing and by financing infrastructure development projects. CMZRB also has a full banking licence, foreign exchange licence and a securities broker's licence issued under the relevant laws.

At present, the main mission of CMZRB is to facilitate primarily small and medium-sized enterprises' access to financing through specialised banking products, and, in accordance with the intentions of the economic policy of the Government and regions of the Czech Republic, to assist in the development of other selected areas of the economy requiring public support.

Throughout the entire period of its operation, the Bank has closely co-operated with the ministries, the state funds, regions, banks, economic chambers and advisory firms. The specific character of CMZRB's activities, the development of modern banking and communication technologies, and traditionally good co-operation with its partners allow the Bank to provide its clients with high quality banking services that positively impact on those clients' development across the entire Czech Republic. Clients may use the services of the Bank's branches in Prague and in the regional centres of Brno, Hradec Králové, Ostrava and Pilsen. The Bank has established a regional office in České Budějovice for even better contact with its clients.

Shareholders of the Bank:

Czech Republic (72.33 %):
 Ministry of Industry and Trade (24.25 %),
 Ministry for Regional Development (24.25 %),
 Ministry of Finance (23.83 %),

Česká spořitelna, a. s. (13 %),
 Komerční banka, a. s. (13 %),
 Československá obchodní banka, a. s. (1.67 %).



Under favourable price conditions, the Bank offers its clients bank guarantees, various types of preferential loans (interest-free or with reduced interest rates and subordinated loans), as well as subsidies to partially cover costs for obtaining the ISO or EMAS certifications. Together with the State Housing Development Fund, the Bank actively participates in facilitating financially the repairs, modernisation and regeneration of panel-block apartment houses. Financing projects for improving the technical condition of the water sector and transport infrastructure forms an important part of the Bank's activities. With respect to the financial market, the Bank offers its clients a wide range of services and products, including special operations in securities investment.

Small and medium-sized enterprises make up a very important part of the Bank's clients. The Bank also provides a growing range of services to housing co-operatives, companies in the water sector and transport infrastructure, regional governments, municipalities, ministries and state funds. As at the end of 2005, the Bank had provided services to more than 21,000 clients.

Selected economic indicators

Table 1

	Unit	2001	2002	2003	2004	2005
Total assets	CZK mil.	71,918.1	89,757.0	47,990.0	48,422.0	47,835.0
Liabilities	CZK mil.	68,782.0	86,082.0	44,005.0	44,387.0	43,028.0
Shareholders' equity	CZK mil.	3,136.0	3,675.0	3,985.0	4,035.0	4,807.0
Share capital	CZK mil.	1,780.0	1,975.8	2,131.5	2,131.5	2,131.5
Profit after tax	CZK mil.	568.0	535.0	644.0	679.0	1,176.0
Guarantee portfolio	CZK mil.	6,381.3	7,372.0	8,201.0	9,326.0	10,810.0
Capital adequacy	%	17.2	21.7	22.2	23.8	21.3
Average number of employees		246	252	258	260	259
Number of branches		5	5	5	5	5

Highlights of 2005

- January** CMZRB began providing subordinated loans through the new PROGRESS programme, which is intended for both small enterprises and for medium-sized enterprises of under 250 employees.
- February** Support of projects in the food-processing and beverage sector was transferred to programmes under the management of the Ministry of Agriculture, i. e. outside the support programmes for whose implementation the Bank had been responsible.
- March** The Ministry of Industry and Trade decided to suspend accepting new applications for certification cost subsidies under the MARKET programme, effective as of 1 April 2005. This was due to limited funds for financing such support.
- April** To support development of enterprises in small municipalities, the interest rate in the PROGRESS programme of subordinated loans was reduced to 1 % p. a. for projects implemented in municipalities with fewer than 5,000 inhabitants.
- May** Because interest for support under the INNOVATION programme exceeded the funds available, the Ministry of Industry and Trade decided to suspend acceptance of new applications, effective as of 1 July 2005.
- June** CMZRB was granted a long-term loan from the Council of Europe Development Bank of up to EUR 20 million and thus increased the funds designated for refinancing of preferential loans to complete the programme of support for water-sector investments in the Czech Republic.
- July** Applications began to be accepted for grants under the Joint Programming Document (so-called "JPD 2") to support small and medium-sized enterprises in structurally weak and problematic areas of Prague cohesion region.
- August** The number of applications for preferential loans submitted under the Operational Programme Industry and Enterprise (OPPP) exceeded 1,000.
- September** Due to regulation of the course of the PROGRESS subordinated loans programme, the interest rate for the loans was increased to 4 % p. a. for all applicants.
- October** CMZRB signed another credit agreement with Kreditanstalt für Wiederaufbau, which will allow drawing up to EUR 15 million. The funds are intended for providing long-term loans to finance projects for improving infrastructure and the environments of Czech towns and villages.
- November** The funds drawn within the Operational Programme Industry and Enterprise exceeded CZK 1 billion, of which a significant part were preferential loans provided under the START and CREDIT programmes.
- December** An amendment to the agreement with the European Investment Fund was signed, renewing the effectiveness of the EIF counter-guarantee until 30 June 2007. This relates to a selected part of the guarantee portfolio within the Bank's engagement in the EU Multiannual Programme for Enterprise and Entrepreneurship (MAP).
- CMZRB signed a loan agreement with Nordic Investment Bank. The funds obtained will be used for co-financing of long-term loans to support small and medium-sized enterprises in particular, and especially under the PROGRESS programme.

Board of Directors

Chairman:	Ladislav Macka
Vice-Chairman:	Pavel Weiss
Members:	Jiří Jirásek
	Lubomír Rajdl
	Jan Ulip

Supervisory Board

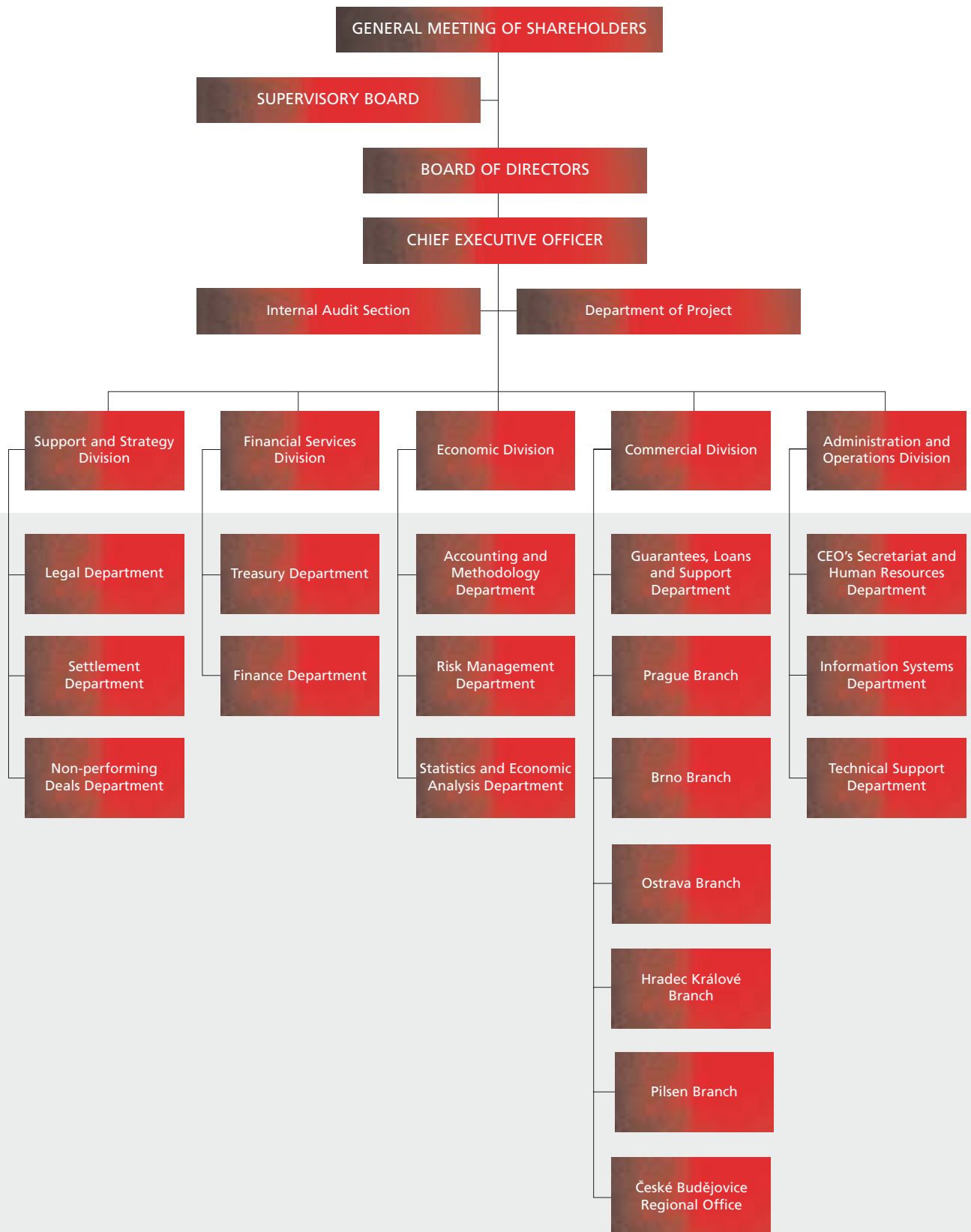
Chairman:	Václav Polák
Vice-Chairman:	Ladislav Dvořák, from 13. 12. 2005
Members:	Vlastimil Czabe, from 13. 12. 2005
	Jaroslav Gacka
	Eduard Janota
	Ladislav Koděra, from 27. 6. 2005
	Václav Kupka
	Jana Šindelářová
	Zdeněk Vorlíček

During 2005, the following representatives ended their memberships on the Supervisory Board:

Pavel Jirák, Vice-Chairman of the Supervisory Board, on 4. 10. 2005,

Josef Vaník, Member of the Supervisory Board, on 27. 6. 2005.

Bank's organisation chart





Report of the Board of Directors on the Bank's business activities
and financial situation for 2005

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Economic environment and its impact on the Bank's performance

For the first time, CMZRB operated through a full year in an environment that had been much changed by the Czech Republic's accession to the European Union. The impact of this key factor was reflected in the Bank's operations in many aspects.

Undoubtedly, the most important fact of the year just passed was that the Czech economy as a whole continued in a phase of economic growth that was connected with a slight drop in unemployment, the positive impacts of extensive foreign investments, a reduced tax burden and better access to markets in the EU countries. All these factors had positive effects on financial markets, on consumer demand and on small and medium-sized enterprises, which represent the most important segment of the Bank's clients. Not even the growing strength of the Czech currency against the euro and dollar could impede this favourable economic development.

The impact of financing from the Structural Funds and the EU Cohesion Fund began to be reflected with growing intensity in a major part of the economy, with possibilities for the development of municipalities, infrastructure and for the improvement of the environment. For CMZRB, the financing from the Structural Funds represented a source for extending its offer of preferential loans for small and medium-sized enterprises. Thus, together with the growing activity of commercial banks, it was possible to further improve the overall offer of financing in accordance with this sector's various development needs. However, the problems of small municipalities and non-profit organisations in obtaining EU finances continued in the past year. Support to energy-saving programmes is an example demonstrating that establishing inappropriate conditions for access to that support can negatively impact on the course of its actual use.

More rapid use of financing from European funds was slowed by a lack of practical experience and by the gradual fine-tuning of the system to put such experience in practice. The course of implementing CMZRB lending programmes co-financed from the EU budget was affected by such phenomena, as well. The very positive results of these programmes' implementation in 2005 and limited negative impacts on entrepreneurs were achieved only by greater work efforts on the part of the Bank. Due to the excessively strict rules stipulated for regional programmes of support to small and medium-sized enterprises, however, it was not possible to extend the effective use of guarantees for obtaining loans to pre-finance projects seeking grants from the Structural Funds.

Providing subsidized guarantees and grants for repairs of panel-block apartment houses was unfavourably marked by the effort to clarify the conformity of such support with EU law. Therefore, despite the growing interest and effort of the owners to resolve the increasing problems in maintaining panel-block apartment houses, it was necessary to limit the provision of such support.

Interest rates were falling in the Czech Republic during the first half of 2005. This trend reversed in the second half of the year, and long-term interest rates rose. In October they reached the same level at which they had begun the year. This contributed to the good results of the Bank's operations in financial markets.

Increased trust of foreign partners in the Czech Republic's economic development was reflected in a broadening of the Bank's relations to include important financial institutions with which the Bank initiated or extended co-operation in the financial market. This wider circle of partners led to an improvement in the conditions under which the Bank obtained additional funds for financing projects of small and medium-sized enterprises and the infrastructure of municipalities.

Adopting new EU capital rules for banks, commonly referred to as Basel II, highlighted the need for adjusting CMZRB's systems of financial management and reporting to the conditions that will come into force as from the beginning of 2007. The internal processes of the Bank were also influenced by legislative changes related to an increased emphasis on preventing the laundering of proceeds stemming from illegal activities. Therefore, during the year the Bank adopted a number of measures to comply with these new conditions.

The Bank reacted actively to new opportunities in 2005, for example by becoming involved in support of financing projects to improve the environment. Changes in the conditions for some programmes of support to small and medium-sized enterprises that were approved by the Government through the course of the year influenced the circle of beneficiaries and partners with which the Bank will co-operate in implementing programmes during 2006. The new conditions, however, create opportunity for further developing the Bank's services and intensifying co-operation with some institutions.

1/ Unconsolidated data

Year on year, the profit after tax increased by 73 % to CZK 1,176 million and reached CZK 4.5 million per employee. The return on average equity reached 33.3 %¹⁾ and the return on average assets was 2.2 %²⁾. Shareholders' equity grew by 19 % to reach CZK 4.8 billion. Dividend payments to shareholders in 2005 amounted to 60 % of the 2004 after-tax profit (CZK 408 million), which is a 19.1 % yield on the nominal share value.

Basic economic characteristics of the Bank, 2001 – 2005

Table 2

	Unit	2001	2002	2003	2004	2005
Total balance sheet	CZK mil.	71,918	89,757	47,990	48,422	47,835
Assets:						
Deposits and loans in banks	CZK mil.	18,402	45,139	8,027	7,588	5,642
Securities accepted by CNB for refinancing	CZK mil.	9,576	6,517	3,757	4,094	4,855
Debt securities	CZK mil.	15,092	6,100	6,302	5,891	6,722
Payments from guarantees and other classified receivables	CZK mil.	947	870	1,508	2,199	2,758
Liabilities and equity:						
Shareholders' equity	CZK mil.	3,136	3,675	3,985	4,035	4,807
Liabilities	CZK mil.	68,782	86,082	44,005	44,387	43,028
of which: reserves	CZK mil.	2,727	2,804	2,373	2,499	2,196
Off-balance sheet: Guarantees granted	CZK mil.	6,381	7,372	8,201	9,326	10,810
Total revenues	CZK mil.	5 056	6,119	6,169	6,835	6,597
of which:						
from securities and inter-bank operations	CZK mil.	1,756	1,448	964	739	645
from operations with clients	CZK mil.	676	2,246	1,513	1,555	1,545
Total expenses	CZK mil.	4,488	5,584	5,525	6,156	5,421
of which: net reserves and provisions	CZK mil.	332	254	-307	130	-180
Profit after tax	CZK mil.	568	535	644	679	1,176
Capital adequacy	%	17.2	21.7	22.2	23.8	21.3

As at the end of 2005, all known losses were fully covered by reserves and provisions in amounts corresponding to Czech and international standards, and the total balance value of reserves and provisions on credit risks was CZK 3.4 billion. At the end of the year, the Bank had at its disposal a reserve fund of CZK 800 million.

In 2005, the amount and structure of the Bank's financial result were positively impacted by release of the remaining part of general reserves in the amount of CZK 495 million and returning a part of the income tax paid in 2003 and 2004 in the sum of CZK 30 million. In order to cover the part of credit risks that had been covered by general reserves until the end of the year, it was proposed to transfer CZK 350 million of the 2005 profit created by the release of reserves to a newly established reserve fund.

Total assets at the end of 2005 were 1 % lower than in the previous year and netted to a total of CZK 47.8 billion. This drop was caused primarily by the reduction in the amounts due to banks (CZK -3.7 billion) and at the same time growth in amounts due to clients (CZK +2.3 billion). On the assets side, the short-term exposure to banks in particular decreased proportionately. The balance sheet does not include bank guarantees issued primarily for long-term investment loans and which represent a significant part of the Bank's business activities and credit exposure. Their value was CZK 10.8 billion as at the end of the year.

On the assets side, the Bank had at its disposal a portfolio of financial investments amounting to CZK 17 billion (36 % of net assets) and placed especially into bank deposits (12 % of net assets), government bonds, bonds of

^{1), 2)} Calculations made in accordance with the methodology determined by the CNB Provision No. 1/2003, as amended.

selected banks, companies and treasury bills (24 % of net assets). Loans granted to state institutions constituted an important item of net assets (50 % of net assets) which are stated in the item amounts due from customers and loans to customers (13 % of net assets). The share of non-performing assets was 1.6 % of net assets.

The funding sources on the liabilities and equities side were provided especially by amounts due to banks (53 % of liabilities and equity) and amounts due to clients (24 % of liabilities and equity), shareholders' equity (10 % of liabilities and equity), reserves (5 % of liabilities and equity) and temporary and other liabilities.

Capital adequacy in relation to the risk-weighted assets in accordance with the CNB methodology was 21.3 %.

With respect to trends in the Bank's financial results, 2005 was a year of extraordinarily high profits and growth in shareholders' equity. These results were achieved not just through one-off favourable effects (release of general reserves, returning a part of the tax), but also by the continuing development of business operations in connection with dynamic growth in revenues from products, and particularly from guarantees and loans in concert with reduction in the relative burdens of credit risks.

Additional indicators of the Bank's financial performance, 2001 - 2005

Table 3

Indicator	Unit	2001	2002	2003	2004	2005
Tier 1	CZK '000	2,183,022	2,873,759	3,297,199	3,322,241	3,596,045
Tier 2 and Tier 3	CZK '000	94,382	152,823	21,995	10,997	0
Deductible items	CZK '000	58,268	45,895	44,294	33,938	24,101
Total capital	CZK '000	2,219,610	2,890,688	3,319,193	3,333,239	3,596,045
Capital requirements	CZK '000	1,029,610	1,066,057	1,194,204	1,118,802	1,350,886
Specific interest rate risk	CZK '000	237,995	54,587	71,924	0	0
Specific equity risk	CZK '000	0	0	0	0	0
Settlement risk	CZK '000	0	0	0	0	0
Reverse repos and repos, securities borrowing and lending	CZK '000	3,981	0	674	321	56
Derivatives	CZK '000	0	14,438	2,912	3,116	3,415
Other business portfolio instruments	CZK '000	0	1,800	0	0	0
Banking portfolio	CZK '000	604,047	963,630	1,063,050	1,101,158	1,317,928
General interest rate risk	CZK '000	160,579	27,670	53,076	10,122	24,072
Business portfolio exposure	CZK '000	20,974	0	0	0	0
Equity risk	CZK '000	0	0	0	0	0
General equity risk	CZK '000	0	0	0	0	0
Foreign exchange risk	CZK '000	2,035	3,932	2,569	4,085	5,415
Commodity risk	CZK '000	0	0	0	0	0
Options	CZK '000	0	0	0	0	0
Return on average assets (ROAA)	%	0.95	0.74	0.9	1.15	2.17
Return on average equity (ROAE)	%	28.31	19.97	21.62	20.51	33.3
Assets per employee	CZK '000	289,992	349,428	193,595	183,415	181,883
Administrative costs per employee	CZK '000	1,291	1,060	1,067	1,130	1,174
Net profit per employee	CZK '000	2,309	2,114	2,457	2,572	4,471

2/ Consolidated data

The Bank's consolidated financial result (i. e. including the 49 % share in the single associated company, MUFIS, a. s.) is CZK 52 million lower and in total comes to CZK 1,124 million. On including the holding's share in the associated company's shareholders' equity, the Bank's equity will rise by CZK 45 million to a total of CZK 4,852 million. The total assets will increase by the same amount (CZK 45 million), i. e. to CZK 47,880 million.

1/ Products

In 2005, the Bank provided the following products:

a) Bank guarantees

- Guarantees for bank loans for small and medium-sized enterprises in amounts up to 80 % (in the Zlín Region up to 90 %) of the loan principal,
- guarantees for leasing for small and medium-sized enterprises in amounts up to 70 % of the acquisition price of the leased object,
- guarantees for tender bids for small and medium-sized enterprises in amounts of CZK 100,000 up to CZK 5 million,
- guarantees for venture capital investments for small and medium-sized enterprises in amounts up to 70 % of the investment, and
- guarantees for bank loans to owners or co-owners of panel-block apartment houses in amounts up to 70 % of the loan principal in the programme to support the repair of panel-block apartment houses.

b) Loans

- Interest-free loans in programmes for starting up small businesses in amounts of CZK 100,000 to CZK 1 million, with maturity up to 6 years and covering up to 90 % of project costs;
- reduced-interest (4 % p. a.) capital-project loans for small businesses having completed a maximum 7 successive tax years in amounts of CZK 200,000 up to CZK 5 million, with maturity up to 6 years and up to 90 % of project costs;
- subordinated capital-project loans for small and medium-sized enterprises in amounts of CZK 500,000 up to CZK 25 million, with interest rates of 1 – 3 % p. a., maturity up to 10 years, grace period up to 6 years, and up to 50 % of project costs;
- micro-loans for micro-enterprises in the South Bohemian Region with minimum 2 completed successive tax years in amounts up to CZK 750,000, an interest rate of 5 % p. a., and maturity up to 5 years in the Programme of Preferential Loans for Micro-enterprises in the South Bohemian Region; and
- long-term (up to 15 years) interest-free loans in amounts up to 60 % of costs for construction and technology for municipalities, municipality associations, water and sewer utility companies, or other investors in water sector projects in the Programme of support to water sector investments.

c) Subsidies and grants

- Interest subsidies for loans to small and medium-sized enterprises,
- subsidies for small and medium-sized enterprises for costs of consulting services in connection with ISO certification or implementation of the EMAS programme,
- grants to interest payment for loans to owners or co-owners of panel-block apartment houses, and
- grants to support development of industrial enterprises on the North-Western and Ostrava parts of the NUTS 2 territory and other regions receiving focused state support.

2/ Support to small and medium-sized enterprises**a) Overall results**

The Bank provided support to small and medium-sized enterprises (SME) as assigned by the Ministry of Industry and

Trade, and by the South Bohemian Region, by means of the GUARANTEE, PROGRESS, MARKET, CREDIT and START programmes as well as the Programme of Preferential Loans for Micro-enterprises in the South Bohemian Region. In 2005, there also were processed applications accepted within programmes that were terminated as at 31 December 2004.

A total of CZK 3,410 million was available for financing programmes of SME support, the largest part of which (CZK 2,300 million) was used in the GUARANTEE programme and in the PROGRESS and MARKET loan and subsidies programmes. The resources for these programmes were mainly comprised of funds from the state budget (CZK 521 million), funds obtained by the Bank on the financial market (CZK 1,030 million), instalment payments of preferential loans, and funds not paid to enterprises due to violation of contractual conditions for supports provided in previous years (CZK 726 million).

In the CREDIT and START preferential loans programmes, implemented within the Operational Programme Industry and Enterprise, funds of CZK 937 million were used during 2005, of which 60 % consisted of funds from Structural Funds and the state budget. The Bank provided 40 % of the loans financing using funds obtained in the financial market.

Loans totalling CZK 7 million were provided under the Programme of Preferential Loans for Micro-enterprises in the South Bohemian Region.

In 2005, small and medium-sized enterprises submitted a total of 4,174 applications for support (see table 4). Of that number, 3,312 applications for guarantees and loans were approved and 272 applications were rejected either because they did not meet programme criteria or represented risks too high for financing. A total of 225 applicants withdrew their applications during their processing. The remaining 365 applications that were not resolved in 2005 were carried into 2006 for further processing.

Applications for support and their settlement

Table 4

Indicator		2001	2002	2003	2004	2005
Total applications submitted	number	3,092	3,881	4,467	5,145	4,174
Approved	number	2,093	2,937	3,732	3,744	3,312
Rejected or withdrawn	number	344	291	442	570	497
Carried into following year	number	655	653	293	831	365

The support granted, and especially that in the form of preferential loans, was mainly directed to micro-enterprises (see table 5). The guarantee programme represented an important tool of support for small or medium-sized enterprises.

Projects supported according to sizes of enterprise

Table 5

	Guarantees (excluding bids to public tenders)				Loans				Interest subsidies			
	number		amount		number		amount		number		amount	
Number of employees		%	CZK mil.	%		%	CZK mil.	%		%	CZK mil.	%
0 to 9	131	22,8	783	23,0	734	75,7	844	40,3	20	90,9	11	96,0
10 to 49	258	44,9	1 229	36,1	184	19,0	753	35,9	2	9,1	0	4,0
50 to 249	185	32,2	1 394	40,9	51	5,3	499	23,8	0	0,0	0	0,0
Total	574	100,0	3 405	100,0	969	100,0	2 096	100,0	22	100,0	12	100,0

The applicants for guarantees and loans to which support was granted employed 38,454 persons at the time of submitting their applications, and they expect to increase their employment by 3,302 persons within one year.

b) Guarantee transactions

During 2005, the Bank issued under the GUARANTEE programme 574 subsidized guarantees for bank loans and leasing that totalled CZK 3,405 million and 251 guarantees for bids to public tenders amounting to CZK 121 million.

The total amount of all types of guarantees provided was CZK 3,526 million, which represents an increase of 8.3 % in comparison to guarantees issued in 2004. The guarantees were provided on loans of nearly CZK 5.9 billion (see table 6).

Guarantees issued (excluding bids to public tenders) and loans guaranteed

Table 6

Indicator		2001	2002	2003	2004	2005
Guarantees issued	number	484	520	499	511	574
Amount of guarantees issued	CZK mil.	2,260	2,406	2,677	3,076	3,405
Amount of loans guaranteed	CZK mil.	4,034	4,243	4,528	5,368	5,858
Average guarantee rate	%	56	57	59	57	58

The largest portion of guarantees was used to support projects located in the Moravia-Silesia and Pilsen regions. A relatively low use of guarantees was seen in the Karlovy Vary Region (see table 7).

Regional structure of guarantees issued
(in % of contracted value of newly issued guarantees)

Table 7

Region		2001	2002	2003	2004	2005
Praha (Capital City of Prague)	%	3.0	7.6	4.3	5.4	7.8
Středočeský (Central Bohemia)	%	9.8	12.2	8.1	10.4	8.7
Jihočeský (South Bohemia)	%	4.4	5.7	4.7	2.9	3.7
Plzeňský (Pilsen)	%	9.5	6.8	6.8	6.8	13.3
Karlovarský (Karlovy Vary)	%	0.8	4.1	1.4	1.5	1.2
Ústecký (Ústí nad Labem)	%	3.5	3.2	3.6	3.3	4.0
Liberecký (Liberec)	%	2.0	4.0	2.1	3.5	5.2
Královéhradecký (Hradec Králové)	%	7.5	7.6	13.2	5.5	5.1
Pardubický (Pardubice)	%	10.7	7.9	7.4	9.1	6.7
Vysočina (Bohemian-Moravian Highlands)	%	7.5	2.1	1.3	4.7	5.3
Jihomoravský (South Moravia)	%	8.7	8.8	11.9	11.4	9.7
Olomoucký (Olomouc)	%	10.9	4.9	10.9	9.9	5.9
Zlínský (Zlín)	%	11.3	10.9	12.1	11.8	9.2
Moravskoslezský (Moravia-Silesia)	%	10.4	14.1	12.2	13.9	14.2
Total	%	100.0	100.0	100.0	100.0	100.0

A sectoral breakdown of issued guarantees points to a long-term dominance of projects in the manufacturing and retail trade. In this respect, the year 2005 was no exception (see table 8).

Sectoral structure of guarantees issued
(in % of contracted value of newly issued guarantees)

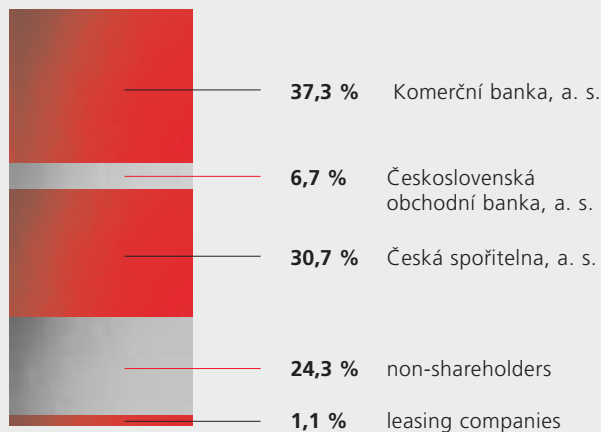
Table 8

Sector		2001	2002	2003	2004	2005
Manufacturing	%	58.4	59.0	58.0	57.8	48.6
of which: food processing	%	7.8	11.7	11.0	11.2	5.0
Building industry	%	11.1	13.1	10.9	10.4	11.3
Transport services	%	3.9	1.1	1.7	1.7	2.2
Retail trade	%	19.5	16.5	18.1	19.6	26.2
Accommodation services	%	3.3	4.5	2.7	1.1	2.1
Services for the public	%	1.7	2.0	4.8	3.7	4.1
Health care	%	1.1	1.4	1.2	1.0	1.1
Others	%	1.0	2.3	2.6	4.8	4.4
Total	%	100.0	100.0	100.0	100.0	100.0

During 2005, the majority of guarantee transactions were made with CMZRB's shareholding banks (approximately 75 % of the total amount of guarantees issued). As in previous years, Komerční banka was the most substantial business partner (about 37 % of total), followed by Česká spořitelna (31 %). Among the other banks, eBanka, a. s., (with 12 %) was the most important partner (see graph 1).

Graph 1

**Breakdown of guarantee transactions
by lending banks (2005)**



c) Loan transactions

The Bank provided during 2005 a total of 969 loans in an overall amount of CZK 2,096 million. That represents an increase of 53.2 % compared to 2004 (see table 9). A very important reason for this very substantial increase was the success of the new PROGRESS programme of subordinated loans, which, in co-operation with banks and leasing companies, helped support important projects of medium-sized enterprises. Loans provided under the PROGRESS programme accounted for 54.2 % of the total, with an average loan of CZK 7.1 million.

Preferential loans provided

Table 9

Indicator		2001	2002	2003	2004	2005
Loans provided	number	357	571	1,340	1,629	969
Amount of loans provided	CZK mil.	656	618	1,257	1,369	2,096
Average loan amount	CZK mil.	1.8	1.1	0.9	0.8	2.2

The largest number of loans was provided for financing projects carried out in the Moravia–Silesia Region (178 loans), and the least support went to the Karlovy Vary Region (27 loans). The highest aggregate loan amount went to the Zlín Region (CZK 277 million). The lowest number of loans was provided to entrepreneurs in the Liberec Region (CZK 39 million). The full list is presented in table 10.

Regional structure of loans provided

(in % of contracted value of newly issued loans)

Table 10

Region		2001	2002	2003	2004	2005
Praha (Capital City of Prague)	%	4.2	3.6	7.0	3.5	3.3
Středočeský (Central Bohemia)	%	12.3	10.9	10.6	7.7	9.3
Jihočeský (South Bohemia)	%	5.6	2.9	6.9	5.5	5.9
Plzeňský (Pilsen)	%	9.5	8.5	12.4	8.4	8.7
Karlovarský (Karlovy Vary)	%	1.1	4.4	2.3	3.7	2.5
Ústecký (Ústí nad Labem)	%	5.1	7.1	5.0	5.2	5.6
Liberecký (Liberec)	%	1.1	1.5	2.7	3.0	1.8
Královéhradecký (Hradec Králové)	%	4.8	7.1	4.8	6.9	9.9
Pardubický (Pardubice)	%	2.6	2.1	3.2	4.8	8.2
Vysočina (Bohemian-Moravian Highlands)	%	3.9	1.1	3.8	3.6	3.7
Jihomoravský (South Moravia)	%	6.6	12.5	9.4	9.3	9.3
Olomoucký (Olomouc)	%	6.2	4.6	4.6	7.3	6.9
Zlínský (Zlín)	%	12.2	7.6	8.0	8.3	13.2
Moravskoslezský (Moravia-Silesia)	%	24.8	26.1	19.3	22.9	11.7
Total	%	100.0	100.0	100.0	100.0	100.0

Especially due to the PROGRES programme, during 2005 preferential loans were used significantly more to support implementation of projects in the manufacturing sector. Retail trade continued to represent a substantial share of the projects (see table 11).

Sectoral structure of loans provided

(in % of contracted value of newly provided loans)

Table 11

Sector		2001	2002	2003	2004	2005
Manufacturing	%	42.2	38.3	40.8	37.1	55.4
of which: food processing	%	5.9	6.4	6.6	6.2	6.8
Building industry	%	8.7	10.2	10.1	11.1	5.4
Transport services	%	0.5	1.7	1.5	1.0	1.8
Retail trade	%	25.6	24.5	19.7	24.5	18.6
Accommodation services	%	14.2	12.0	13.2	14.2	9.8
Services for the public	%	2.2	4.0	5.3	4.8	4.9
Health care	%	3.4	2.2	2.6	2.6	1.5
Others	%	3.2	7.1	6.7	4.7	2.6
Total	%	100.0	100.0	100.0	100.0	100.0

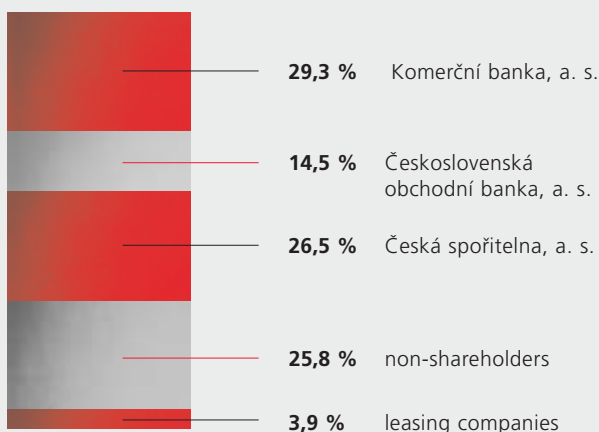
Preferential loans were provided as:

- Interest-free loans in the MARKET and START programmes. Overall, 395 interest-free loans were provided and these totalled CZK 178 million. The largest portion of the loans was used for projects in the Moravia-Silesia Region (26.3 % of the lent amount) and for projects in retail trade (31.4 % of total) and accommodation services (23.7 %).

- Reduced-interest loans in the MARKET and CREDIT programmes, as well as micro-loans in the South Bohemian Region. The total number of loans provided was 296, these amounted to CZK 440 million, and they were mainly directed to projects in manufacturing (35.1 %) and retail trade (23.3 %).
- Subordinated loans in the PROGRESS, MARKET and CREDIT programmes. The total number of loans provided was 278, amounted to CZK 1,478 million, and were mainly used for financing the development of enterprises in industry (65.5 % of the loan sum). Their largest portion was used by entrepreneurs in the Zlín Region (16.3 % of the total amount lent). Loans provided by Komerční banka (29.3 %) and Česká spořitelna (26.5 %) constituted the most significant shares in project co-financing. Leasing had a 3.9 % share in the co-financing provided for projects (see graph 2).

Graph 2

Co-financing of projects
with participation of subordinated loans



d) Financial subsidies

Through the MARKET programme, the Bank in 2005 provided 1,457 subsidies contributing to partially cover costs for obtaining ISO certification and that totalled to CZK 128 million. In addition, 61 other financial subsidies were provided to small and medium-sized enterprises. Amounting to CZK 66 million, the latter were based on applications submitted in 2004 under programmes for which applications were no longer accepted in 2005.

3/ Assistance for repairing panel-block apartment houses

Using funds provided by the State Housing Development Fund, CZK 490 million were provided in 2005 to assist in repairing prefabricated housing estates. Since 2001, that aggregate sum has totalled CZK 1,935 million.

The programme provides owners or co-owners of panel-block apartment houses with support in the forms of

- guarantees for bank loans and
- grants to interest payment on bank loans.

Assistance was directed to loans to be used by housing co-operatives, apartment owners associations and other individuals (see table 12) to finance repairs of panel-block apartment houses.

Projects supported by guarantees or interest grants, by recipients

Table 12

Indicator		2001	2002	2003	2004	2005
Projects supported	number	3	110	188	281	454
Recipients:						
	- housing co-operatives	%	67.0	75.0	90.0	49.6
	- municipalities	%	33.0	15.0	6.0	1.3
	- owners associations	%	0.0	6.0	3.0	44.3
	- individuals	%	0.0	0.0	0.5	4.8
	- legal entities	%	0.0	4.0	0.0	0.0

a) Guarantees

In 2005, the Bank issued 257 guarantees amounting to CZK 893 million to help the applicants obtain loans for financing repairs to panel-block apartment houses. The loans totalled nearly CZK 1,340 million (see table 13). The number of guarantees provided to apartment owners associations significantly increased during 2005, which indicates a change in their access to financing and is one of the reasons to expect increasing support to be provided in coming years.

Guarantees issued and loans guaranteed

Table 13

Indicator		2001	2002	2003	2004	2005
Guarantees issued	number	3	41	96	118	257
Amount of guarantees issued	CZK mil.	22	340	484	602	893
Amount of loans guaranteed	CZK mil.	32	584	746	891	1,339
Average guarantee rate	%	69	58	65	68	64

b) Grants to interest payment

With advance approval from the State Housing Development Fund, the Bank in 2005 provided a total of 197 grants for interest payment amounting to CZK 222 million (see table 14). Of these, 108 grants were provided to housing co-operatives, 85 to apartment owners associations and four to municipalities.

Interest grants

Table 14

Indicator		2001	2002	2003	2004	2005
Grants provided	number	0	69	92	163	197
Amount of grants	CZK mil.	0	358	261	395	222
Amount of supported loans	CZK mil.	0	1,121	793	1,310	877

4/ Infrastructure Development

a) Preferential loans to support water sector investments

The aim of the Programme of support to water sector investments is to enhance the quality of drinking water and wastewater treatment required to meet EU directives. For such projects, the Bank provides preferential long-term loans from funds obtained from the European Investment Bank. These loans supplement the investor's own resources and allocations from the state budget designated for financing the projects.

The concluding of agreements on preferential loans with individual investors under this programme was discontinued in June 2005. Last year, the Bank concluded agreements on 40 preferential loans totalling CZK 659 million. Thus, in the 2001 – 2005 period a total of 145 loan agreements were concluded. The total amount of preferential loans provided was CZK 3,127 million and the total costs for the construction and technology of the supported activities were CZK 7,281 million.

To cover a part of the loan applications submitted, it was necessary to secure additional funds for the second half of 2005. CMZRB obtained a loan for that purpose from the Council of Europe Development Bank in the amount of EUR 20 million. Subsequently, six preferential loan agreements totalling CZK 177 million were signed in November and December 2005.

b) Infrastructure projects finance

Acting as a financial manager for infrastructure programmes, the Bank in 2005 arranged their financing in a total amount of CZK 20.6 billion (including the water sector programme mentioned above). This amount included sources obtained from the European Investment Bank, the Council of Europe Development Bank, state budget funds, financing from the State Fund of Transport Infrastructure and the investors' own funds.

The Bank used the respective funds to finance a total of ten programmes and projects directed mainly to transport and water sector infrastructure. The major part of such financing was for highway structures, into which CZK 13.7 billion were invested. Nearly half of these funds went to structures included in the D8 highway project for the section between Trmice and the Czech–German border, and approximately CZK 4.7 billion was expended for the so-called Czech A-Highways Project (for highway D11 from Prague to Hradec Králové). The remaining funds were used to finance structures related to the project for bypassing Pilsen, including connecting feeder roads, and for preparatory work for the southwestern section of the project underway to build a beltway around Prague. Nearly CZK 1.5 billion was used to improve the quality of the road network within the ongoing Programme for Improving the Condition of International Highways in the Czech Republic. In 2005, the financing was completed for the Programme for Repairs of Class I and II Highways and Motorways in the Czech Republic.

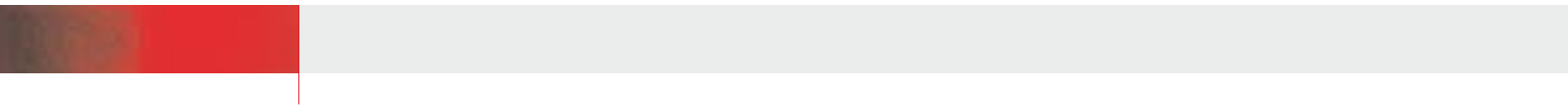
In the area of water sector infrastructure, the Bank nearly completed the financing of the programme for repairing flood damages that had occurred in 2002. Projects included the repair of flood damages to railroads, highways and local communications, as well as cleaning river basins and streams, and others. At the same time, there continued financing of activities included in the Flood Prevention Programme for implementing the Czech Republic's protection strategy.

In 2005, there also continued financing of the campus construction project for Masaryk University in Brno. The project financing in the amount of nearly CZK 1 billion was from a loan taken by the Czech Republic, funds from the Ministry of Education, Youth and Sport as well as funds provided by Masaryk University itself.

5/ Trading in financial markets

The CZMRB's main goals in trading in money and capital markets have been liquidity management, managing the financial and capital market instruments portfolio, and obtaining funds for implementing loan programmes to support small and medium-sized enterprises. Market risks are regularly hedged using currency and interest rate derivatives.

The Bank's investment strategy allows investing into such fixed-income instruments as government, corporate and



municipal bonds, mortgage-backed securities, treasury bills and promissory notes. The Bank takes a conservative attitude toward credit risk management, and therefore it invests only in instruments issued by foreign and domestic companies with very high credit ratings.

6/ Other business activity

The Bank functioned as a payment agency for grants approved by the Ministry for Regional Development. A total of seven special-purpose grants amounting to CZK 55 million were paid.

During 2005, the Bank carried out an evaluation of the financial quality of applicants for support from funds of the Grant Scheme for Support to Small and Medium-Sized Enterprises. The Grant Scheme was announced on the basis of the Joint Programme Document for Objective 2 of the Prague Cohesion Region for the 2004 – 2006 programme period. In total, six applications were examined and evaluated.

External communications

Co-operation with state administrative bodies, regions, representatives of the business community and commercial banks represented an important part of CMZRB's activities in support of better recognising the needs of clients and improving the services provided. In addition, the importance and scope of the Bank's activities grew during the past year especially with regard to international associations and working commissions and in intensifying its relationships with renowned international financial institutions.

CMZRB participated in negotiating and preparing a number of documents as part of its membership in the European Mutual Guarantee Association (AECM), the Club of Institutions Specialising in Long-Term Credits (ISLTC) and temporary working groups of the European Commission. Intensive working relationships continued with the European Investment Bank (EIB), European Investment Fund (EIF), Kreditanstalt für Wiederaufbau (KfW), the Council of Europe Development Bank (CEB), and the Nordic Investment Bank (NIB). Important benefits from these activities included a broadening and deepening of understanding with regard to the functioning of European Union structures, identifying new business opportunities, and transferring to the Bank for its practical use the experiences partner institutions have gained from their activities.

A concrete result of the good co-operation with foreign partners was to obtain additional resources that allow for broadening the offer of advantageous projects financing for SMEs and municipalities. On the basis of an agreement with KfW, CMZRB obtained a long-term loan co-financed from the sources of the CEB intended for financing municipal infrastructure development projects. A loan obtained by CMZRB from NIB at the end of 2005 will allow the providing of preferential loans in 2006 under the PROGRESS programme and partly in the CREDIT programme, as well. Also, the counter-guarantee provided by the EIF for the SME capital-project loan guarantees portfolio was renewed and increased in connection with the Bank's participation in the EU Multiannual Programme for Enterprise and Entrepreneurship.

CMZRB continued its collaboration with the Economic Chamber of the Czech Republic, with which the Bank had in the past already concluded a framework agreement for co-operation. A meeting took place in 2005 at the Economic Chamber where the Bank's representatives and staff from its business information centres presented the Bank's products in the current year's versions. The business information centres are natural partners for entrepreneurs, who use them to obtain information about the products provided by and through the Bank.

Implementation of the preferential loans within the Operational Programme Industry and Enterprise was reflected in close co-operation with the managing body of the operational programme, and in the area of publicity in co-operation with other implementing agencies. The Bank's representatives were active on monitoring committees of operational programmes as well as in the working group of the Business Environment Development Council at the Ministry of Industry and Trade.

The Bank continued its co-operation with the South Bohemian Region in implementing preferential loans to SMEs. Furthermore, CMZRB used its information centre at the District Economic Chamber in Zlín for contacts with entrepreneurs.

In January 2005, the Bank put into operation its newly designed WebPortal, which contributed to improved information organisation and better user orientation at the individual web pages. The number of visits to the site grew significantly after implementing the new WebPortal, and it was possible to increase the overall efficiency of the Bank's activities.

CMZRB's efforts in 2006 and the years to come will focus on continuing to provide such banking products and forms of support as will allow the financing of projects and development of activities especially oriented to small and medium-sized enterprises, of water sector companies, municipalities, housing co-operatives and apartment owners associations.

The main aim of CMZRB will still be to fulfil its mission as a development bank while focusing on reacting flexibly to meet the needs of clients, improving the effectiveness of the products provided and growing the shareholders' capital.

One of the Bank's main priorities for 2006 will be full utilisation of the funds available from the EU Structural Funds for support of SMEs through providing preferential loans, including subordinated loans, which have shown to have very good prospects as a tool of preferential financing.

In 2006, preparations will be completed for the next EU planning period to start in 2007. This will represent an important opportunity for CMZRB to develop and incorporate new and innovative support tools in the operational programmes approved for that period. The Bank shall especially promote efficient support tools that are founded on a principle of returning the financial assistance that is utilised or which show high-leverage effects and that positively impact the long-term sustainability of a reasonable scope of public support in areas exhibiting the effects of market failures.

CMZRB considers the maximum utilisation of modern information technologies to be an important part of continuously enhancing the quality of its services. These technologies are important for communicating both with the Bank's partners and clients as well as inside the Bank. They are important, too, to ensure that the Bank's employees are fully able to discover opportunities for positive changes and ensure their implementation. The Bank also will continue implementing projects that lead to more efficient processing and utilisation of data necessary for internal management processes.

In the coming months, CMZRB's activity will particularly focus on the following areas:

- providing assistance to small and medium-sized enterprises, with emphasis on strengthening their capabilities efficiently to obtain financing from commercial banks or other external financing sources;
- participating in support of financing repairs to panel-block apartment houses;
- functioning in a high quality manner as a financial manager for infrastructure projects;
- financing capital-spending projects to improve the infrastructure and environment in municipalities.

Českomoravská záruční a rozvojová banka, a. s.,

Supervisory Board's Report

During 2005, the Supervisory Board regularly carried out its duties as defined by law and the Bank's Articles of Association. In its capacity as the Bank's oversight body, the Supervisory Board monitored the work of the Board of Directors in discharging its duties and carrying out the Bank's business activities, financial management, and strategic direction. The Supervisory Board was regularly informed about the Bank's activities, its financial situation and other essential matters.

Having examined the regular and consolidated financial statements for the year ended 31 December 2005, and on the basis of the external auditor's report, the Supervisory Board states that the accounting records and books were kept in a transparent manner and in compliance with the generally binding accounting regulations for banks and with the Articles of Association. The accounting records and books reflect the Bank's actual financial situation in all important respects.

Deloitte, spol. s r. o., performed an audit of the regular and consolidated financial statements and confirmed that, in all important aspects, the final statements provided a true and fair view of the assets, liabilities, equity and financial position of Českomoravská záruční a rozvojová banka, a. s., as at 31 December 2005 and of the Bank's expenses, revenues and earnings for 2005 in accordance with the accounting regulations of the Czech Republic.

Based upon the facts stated above and pursuant to the Articles of Association, the Supervisory Board recommends approval of the regular and consolidated financial statements of Českomoravská záruční a rozvojová banka, a. s., for the year ended 31 December 2005 as submitted by the Board of Directors as well as the proposed profit distribution put forward by the Board of Directors. It recommends that the General Meeting approve the Bank's long-term development strategy and the proposed changes to the Articles of Association.

The Supervisory Board further reviewed the Report of the Board of Directors on Relations between the Controlling and Controlled Entities in 2005 and remarks that it took note of that Report without comment.

Prague, 21 March 2006



Václav Polák
Supervisory Board Chairman

Independent Auditor's Report to the Shareholders of Českomoravská záruční a rozvojová banka, a.s.

We have audited the accompanying consolidated financial statements of Českomoravská záruční a rozvojová banka, a.s. for the years ended 31 December 2005. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 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 give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Company as of 31 December 2005 and of the expenses, income and results of its operations for the years then ended in accordance with International Financial Reporting Standards.

In Prague on 7 April, 2006

Audit firm:
Deloitte s.r.o.
Certificate no. 79
Represented by:



Statutory auditor:



Michal Petrman, statutory executive



Michal Petrman, certificate no. 1105



Consolidated Financial Statements
Prepared in Accordance with International Financial Reporting Standards
for the Years Ended 31 December 2004 and 31 December 2005

'05

Consolidated Profit and Loss Accounts for the Years Ended 31 December 2004 and 31 December 2005

	Note	Year ended 31 December 2005	Year ended 31 December 2004
		CZK '000	CZK '000
Interest income		2 189 637	2 294 131
Interest expense		-1 735 337	-1 687 923
Net interest income	4.1	454 300	606 208
Fee and commission income		899 655	862 108
Fee and commission expense		-28 716	-33 207
Net fees and commissions	4.2	870 949	828 901
Net profit/(loss) on financial operations	4.3	267 673	54 568
Other income	4.4	1 672	123 331
Total operating income		269 345	177 899
Administrative expenses	4.5	-315 013	-305 711
Depreciation and other provisions	4.6	-54 086	-61 458
Other expenses		-10 961	-116 835
Total operating costs		-380 060	-483 824
Income from share of associated undertakings		-51 944	34 111
Profit before provision for loan and investment losses and income taxes		1 162 590	1 163 295
Provisions for loan and investment losses	4.7	-52 852	102 618
Profit/(loss) before income taxes		1 109 738	1 265 913
Income taxes	4.8	-259 609	-330 604
Deferred tax		34 949	3 169
Net profit/(loss)		885 078	938 478

Consolidated Balance Sheets as of 31 December 2004 and 31 December 2005

	Note	31 December 2005 CZK '000	31 December 2004 CZK '000
Assets			
Cash and current balances with banks	5	63 694	142 934
Amounts due from banks	6	5 641 949	7 588 289
Positive fair value of financial derivative transactions		162 271	347 477
Loans to customers, net	8	29 858 856	29 722 400
Securities available for sale	9	9 950 692	8 278 841
Investments held to maturity	10	1 626 885	1 706 143
Prepayments, accrued income and other assets	11	211 093	313 701
Deferred tax asset	4.8	59 644	28 164
Investments in associates	12	45 193	97 137
Intangible fixed assets	13	24 101	33 938
Property and equipment	13	235 608	253 738
Total assets		47 879 786	48 512 762
Liabilities			
Amounts due to banks	14	25 319 081	28 971 161
Amounts due to customers	15	11 668 954	9 325 165
Negative fair value of financial derivative transactions		2 063 201	1 761 044
Accruals, provisions and other liabilities	16	1 787 420	1 723 856
Income taxes payable		0	113 927
Provisions for off balance exposures	4.7	2 195 721	2 260 645
Total liabilities		43 034 377	44 155 798
Shareholders' equity			
Share capital	17	2 131 550	2 131 550
Share premium and reserves		2 713 859	2 225 415
Total shareholders' equity		4 845 409	4 356 965
Total liabilities and shareholders' equity		47 879 786	48 512 762

**Consolidated Statements of Changes in Shareholders' Equity for the Years Ended
31 December 2004 and 31 December 2005**

	Share capital CZK '000	Capital contributions CZK '000	Revaluation gains and losses CZK '000	Retained earnings CZK '000	Total CZK '000
Balance at 31 December 2004	2 131 550	840 369	0	1 385 046	4 356 965
Change in accounting policies (see Note 2g)					
Balance at 31 December 2004 restated	2 131 550	840 369	0	1 385 046	4 356 965
Change in revaluation gains and losses	0	0	10 986	0	10 986
Bonus issue	0	0	0	0	0
Approved dividends	0	0	0	-407 620	-407 620
Other contributions to capital reserves	0	0	0	0	0
Net profit	0	0	0	885 078	885 078
Balance at 31 December 2005	2 131 550	840 369	10 986	1 862 504	4 845 409

**Consolidated Statements of Cash Flows for the Years Ended
31 December 2004 and 31 December 2005**

	Note	2005 CZK '000	2004 CZK '000
Profit before taxes		1 109 738	1 265 913
Adjustments for non-cash transactions			
Creation/(release) of provisions and adjustments for losses on loans		-106 729	-119 461
Loans written off		169 758	90 331
Depreciation and amortisation of assets		54 086	61 459
Gains on sale of fixed assets		-275	-782
Unrealised profit on securities held for trading		0	-34 753
Net profit on re-measurement of equity investments		51 945	-34 112
Change in fair values of financial derivatives		2 972 956	2 204 013
Adjustment for interest flows		-454 301	-606 208
<i>Operating profit before changes in operating assets and liabilities</i>		3 797 178	2 826 400
Cash flows from operating activities			
<i>(Increase)/decrease in operating assets</i>			
Loans and advances to financial institutions		1 949 361	435 074
Loans and advances to clients		-1 886 596	-3 604 915
Other assets		102 608	-186 469
<i>Increase/(decrease) in operating liabilities</i>			
Amounts owed to financial institutions		-5 209 174	625 909
Amounts owed to customers		2 342 506	-214 216
Other liabilities		63 654	280 764
<i>Net cash flow from operating activities before income tax</i>		1 159 537	162 547
Interest received		1 865 139	2 315 527
Interest paid		-1 765 755	-1 702 816
Income taxes paid		302 781	-222 056
<i>Net cash flow from operating activities</i>		1 561 702	553 202
Cash flows from investing activities			
Purchases of securities available for sale and held to maturity		-3 855 269	-20 108 320
Sales of securities available for sale and held to maturity		2 282 099	19 702 458
Purchase of tangible and intangible fixed assets		-56 879	-92 139
Proceeds from the sale of tangible and intangible fixed assets		31 036	59 422
<i>Net cash flow from investing activities</i>		-1 599 013	-438 579
Cash flows from financing activities			
Dividends paid		-407 620	-622 110
<i>Net cash flow from financing activities</i>		-407 620	-622 110
Net decrease in cash and cash equivalents		-444 931	-507 487
Cash and cash equivalents at beginning of year		642 568	1 150 055
Cash and cash equivalents at end of year	18	197 637	642 568



Notes to the Consolidated Financial Statements for the Year Ended
31 December 2005

'05

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

1/ GENERAL INFORMATION

Českomoravská záruční a rozvojová banka, akciová společnost (henceforth the "Bank" or "ČMZRB") was formed as a joint stock company pursuant to the Commercial Code and was incorporated following its registration in the Register of Companies held at the District Court of Prague 1 on 28 January 1992 (Volume Rg. B, File 1329). The Bank's registered office is located at Jeruzalémská 964/4, Prague 1. The Bank has five branches in the Czech Republic (in Brno, Hradec Králové, Ostrava, Plzeň and Praha) and one regional workplace in České Budějovice.

The Bank has been licensed by the Czech National Bank to undertake activities set out in Section 1 (1) (a) and (b) of the Banking Act and Section 1 (3) (a) to (h) and (j) to (p) of the Banking Act.

The Bank's activities are focused on supporting small and medium sized businesses in the Czech Republic by providing guarantee and loan products and issuing infrastructure loans from funding made available by international financial institutions.

The Bank's activities principally involve:

- Issuance of Czech Crown and foreign currency loans and guarantees;
- Acceptance and provision of Czech Crown and foreign currency deposits;
- Maintenance of current and term Czech Crown and foreign currency accounts;
- Provision of ordinary banking services via a network of branches; and
- Securities trading.

2/ PRINCIPAL ACCOUNTING POLICIES

a) Basis of Accounting

The consolidated financial statements are prepared in accordance with and in compliance with International Financial Reporting Standards ('IFRS') applicable for consolidated financial statements effective for the year ended 31 December 2005. The consolidated financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements.

The consolidated financial statements are prepared under the historical cost convention, as modified by the fair value revaluation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts. Assets that are not remeasured to fair value and suffered impairment are stated at the net recoverable amount.

The Group entities maintain their books of accounts and prepare statements for regulatory purposes in accordance with Czech accounting principles and those of other jurisdictions in which the Group operates. The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the consolidated financial statements is the Czech Crown ('CZK') with accuracy to CZK thousand.

b) Basis of Consolidation

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings in which the Group has between 20 percent and 50 percent of the voting rights, and over which the Group exercises significant influence, but which it does not control. Equity accounting involves recognising the Group's share of the associates profit or loss for the period in the profit and loss statement. The Group interest in the associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate and includes goodwill on acquisition.

c) Recognition Date

The date of the recognition of individual transactions is principally the date of payment or receipt of cash, the day of purchase or sale of foreign currencies, the date on which a payment is made or an amount is collected from the client's account, the day of settlement of the Bank's orders with the CNB Clearing Centre, the day on which funds are credited according to a report from the Bank's correspondent (a report is taken to mean a statement of an account maintained by the correspondent), the settlement date relating to transactions with securities and derivatives, the date of issuance or acceptance of a guarantee or loan commitment, and the date of accepting assets into custody.

Purchases and sales of financial assets on terms that require delivery within a typical timeframe and fixed forward and option transactions are retained off balance sheet of the period between the trade date and the settlement date.

The Bank derecognises a financial asset or a portion of the financial asset from its balance sheet when it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Bank loses such control if it realises the rights to benefits specified in the contract, the rights expire, or the Bank surrenders those rights.

d) Bank Guarantees

Issued bank guarantees are retained off balance sheet from the date on which a bank guarantee agreement is entered into. The Bank's off balance sheet commitment arising from the bank guarantee is decreased on the basis of information on the cumulative repaid principal balance of the guaranteed loan.

Proceeds from guarantees are recognised on an accruals basis (refer to Note 4.2). When a call for pay-out under a guarantee is received from a creditor, the Bank records the pay-out call in its off balance sheet accounts. Subject to the fulfilment of the conditions set out in the guarantee certificate, the pay-out under the bank guarantee is passed on to the creditor. The off balance sheet commitment in respect of the pay-out call is reversed, and the Bank accounts for an on balance sheet balance due from the client as a result of a guarantee pay-out being made.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

e) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Czech Crowns and reported in the financial statements at the prevailing exchange rate declared by the Czech National Bank ('CNB') as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Bank and are, therefore, reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. All gains and losses arising from movements in exchange rates are recognised in 'Net profit or loss on financial operations.'

f) Amounts due from Banks and Customers

Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

Loans and advances to customers and financial institutions are stated as net of provisions for loan losses. Further details about provisioning are set out in Note 4.7 to these financial statements. Loans secured by financial derivatives are measured at fair value.

Reserves and provisions are charged against expenses and are reported in the profit and loss account line 'Provision for loan losses'.

Write-offs of bad receivables are reported in the profit and loss account line 'Provision for loan losses'. The receivable is written off against the related provision or reserve. Recoveries of receivables, if previously written off, are included in 'Provision for loan losses.'

g) Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. The Bank has classified securities that are not equity investments in subsidiaries or associates as 'Trading securities', 'Available for sale' and 'Held to maturity.'

All securities held by the Bank are initially recognised at cost which, for coupon bonds, includes purchase price, accrued coupon and an element of direct transaction costs associated with the acquisition of securities. All purchases and sales of securities that do not meet the 'regular way' settlement criterion are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement in fair value. The cost of debt securities is increased to reflect the accrued interest income using the effective interest rate method. Interest income includes the accrued difference between the nominal value of the security and its cost, and the accrued coupon.

Fair Value of Securities

Fair value of securities is determined as equal to the market value quoted on recognised stock exchanges or any other public securities market as appropriate. Fair value of unlisted securities is established as equal to:

- Net present value of cash flows taking into account the risks attached to bonds and bills of exchange; and
- Third party quotes.

Trading Securities

Trading securities are financial assets (debt securities, treasury bills and bills of exchange) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition, these securities are accounted for and stated at fair value.

Unrealised gains and losses arising from the fair value re-measurement of securities as well as realised gains and losses are recognised in the profit and loss account line 'Net profit or loss on financial operations.'

Investments Held to Maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. The Bank carries debt securities in the held-to-maturity portfolio. Held-to-maturity investments are carried at amortised cost using the effective yield method.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and its recoverable amount. When an impairment of assets is identified, the Bank recognises provisions through the profit and loss account line 'Provision for losses on securities'.

Securities Available for Sale

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments and are used in managing the Bank's interest rate exposure.

Unrealised gains and losses arising from the fair value re-measurement of securities are recognised in equity. Realised gains and losses, dividend income, interest income, foreign exchange gains and losses and impairment losses are recognised in profit and loss.

The Bank has evaluated the impact of unrealised gains on the Available for Sale portfolio as immaterial as of 31 December 2004. Therefore, the Bank did not adjust the opening balances of retained earnings and revaluation gains and losses for previously reported periods.

h) Sale and Repurchase Agreements

Securities received as collateral under reverse repo transactions are not recognised on the Bank's balance sheet and are stated at fair value in off balance sheet accounts. The off balance sheet accounts do not reflect collateral that is subject to short sale. The reverse repo is defined as a standard reverse repurchase transaction and also as a borrowing of securities secured by the transfer of financial assets and a purchase of securities with a concurrently negotiated resale. Securities provided as collateral under repurchase transactions are retained within the portfolio in which they were carried prior to their being provided in the repurchase transaction.

In regard to the sale of a security acquired as collateral under a reverse repurchase transaction, the Bank recognises in the balance sheet an amount payable from a security which is remeasured to fair value.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

i) Derivative Financial Instruments and Hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments which represent a financial instrument that requires a very low initial investment. The derivative financial instruments used include interest rate and currency forwards, swaps, options and securities based derivatives. These financial instruments are held by the Bank for speculative purposes and in order to hedge interest rate risk and currency exposures associated with its transactions.

Derivative financial instruments are initially recognised in off balance sheet accounts at the value of the underlying instruments and are subsequently remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in other financial instruments and 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 with unrealised gains and losses reported in the profit and loss account.

Changes in the fair value of derivatives held for trading are included in the profit and loss account line 'Net profit or loss on financial operations.'

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge) or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided that certain criteria are met.

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

- a) They meet the Bank's risk management strategy,
- b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing and documenting whether the hedge is effective, and
- c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value 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 profit and loss account along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss account line 'Net profit or loss on financial operations.'

j) Interest Income and Expense

Interest income and expense are recognised for all interest bearing instruments on an accruals basis. Interest income includes amortised coupons and accreted discount for all fixed income instruments.

Interest income on loans provided as part of the support of small and medium sized businesses includes additional interest income, which is also recognised on an accruals basis and paid by the State under concluded contracts.

Interest on non-performing loans is also recognised on an accruals basis and included in the balance of the relevant loan. These amounts are fully provided for.

k) Penalty Interest

Penalty interest is accounted for on an accruals basis to income solely in respect of standard and watch loans issued subsequent to 1 January 2001. Penalty interest on other loans is no longer accrued and is removed from income until collected.

l) Provisions for Guarantees and Other Off Balance Sheet Credit Related Commitments

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 amount of the obligation can be made.

In the normal course of business, the Bank enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees and undrawn loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in Note 4.7.

n) Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are stated at historical cost less the accumulated depreciation together with accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight line basis in order to write off the cost of each asset to their residual values over their estimated useful economic life. Land and assets in the course of construction are not depreciated.

The estimated useful economic lives in years are set out below:

Machinery and equipment, computers, vehicles, software	4 years
Fixtures, fittings and equipment	10 years
Buildings and structures	30 years

The Group periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Group's requirements, management of the Group determines a provision for asset impairment. In respect of the assets owned by the Group, the provision is assessed by reference to a net selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Leasehold assets are provisioned by reference to the net present value of future costs and the residual value of any technical improvements.

Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

o) Income Tax

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and other jurisdictions in which the Group operates based on the profit recognised in the profit and loss statement prepared pursuant to Czech accounting standards and accounting standards of other jurisdictions.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. The principal temporary differences arise from depreciation on property, plant and equipment, specific provisions for loans, and tax losses carried forward. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Deferred tax is recognised to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

p) Subsequent Events

The effects of events which occurred between the balance sheet date and the date when the financial statements were authorised for issue are reflected in the financial statements in the event 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 authorising the financial statements for issue 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.

q) Regulatory Requirements

The Bank is subject to the regulatory requirements of the Czech National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with the Bank's clients, liquidity, interest rate and foreign currency positions.

r) Cash and Cash Equivalents

The Group considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with financial institutions, and loro accounts with financial institutions to be cash equivalents (see Note 18).

s) Significant Events

The Czech Republic's accession to the European Union led to a change in the structuring of the funding of the programmes designed to support small and medium sized businesses. The programmes will be funded not only from the budget of the Czech Republic, but also from the budget of the European Union via structural funds. The revised conditions for funding triggered a change in the Bank's share of risks arising from lending (refer to Note 24 a).

CHANGES IN ACCOUNTING POLICIES IN 2005

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007);

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006);

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006); and

Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective 1 January 2007).

The Bank estimates that the adoption of these amendments in IFRS that will become effective subsequent to 1 January 2006 will not have a material impact on the financial statements for the year ending 31 December 2006.

4/ SOURCE OF PROFITS AND LOSSES

All income included in operating income was substantially generated from the provision of financial services in the Czech Republic. The Group considers that its products and services arise from one segment of business, that is, the provision of financial services.

4.1 INTEREST INCOME

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Interest on interbank transactions	251 593	349 631
Interest on loans granted to customers	281 355	194 062
Interest on loans granted to the State	1 263 817	1 361 403
Income from hedging interest rate derivatives	0	0
Interest and discount on bonds	392 872	389 035
Total interest income	2 189 637	2 294 131
Interest on interbank transactions	1 097 349	1 235 962
Interest on deposits and loans from customers	86 207	77 612
Interest on deposits from the State	126 414	231 408
Costs of hedging interest rate derivatives	424 569	142 114
Interest on issued bills of exchange	798	827
Total interest expenses	1 735 337	1 687 923
Net interest income	454 300	606 208

Penalty interest is included in income on a cash basis. Recorded unpaid penalty interest of CZK 378,549 thousand (2004: CZK 500,752 thousand) was not accrued to income.

4.2 FEE AND COMMISSION INCOME

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Fees and commissions from lending activities	74 905	81 023
Fees and commissions from payment transactions	116 613	188 687
Fees and commissions from transactions with securities	91	40
Fees and commissions from foreign currency transactions	74	34
Fees and commissions from transactions with securities and derivatives for clients	38	90
Fees and commissions from guarantees	707 550	578 792
of which: governmental grants to clients	679 126	551 914
Fees and commissions from other financial operations	384	13 442
Total fee and commission income	899 655	862 108
Fee and commission expense	28 716	33 207
Total net fees and commissions	870 949	828 901

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

4.3 NET PROFIT OR LOSS ON FINANCIAL OPERATIONS

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Profit or (loss) on the sale of securities	9 243	0
Profit or (loss) from revaluation	6 947	29 799
Profit or (loss) from foreign currency transactions	417 678	19 265
Net change in the fair value of hedging derivatives	-124 963	-24 932
Profit or (loss) on other derivatives	-41 232	30 436
Total net profit or loss on financial operations	267 673	54 568

4.4 OPERATING INCOME AND EXPENSES

As a result of the methodological change in accounting for hedging derivatives in 2003, additional tax returns for 2001 and 2002 were filed to recover the amount of CZK 119,118 thousand stated above. The anticipated recovery of this amount was accounted for through the recognition of an amount due from the taxation authorities as part of other operating income for the year ended 31 December 2004. The receivable was recovered in 2005.

4.5 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Wages, salaries and bonuses	156 436	144 672
Social security costs	50 785	47 458
Employees' expenses	207 221	192 130
Other administrative expenses	107 792	113 581
Total administrative expenses	315 013	305 711

Other administrative expenses comprise:

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Audit, legal and tax advisory services	6 304	6 601
Rental charges	13 012	13 807
Other administrative expenses	88 476	92 993
Total other administrative expenses	107 792	113 401

Staff Analysis

	Year ended 31 December 2005	Year ended 31 December 2004
Number of members of the Supervisory Board	9	9
Number of members of the Board of Directors	5	5
Average number of managers	30	27
Total number of other employees	229	228

4.6 DEPRECIATION AND OTHER PROVISIONS

Depreciation and other provisions comprise:

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Depreciation of tangible and intangible fixed assets	54 086	61 458
Other provisions, net	0	0
Total depreciation and other provisions	54 086	61 458

4.7 PROVISIONS FOR LOAN AND GUARANTEE LOSSES

The movement in the provisions was as follows:

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Balance at 1 January	3 474 300	3 661 599
Net creation/(release) of provisions for loan losses	52 401	-94 576
Impact of loans written off and transferred	-169 758	-92 723
Balance at period end	3 356 943	3 474 301

The balance of provisions as of 31 December 2005 and 2004 comprises:

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Specific provisions for loans to customers (Note 8)	1 182 440	1 235 243
Provisions for guarantees and other credit related commitments (Note 16)	2 174 503	2 239 058
Total	3 356 943	3 474 300

4.8 INCOME TAXES

	Year ended 31 December 2005 CZK '000	Year ended 31 December 2004 CZK '000
Pre-tax profit	1 109 738	1 265 913
Non-taxable income	-1 074 212	-1 250 493
Non-tax deductible expenses	1 076 981	1 165 978
Items decreasing/increasing tax base	0	-671
Tax base	1 112 507	1 180 727
Due corporate income tax rate of 26 percent (28 percent in 2004)	289 252	330 604
Deduction of half of tax withheld on dividends	0	0
Income tax – due	289 252	330 604
Income tax - deferred	-34 949	-3 169
Tax overpayment from previous periods	-29 643	0
Total income tax	224 660	327 435

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Profit and loss reconciliation

	31 December 2005 CZK '000	31 December 2004 CZK '000
Statutory profit and loss, unconsolidated gross	1 400 649	1 006 346
Income tax charge	-224 660	- 327 435
Statutory profit and loss unconsolidated net	1 175 989	678 911
Share of MUFIS's profit	-51 944	34 111
Contribution to the social fund in accordance with statutory provisions	-6 365	-7 326
Decrease in provisions under IFRS	-232 602	232 802
Profit and loss calculated in accordance with IFRS	885 078	938 478

A portion of the provisions held for the portfolio of standard loans and guarantees under Czech accounting standards of CZK 232 million was derecognised in IFRS financial statements in 2004 as the Bank was unable to accurately quantify the anticipated loss on this portfolio. The release of the provision under Czech accounting standards in 2005, therefore, does not impact the IFRS profit.

Deferred Tax

The recognised deferred tax asset can be analysed as follows:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Provisions and reserves for loans and guarantees	41 164	21 503
Other reserves and provisions	5 797	5 857
Difference between accounting and tax accumulated depreciation	1 205	804
Differences arising from the re-measurement of hedging derivatives	14 947	0
Unrealised gains and losses from Available for Sale securities	-3 469	0
Total deferred tax asset	59 644	28 164
Deferred tax balance at 1 January	28 164	24 995
Movement through the profit and loss account	34 949	3 169
Movement through equity	-3 469	0
Deferred tax balance at 31 December	59 644	28 164

The deferred tax asset is calculated taking into account the statutory income tax rate of 24 percent valid in 2006 when the Bank anticipated realising the differences.

5/ CASH IN HAND AND CURRENT BALANCES WITH BANKS

	31 December 2005 CZK '000	31 December 2004 CZK '000
Cash in hand	9 259	8 049
Obligatory minimum reserves	54 235	134 885
Total cash in hand and balances with central banks	63 494	142 934

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank. These deposits bear interest at the CZK repo rate. (31 December 2005: 2 percent p.a.).

6/ AMOUNTS DUE FROM BANKS

	31 December 2005 CZK '000	31 December 2004 CZK '000
Current accounts	679	819
Term deposits with banks and central banks	2 857 720	1 559 444
Amounts due under repo transactions	2 776 464	5 465 944
Securities acquired under initial offerings	0	551 835
Accrued interest	7 086	10 247
Total amounts due from banks	5 641 949	7 588 289

All the amounts due from banks are exposures not impaired.

The Bank has reclassified securities acquired under the initial offering into securities at fair value through profit or loss or into the available for sale portfolio as the intent of holding them to maturity has changed and the instruments were readily marketable.

7/ SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank holds no securities at fair value through profit or loss as of 31 December 2005 and 31 December 2004.

8/ LOANS TO CUSTOMERS

	31 December 2005 CZK '000	31 December 2004 CZK '000
Loans to private legal entities and individuals	5 359 354	5 001 086
Loans to the Ministry of Finance	23 854 865	23 841 722
Loans to municipalities	1 224 358	928 397
Other receivables from customers	5	3
Securities acquired under initial offerings	338 240	892 743
Accrued interest	264 474	293 692
Gross amounts due from customers	31 041 296	30 957 643
Loan specific and general provisions (Note 4.7)	-1 182 440	-1 235 243
Net amounts due from customers	29 858 856	29 722 400

Loans to the Ministry of Finance principally represent loans in connection with infrastructure programmes which were transferred to ČMZRB from Konsolidační banka Praha, s.p.ú. on 31 December 2000. These programmes are principally targeted at funding the construction of the highway network, repairs of international roads, removal of flood damage and water sector investments. The funding of these programmes was provided by the European Investment Bank and also partially by major banks that are the Bank's shareholders.

Set out below is the currency structure of the outstanding infrastructure loan principal amounts on the side of assets and liabilities:

	31 December 2005		31 December 2004	
	Assets CZK '000	Liabilities CZK '000	Assets CZK '000	Liabilities CZK '000
CZK	18 473 414	10 276 362	19 254 307	10 049 965
EUR	6 581 879	13 907 588	6 939 255	15 575 855
USD	40 478	40 478	44 283	44 283
Fair value re-measurement	-3 989 093	-4 717 960	-2 396 123	-2 885 421
Total	21 106 678	19 506 468	23 841 722	22 784 682

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

The Bank entered into cross currency swap transactions to close out the open positions and to cover the associated foreign currency and interest rate exposures (refer to Note 21 (c)).

The loan portfolio of the Group as of 31 December 2005 comprises the following breakdown by classification:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Standard	26 640 143	26 352 174
Watch	2 690 489	2 204 739
Substandard	371 175	299 918
Doubtful	104 739	117 093
Loss	631 996	797 284
Securities acquired under initial offerings	338 240	892 743
Accrued interest	264 474	293 692
Total	31 041 256	30 957 643
Loan specific and general provisions (Note 4.7)	-1 182 400	-1 235 243
Net amounts due from customers	29 858 856	29 722 400

The loan portfolio of the Group as of 31 December 2005 comprises the following breakdown by type of collateral:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Bank guarantees and collateral by reliable guarantors	1 029 080	1 533 432
Cash collateral	38 965	10 400
Real estate collateral	2 604 608	2 619 062
Other loan collateral	339 675	908 625
Uncollateralised	27 028 928	25 886 124
Total	31 041 256	30 957 643
Loan specific and general provisions (Note 4.7)	-1 182 400	-1 235 243
Net amounts due from customers	29 858 856	29 722 400

Set out below is the breakdown of loans by sector:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Mining of minerals	15 657	12 806
Processing	1 850 119	1 586 457
Production and distribution of electricity, gas and water	1 467 024	1 350 640
Construction	353 479	365 689
Trade, repair of motor vehicles and products for personal consumption	881 657	897 318
Accommodation and public catering	401 399	394 952
Transportation, warehouses and communication	55 258	64 522
Financial brokerage	3 280 245	401 679
Insurance	1 003	1 003
Public administration and defence	22 037 826	24 727 918
Other activities	433 115	860 967
Accruals	264 474	293 692
Total	31 041 256	30 957 643
Loan specific and general provisions (Note 4.7)	-1 182 400	-1 235 243
Net amounts due from customers	29 858 856	29 722 400

9/ SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

	31 December 2005 Fair value CZK '000	31 December 2004 Fair value CZK '000
Fixed income debt securities	4 678 205	3 637 606
Variable yield debt securities	2 502 591	2 333 019
Treasury bills	2 769 896	2 308 216
Total securities available for sale	9 950 692	8 278 841

As of 31 December 2004, the available-for-sale portfolio included securities at a fair value of CZK 8,569,960 thousand (2004: CZK 7,059,155 thousand) that were publicly traded on stock exchanges and securities at a fair value of CZK 1,380,732 thousand (2004: CZK 1,219,686 thousand) that were not publicly traded securities.

The available securities are denominated in various currencies (see Note 21).

Treasury bills are eligible for rediscounting with the central bank.

Debt securities available for sale at fair value, allocated by issuer, comprise:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	4 576 787	4 041 121
- Financial institutions in the Czech Republic	2 014 513	913 636
- Foreign financial institutions	2 512 488	2 185 244
- Other entities in the Czech Republic	380 507	573 325
- Other foreign entities	466 397	565 515
Total debt securities available for sale	9 950 692	8 278 841

10/ INVESTMENTS HELD TO MATURITY

Investments held to maturity comprise:

	31 December 2005 Carrying value CZK '000	31 December 2004 Carrying value CZK '000
Fixed income debt securities	1 626 885	1 706 143
Total investments held to maturity	1 626 885	1 706 143

As of 31 December 2005, the Group's held-to-maturity portfolio included CZK 282,772 thousand (2004: CZK 356,406 thousand) state bonds that were publicly traded on stock exchanges. The remaining balance is from bonds not traded on the securities exchange.

The available securities are denominated in various currencies (see Note 21).

State bonds in the amount of CZK 1,144,956 thousand (2004: CZK 939,784 thousand) are eligible for rediscounting with the central bank

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Investments held to maturity, allocated by issuer, comprise:

Debt securities held to maturity issued by:	31 December 2005 CZK '000	31 December 2004 CZK '000
State institutions in the Czech Republic	1 144 956	1 152 106
Foreign financial institutions	282 772	356 406
Other entities in the Czech Republic	199 157	197 631
Total debt securities held to maturity	1 626 885	1 706 143

11/ PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

Prepayments, accrued income and other assets comprise:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Receivables from unsettled transactions with securities	700	700
Accrued expenses and deferred income	89 349	111 815
Other receivables and other assets	121 293	201 435
Other assets, gross	211 342	313 950
Impairment provisions (Note 4.7)	-249	-249
Other assets, net	211 093	313 701

12/ INVESTMENTS IN ASSOCIATES

The Bank's consolidated financial statements include an investment in the associate, MUFIS, a.s., having its registered office address at Jeruzalémská 4, Prague 1 ('MUFIS'), whose key details are set out below.

The Bank formed MUFIS as a wholly owned subsidiary with share capital of CZK 1 million in 1994. In 1995, the Bank disposed of 51 percent of the issued share capital, and holds a 49 percent investment in MUFIS as of 31 December 2005.

Shareholder structure	31 December 2005	31 December 2004
Českomoravská záruční a rozvojová banka, a.s.	49 %	49 %
Ministry of Finance	49 %	49 %
Association of Czech Municipalities	2 %	2 %

MUFIS acted as the official broker and administrator of long-term funding obtained on the basis of an agreement with USAID from private US investors. This funding is designed to finance the infrastructure projects of municipalities. The ultimate beneficiaries were provided with the funding following an assessment of their business plans, through a selected number of commercial banks which act as MUFIS's debtors.

Following preparatory negotiations with US investors and Czech institutions, MUFIS began to implement the programme in early 1995 by taking on the first loan of USD 20 million. In August 1996, an amendment to the intergovernmental agreement was signed whereby both governments provided guarantees in respect of the issuance of another loan of USD 14 million. In the latter half of 1997, the parties discussed and signed a second amendment to the Programme Agreement which enabled MUFIS to enter into a USD 10 million loan agreement. In accordance with this agreement, in February 1998, MUFIS took on a third loan to further finance lending under the Housing Guaranty Programme in the Czech Republic. At present, MUFIS is working with programme funding from the three loans amounting to USD 44 million.

Significant Events

In accordance with applicable accounting procedures and principles, foreign currency denominated receivables and payables were retranslated into CZK using the profit and loss account approach. The retranslation gave rise to an unrealised loss of CZK 76,103 thousand as a result of a notable increase in the US dollar rate.

Summary Audited Financial Information

	Equity CZK '000	The Bank's share of equity CZK '000	Total assets CZK '000	Profit/(loss) before tax CZK '000
At 31 December 2005 and for the year then ended	92 230	45 193	964 378	-106 008
At 31 December 2004 and for the year then ended	198 239	97 137	1 444 792	69 615

13/ TANGIBLE AND INTANGIBLE FIXED ASSETS

Intangible Fixed Assets

	31 December 2004 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2005 CZK '000
Cost				
Software	148 536	10 111	4 358	154 289
Goodwill	0	0	0	0
Other	79 558	0	0	79 558
Fixed assets under construction and prepayments	124	12 418	11 672	870
Total	228 218	22 529	16 030	234 717
Accumulated amortisation				
Software	119 757	15 651	4 350	131 058
Goodwill	0	0	0	0
Other	74 523	5 035	0	79 558
Total	194 280	20 686	4 350	210 616
Net book value	33 938			24 101

Tangible Fixed Assets

	31 December 2004 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2005 CZK '000
Cost				
Land	10 544	0	0	10 544
Buildings	298 995	1 311	85	300 221
Equipment and fittings	151 131	14 058	10 925	154 264
Fixed assets under construction and prepayments made	5	18 981	18 981	5
Total	460 675	34 350	29 991	465 034

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Accumulated depreciation				
Buildings	73 872	15 224	0	89 096
Equipment and fittings	133 065	18 176	10 911	140 330
Total	206 937	33 400	10 911	229 426
Net book value	253 738			235 608

14/ AMOUNTS DUE TO BANKS

	31 December 2005 CZK '000 Accounting value	31 December 2004 CZK '000 Accounting value
Loans received from banks	24 793 989	26 385 818
Change in fair values of loans received from EIB	-4 717 960	-2 885 421
Change in fair values of other loans	882	19 255
Received term deposits	3 970 000	3 550 000
Loans received under repo transactions	1 057 972	1 658 771
Accrued interest	214 198	242 738
Total amounts owed to banks	25 319 081	28 971 161

Of the aggregate balance of amounts loans received from banks, those payable to the European Investment Bank amount to CZK 24,224,688 thousand (2004: CZK 25,670,103 thousand).

15/ AMOUNTS DUE TO CUSTOMERS

Amounts due to customers, by type of deposit, comprise:

	31 December 2005 CZK '000 Accounting value	31 December 2004 CZK '000 Accounting value
Current accounts	6 620 558	5 304 397
Term deposits	2 531 320	1 236 066
Repo operations with clients	0	0
Other credits received from clients	15 000	10 000
Security deposits	32 059	23 642
Other payables to clients	2 470 017	2 751 060
	11 668 954	9 325 165

Amounts due to customers, by type of customer, comprise:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Amounts owed to state institutions	8 658 982	7 112 866
Amounts owed to local government institutions	35 686	25 629
Amounts owed to social security funds	300 115	300 967
Payables to other customers	2 671 955	1 884 770
Accrued interest	2 216	933
Total amounts owed to customers	11 668 954	9 325 165

The 'Amounts owed to state institutions' line includes, inter alia, payables comprising funds to cover risks attached to the Regional Guarantee, Prefab and Reconstruction Programmes.

The structure of these payables is as follows:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Support programmes funding	1 959 334	2 272 787
Fund to cover risks attached to the Regional Guarantee, Prefab and Reconstruction Programmes	1 077 296	912 205

16/ ACCRUALS, PROVISIONS AND OTHER LIABILITIES

Accruals, provisions and other liabilities comprise:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Other liabilities to employees	9 871	7 326
Deferred expenses and accrued income	1 673 322	1 619 823
Other	64 002	53 602
Other provisions	40 225	43 105
Total accruals, provisions and other liabilities	1 787 420	1 723 856

Movements in reserve balances can be analysed as follows:

	Provisions for issued guarantees CZK '000	Provisions for loan commitments CZK '000	Other provisions CZK '000	Total CZK '000
At 1 January 2004	2 321 432	0	29 880	2 351 312
Creation	476 151	55 825	363 006	894 982
Use	-606 925	-7 425	-371 299	-985 649
At 31 December 2004	2 190 658	48 400	21 587	2 260 645
Creation	450 599	105 411	287 051	843 061
Use	-604 113	-16 701	-287 171	-907 985
At 31 December 2005	2 037 144	137 110	21 467	2 195 721

Other reserves represent reserves for unused vacation calculated based on days of unused vacation per individual employee and their average wage and reserve for bonuses of management pending the decision of an annual general meeting.

17/ EQUITY AND PROFIT ALLOCATION

Share capital

	31 December 2005 CZK '000	31 December 2004 CZK '000
8,900 shares with a nominal value of CZK 239,500	2 131 550	2 131 550

The shares are registered and issued in book-entry form.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

The Bank's shareholders and their ownership interests as of 31 December 2004 and 2003 are set out below:

Name	2004 %	2003 %
Ministry of Industry and Trade	24,25	24,25
Ministry for Regional Development	24,25	24,25
Ministry of Finance	23,83	23,83
Komerční banka, a. s.	13,00	13,00
Česká spořitelna, a. s.	13,00	13,00
Československá obchodní banka, a. s.	1,67	1,67
Total	100,00	100,00

Profit Allocation

The net profit for the year ended 31 December 2005 is proposed to be allocated as follows:

- CZK 705,770 thousand will be distributed as dividends,
- The remaining portion will be transferred to retained earnings.

18/ COMPOSITION OF CASH AND CASH EQUIVALENTS AS REPORTED IN THE CASH FLOW STATEMENT

	31 December 2005 CZK '000	31 December 2004 CZK '000	Change in the year CZK '000
Cash and balances with central banks	63 494	142 934	-79 440
Current accounts with other banks	679	819	-140
Treasury bills	133 464	498 815	-365 351
Total	197 637	642 568	-444 931

19/ CONTINGENT LIABILITIES

Commitments to extend loans, guarantees for loans to third parties, and letters of credit expose the Bank to credit risk and loss in the event that the client fails to comply with contractual conditions. In the normal course of its business, the Bank incurs various commitments and potential liabilities which carry an element of credit risk, interest rate risk and liquidity risk.

Contingent liabilities can be analysed as follows:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Total issued client guarantees	10 810 417	9 325 727
Commitments issued to clients	1 169 452	1 378 751
Total balance of off balance sheet commitments	11 979 869	10 704 478

Management of the Bank believes that, as of 31 December 2005, the Bank had no commitments arising from its activities as a trustee.

In conducting repo and reverse repo transactions, the Bank exclusively uses bonds and other income-earning securities. Receivables from reverse repo transactions are included in amounts due from banks (Note 6).

Payables from repo transactions are included in amounts owed to banks and clients (Notes 14 and 15).

Contingencies

On 21 February 2002, a Czech company, AO Invest spol. s r.o., filed a legal action against the Bank asking for CZK 237,883 thousand in damages. The plaintiff indicated that the damage was incurred in connection with the brokered purchase of 1,050 bonds of ZPS, a.s., originally held by the Bank. The lawsuit has not yet been completed, it has been postponed due to the declaration of bankruptcy of AO Invest. It is not probable that the case will lead to an unfavourable result for the Bank.

20/ RELATED PARTY TRANSACTIONS

Major payables and receivables to related parties of the bank are:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Amounts due from banks		
Komerční banka, a.s. – current account	251	311
Komerční banka, a.s. – term deposit	0	150 000
Komerční banka, a.s. – initial offering	0	445 123
Československá obchodní banka, a.s.	200 000	0
Česká spořitelna, a.s. – term deposit – repo	376 464	743 944
Amounts due from customers		
Ministry of Finance	23 854 865	23 841 722
Amounts due to banks		
Česká spořitelna, a.s. – loan	100 000	100 000
Česká spořitelna, a.s. – deposit – repo	1 057 972	1 658 771
Amounts due to customers		
MUFIS a.s. - current account	7 644	7 831
MUFIS a.s. - term deposit	118 700	258 800
Ministry of Industry and Trade	142 830	3
Ministry for Regional Development	127 501	92
Ministry of Finance	3 022 618	2 249 411

Major items of profit and loss earned or paid to related parties are:

	31 December 2005 CZK '000	31 December 2004 CZK '000
Interest income		
Komerční banka, a.s.	2 366	2 432
Ceska sporitelna, a.s.	4 975	2 290
Ministry of Finance	1 024 273	1 105 285
Interest expense		
Komerční banka, a.s.	57	5
Ceska sporitelna, a.s.	22 167	14 657
Ministry of Finance	3 712	12 548
Commission income		
Ministry for Regional Development	45 383	45 941
Ministry of Industry and Trade	679 126	551 914
Ministry of Finance	86 518	104 773
Commission expense		
Ministry for Regional Development	13 801	14 405

21/ RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Credit Risk

Credit Rating of Borrowers

The credit rating of borrowers that are small and medium sized businesses, municipalities, water management enterprises, housing associations and associations of owners of housing units, and non-profit organisations is undertaken in accordance with the Bank's internal regulations and involves assessing the borrower's solvency on the basis of an analysis of economic and other aspects. The assessment of other than economic aspects involves analysing external and internal factors that impact the client's activities and operations. The economic assessment focuses on undertaking a financial analysis of economic indicators and additional information. Solvency is evaluated in relation to each transaction that carries an element of credit risk; credit risk exposure is periodically assessed over the whole life of the loan transaction. Credit risk is expressed by assigning the borrower the relevant risk category. Credit risk exposure involved in a specific transaction is controlled by establishing contractual conditions and obtaining collateral in support of the transaction.

Measuring Credit Risk of the Portfolio

The Bank uses the following techniques to measure risks inherent in the loan and guarantee portfolio:

The method of a quantified loss on the portfolio of on and off balance sheet exposures compares the total quantified losses of doubtful and loss receivables with the repaid balance of the exposures. The quantification of anticipated losses also reflects the current balances of substandard exposures adjusted by an empirical and well-established coefficient which represents an estimate of the default rate of exposures in this category.

The weighted risk exposure method compares the weighted risk exposure with the original contractual amount of the loans (the balance of the actual loan draw-down) and guarantees. The weighted risk exposure consists of the sum of recorded provisions, the sum of receivables written-off, the sum of outstanding principal, the sum of outstanding interest and the sum of outstanding contractual penalties on client accounts, segmented by individual years of the portfolio's duration.

The risk category method compares quantified losses, including off balance sheet values (sanctions) with the original contractual value of the loans or guarantees.

In measuring credit risk attached to guarantee and loan receivables the Bank largely uses software systems for assessing both economic and other than economic aspects of the credit risk, depending on the type of the client, transaction volume and degree of credit risk carried by the Bank. Principles to be followed in identifying, measuring and monitoring credit risk are outlined in the Bank's internal regulations, that is, due consideration is given to whether the transactions are affected by the business division or the financial services division. A set of limits is approved for credit risk management purposes.

Risk Categories

The Bank has risk categories 5 to 10, which are linked to the Czech National Bank risk categories. Standard loans 5 and 6, watch 7, substandard 8, doubtful 9 and loss 10.

In respect of transactions entered into on financial markets and issuers of securities, solvency of the borrower is assessed on the basis of ratings published by internationally recognised rating agencies and the evaluation of

economic and other aspects. The solvency of counterparties and issuers is periodically assessed over the whole life of the loan transaction.

Provisioning and Loan Collateral

The Bank records provisions against amounts due from individual borrowers by reference to the uncovered exposure which represents the balance receivable after deducting the net recoverable value of collateral multiplied by a risk coefficient in accordance with the relevant ČNB regulation.

Movable and immovable asset collateral is recorded in memorandum accounts and is valued on the basis of an appraisal prepared by a licensed appraiser (nominal value of collateral). The Bank centrally revalues real estate collateral to market values once in two years on the basis of pricing maps prepared by an external agency. Guarantees provided by individuals and legal entities and bills of exchange are recorded in memorandum accounts and are valued at values established pursuant to the Bank's internal regulation.

The recoverable value of collateral takes into account both the cost of recovering collateral and the time value of money.

If the borrower's on balance sheet receivable is past due by greater than 360 days, the Bank does not attribute any value to the collateral. In assessing the solvency of individual receivables, the Bank does not draw upon the services of external agencies.

The Bank records reserves for off balance sheet receivables from individual borrowers in respect of uncovered risk which represents the balance of the off balance sheet exposure net of the net recoverable value of collateral multiplied by a risk coefficient in accordance with the relevant ČNB regulation. The collateral may be held by ČMZRB or the lending bank. ČMZRB records the collateral held by the lending bank in circumstances where the use of the guaranteed loan is conditional upon the signing of pledge agreements. In connection with the provision of 'gradual guarantees', ČMZRB does not account for the collateral held by the lending bank.

Immovable and movable asset collateral is recorded on a similar basis as is the case with loans.

Recovery of Amounts due from Borrowers

The Bank recovers due receivables arising from bank guarantees and loans through its internal debt work-out system by using all statutory recovery instruments available according to generally applicable legal regulations. With a view towards expediting the recovery process, the Bank has employed an arbitration clause in respect of loan contracts (beginning 2000) and enforceable notarial and distrainer deeds.

The Bank Approach to Recovering Amounts due from Housing Products

Recovery of all receivables is exclusively within the remit of the relevant taxation authority. The Bank supplies information regarding a borrower's default on loan conditions and past due receivables and if the borrower does not provide evidence as to the compliance with the loan conditions and does not pay the outstanding balance, the Bank sends a motion to commence proceedings regarding the unauthorised use of the State budget funds to the relevant taxation authority. On the basis of a report to the taxation authority regarding the result of the investigation and issuance of a payment assessment, the receivables are settled from the funds of the State budget intended for financing the programme.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

The Bank's Approach to Imposing Penalties for Failure to Comply with the Conditions set out in the START Programme

The Bank informs the taxation authority to impose a penalty for failure to comply with the conditions set out in the programme when the conditions were breached. Without undue delay, the Bank provides the relevant taxation authority that operates in the area, in which the borrower has its registered office, with information and evidence documenting that the conditions of the programme have been breached and that penalties may be imposed. If conditions underlying a programme under which an advantageous loan was issued were breached, the Bank halts the further use of the loan and calls for its instant repayment, files a motion with the taxation authority regarding the imposing of a penalty, and settles the receivable from the funds of the State budget intended for financing the programme.

Preferential Loans within the Operational Programme Industry and Enterprise ('Operační program Průmysl podnikání – the OPPP Programme')

Effective 1 July 2004, the Bank has been providing preferential loans under the OPPP Programme. These loans are granted to clients with a zero interest rate (loans under the Start Programme) or with an advantageous interest rate relative to market interest rates (loans in the Kredit and Inovace Programmes). The products are financed from the state budget, structural funds and funding obtained by the Bank in the financial market.

The ratio between the State budget and structural funds and the Bank's funds is 60:40. Any breach of the conditions of the programme triggers an instant repayment of the loan. If the loan is not repaid, the Bank calls for the taxation authorities to claim a payment from the State budget and, in parallel, according to the rules agreed-upon with the Ministry of Industry and Trade, settles the loan receivable with a charge against the State budget and EU structural funds which participated in the funding of the loans.

Risk Concentration

The Bank principally monitors risk concentrations in the area of guarantees for loans to small and medium sized businesses, loans issued to small and medium sized businesses and receivables arising primarily from water management loans. The bulk of these loans and guarantees are provided in cooperation with the State administration and, given that the State participates in covering a portion of risks inherent in certain transactions, the risk is spread among a number of entities. With a view towards eliminating the risks, the Bank does not enter into any hedging derivatives or reallocation of its positions. The Bank manages the level of credit risk undertaken by establishing limits for risks acceptable in respect of one borrower, the Group of economically linked borrowers and territorial segments. These risks are periodically monitored and reassessed on an annual basis, or more frequently. Credit risk limits are approved by the Board of Directors.

Financial Market Instruments

In accordance with its internal regulations, the Bank defines financial instruments in which investments can be made. These principally involve deposits, bonds (mortgage bonds, CZK bonds, eurobonds and foreign currency bonds), bills of exchange, and derivatives (FRA, CCS, IRS). Counterparties in transactions entered into on financial markets and issuers of securities can include only entities from the zone A states. Credit assessment of counterparties and issuers involves analysing the borrower's solvency on the basis of credit ratings published by internationally recognised rating agencies and evaluating economic and other aspects. The solvency of counterparties and issuers is periodically assessed over the whole life of the commercial loan transaction.

Development Loans Taken over from Konsolidační banka, s.p.ú.

Loans of CZK 26,237,845 thousand predominantly comprise loans issued to the Ministry of Finance which were taken over from Konsolidační banka, s.p.ú. as of 31 December 2000. These loans are principally designed to fund the development of infrastructure in the Czech Republic.

Analysis by territorial segment

31 December 2005

Assets	Czech Republic CZK '000	European Union CZK '000	Other CZK '000	Provisions and accumulated depreciation CZK '000	Total CZK '000
Cash and current balances with banks	63 494				63 494
Amounts due from banks	4 438 495	1 203 454			5 641 949
Trading securities					
Positive fair values of financial derivative transactions	162 271				162 271
Loans to customers, net	31 041 296			-1 182 440	29 858 856
Available for sale securities	6 971 806	2 425 832	553 054		9 950 692
Investments held to maturity	1 344 113	282 772			1 626 885
Prepayments, accrued income and other assets	102 051	109 042			211 093
Deferred tax asset	59 644				59 644
Investments in associates	45 193				45 193
Tangible and intangible fixed assets	700 000			-440 291	259 709
Total	44 928 363	4 021 100	553 053	-1 622 731	47 879 786

31 December 2004

Assets	Czech Republic CZK '000	European Union CZK '000	Other CZK '000	Provisions and accumulated depreciation CZK '000	Total CZK '000
Cash and current balances with banks	142 934	0	0	0	142 934
Amounts due from banks	6 688 289	900 000	0	0	7 588 289
Positive fair value of derivative financial transactions	347 477	0	0	0	347 477
Trading securities	0	0	0	0	0
Loans to customers, net	30 957 643	0	0	-1 235 243	29 722 400
Available for sale securities	5 528 082	2 349 721	401 038	0	8 278 841
Investments held to maturity	1 349 737	356 406	0	0	1 706 143
Prepayments, accrued income and other assets	188 948	124 753	0	0	313 701
Deferred tax asset	28 164	0	0	0	28 164
Investments in associates	97 137	0	0	0	97 137
Tangible and intangible fixed assets	688 893	0	0	-401 217	287 676
Total	46 017 304	3 730 880	401 038	-1 636 460	48 512 762

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Summary of Restructured Receivables

Year	Balance in CZK '000*	Number
2005	175 103	90
2004	181 066	75

* Balances presented together with default interest recorded off balance sheet.

b) Market Risks

Characteristics of Market Risks

The principal market risk management strategy is defined in the Bank's internal regulations and documents approved by the Board of Directors of the Bank, and primarily provides guidance on the following areas:

- Acceptable degree of market risks,
- Market risk management techniques,
- Set of limits used, and
- Basic requirements regarding the Bank's organisational structure in terms of market risk management, including segregation of duties and information flows.

Description of Transactions Carrying Market Risks

The Bank is exposed to market risks associated with losses arising from fluctuations in prices, exchange rates and financial market rates. The Bank is exposed to market risks in acquiring, holding and selling investment instruments defined in the Investment Strategy of ČMZRB. This risk arises from open positions in interest rates and currencies.

Market Risk Measurement

The Bank measures interest rate risk using basic techniques (interest rate GAP analysis, duration, and elasticity of interest rates) and techniques to calculate capital adequacy as set out in the CNB Regulation 333/2002 Coll. In addition, the Bank has developed a series of internal limits to restrict its market risk exposure. The interest rate GAP analysis measures interest rate risk inherent in the trading and banking book on a collective basis. Interest rate risk is restricted through limits to net interest rate exposure in each time bucket. Interest rate risk inherent in all bond portfolios is restricted by having a limit in place in respect of the elasticity of the bond portfolio. The Bank undertakes stress testing only to a limited extent.

Market Risk Management

The Bank's instrument for managing market risks involves the external capital adequacy limit and internal limits for interest rate risk and elasticity of the interest rate in respect of the bond portfolio. In addition, the market risk is mitigated through the implementation of an internal capital adequacy limit. Foreign currency risk is controlled through the use of the limits set out in the CNB Regulation 333/2002 Coll.

Interest rate risk limits restrict the size of interest rate GAP in each time bucket of an interest rate GAP analysis in relation to the Bank's capital and are expressed in percentage terms.

The limit for elasticity of the interest rate in respect of the bond portfolio restricts the market risk associated with all bond portfolios together with derivatives hedging risk arising from the change of exchange rates when the Bank holds foreign currency bonds.

The Bank's internal capital adequacy limit sets out requirements that are more stringent than the external capital adequacy limit established by the banking regulator.

c) Financial Derivatives

Trading Derivatives

	2005		2004	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest rate derivatives				
FRA's	0	0	0	0
Swaps	757 556	757 556	100 000	100 000
Currency derivatives				
Forwards	551 037	549 926	693 340	690 620
Swaps	1 496 259	1 492 461	1 006 994	961 388
Total	2 804 852	2 799 943	1 800 334	1 752 008

	2005		2004	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest rate derivatives				
FRA's	0	0	0	0
Swaps	13 556	11 275	0	6 950
Currency derivatives				
Forwards	1 357	250	168 958	166 239
Swaps	126 789	140 733	147 638	117 959
Total	141 702	152 258	316 596	291 148

Set out below is the maturity analysis of trading derivatives as of 31 December 2005:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
FRA's	0	0	0	0	0
Interest rate swaps	0	318 940	678 844	498 475	1 496 259
Forwards	551 037	0	0	0	551 037
Currency swaps	100 000	200 000		457 556	757 556
Total	651 037	518 940	678 844	956 031	2 804 852

Set out below is the maturity analysis of trading derivatives as of 31 December 2004:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
Interest rate swaps	0	0	0	100 000	100 000
Forwards	693 340	0	0	0	693 340
Swaps	50 381	45 698	847 515	63 400	1 006 994
Total	743 721	45 698	847 515	163 400	1 800 334

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

Hedging Derivatives

	2005		2004	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest swaps	100 000	100 000	557 556	557 556
Cross currency swaps	7 898 662	8 715 774	9 606 100	10 209 658
Total	7 998 662	8 815 774	10 163 656	10 767 214

	2005		2004	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest swaps	1 286	0	6 283	296
Cross currency swaps	19 283	1 910 644	24 597	1 469 600
Total	20 569	1 910 944	30 880	1 469 896

Set out below is the maturity analysis of hedging derivatives as of 31 December 2005:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
Interest swaps	51 720	1 424 937	1 200 447	5 221 558	7 898 662
Cross currency swaps	0	100 000	0	0	100 000
Total	51 720	4 524 937	1 200 447	5 221 558	7 998 662

Set out below is the maturity analysis of hedging derivatives as of 31 December 2004:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
Interest swaps	441 854	876 348	5 163 375	3 124 523	9 606 100
Cross currency swaps	0	100 000	350 289	107 267	557 556
Total	441 854	976 348	5 513 664	3 231 790	10 163 656

d) Foreign Currency Risk

The Bank's financial position and cash flows are exposed to the risks of changes in exchange rates of common foreign currencies. The Bank monitors its foreign currency positions on a daily basis.

In the event that the Bank breaches limits, it undertakes measures as outlined in its internal regulations relating to foreign currency exposure limits.

The table below provides summary information about the Bank's exposure to foreign currency risk. The tables sets out foreign currency assets and liabilities at carrying values, analysed by currency.

31 December 2005

	CZK CZK '000	EUR CZK '000	USD CZK '000	SKK CZK '000	HUF CZK '000	Total CZK '000
Cash and current balances with banks	63 494	0	0	0	0	63 494
Amounts due from banks	5 583 912	57 760	277	0	0	5 641 949
Trading securities	0	0	0	0	0	0
Positive fair value of financial derivative transactions	162 271	0	0	0	0	162 271
Loans to customers, net	23 236 239	6 581 879	40 738	0		29 858 856
Securities available for sale	8 983 128	275 934	261 160	0	430 470	9 950 692
Investments held to maturity	1 626 885	0	0	0	0	1 626 885
Prepayments, accrued income and other assets	211 091	2	0	0	0	211 093
Deferred tax asset	59 644	0	0	0	0	59 644
Investments in associates	45 193	0	0	0	0	45 193
Tangible and intangible fixed assets, net	259 709	0	0	0	0	259 709
Total	40 231 561	6 915 575	302 175	0	430 470	47 879 786
Amounts due to banks	10 608 656	14 669 687	40 738	0	0	25 319 081
Amounts due to customers	11 626 791	41 673	490	0	0	11 668 954
Negative fair value of financial derivative transactions	2 063 201	0	0	0	0	2 063 201
Accruals, provisions and other liabilities	1 787 252	168	0	0	0	1 787 420
Income taxes payable	0	0	0	0	0	0
Provisions for off balance sheet exposures	2 195 721	0	0	0	0	2 195 721
Equity	4 845 409	0	0	0	0	4 845 409
Total	33 127 039	14 711 528	41 228	0	0	47 879 786
On balance sheet position, net	7 104 532	-7 795 785	260 779	0	430 474	
Off balance sheet position, net	0	7 821 214	-245 880	0	-390 014	
Net position	7 104 532	25 429	14 899	0	40 460	

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

31 December 2004

	CZK CZK '000	EUR CZK '000	USD CZK '000	SKK CZK '000	GBP CZK '000	Others CZK '000	Total CZK '000
Cash and current balances with banks	142 924	8	0	2	0	0	142 934
Amounts due from banks	7 578 421	9 508	360	0	0	0	7 588 289
Trading securities	0	0	0	0	0	0	0
Positive fair value of derivatives	347 477	0	0	0	0	0	347 477
Loans to customers, net	22 731 582	6 946 352	44 466	0	0	0	29 722 400
Securities available for sale	7 541 200	191 115	246 567	0	0	299 959	8 278 841
Investments held to maturity	1 706 143	0	0	0	0	0	1 706 143
Prepayments, accrued income and other assets	307 736	5 965	0	0	0	0	313 701
Deferred tax asset	28 164	0	0	0	0	0	28 164
Investments in associates	97 137	0	0	0	0	0	97 137
Tangible and intangible fixed assets	287 676	0	0	0	0	0	287 676
Total	40 768 460	7 152 948	291 393	2	0	299 959	48 512 762
Amounts due to banks	12 427 050	16 499 645	44 466	0	0	0	28 971 161
Amounts due to customers	9 305 551	19 261	353	0	0	0	9 325 165
Negative fair value of financial derivative transactions	1 761 044	0	0	0	0	0	1 761 044
Accruals, provisions and other liabilities	1 723 697	0	153	0	6	0	1 723 856
Income taxes payable	113 927	0	0	0	0	0	113 927
Provisions for loan losses	2 260 645	0	0	0	0	0	2 260 645
Equity	4 356 965	0	0	0	0	0	4 356 965
Total	31 948 879	16 518 906	44 972	0	6	0	48 512 762
On balance sheet position, net	8 819 581	-9 365 958	246 421	2	-6	299 959	
Off balance sheet position, net	-12 473 032	9 257 956	-223 650	0	0	-272 668	
Net position	-3 653 451	-108 002	22 771	2	-6	27 291	

e) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the 'maturity undefined' category.

31 December 2005

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Maturity undefined CZK '000	Total CZK '000
Cash and current balances with banks	54 235	0	0	0	9 259	63 494
Amounts due from banks	5 137 500	503 771	0	0	678	5 641 949
Trading securities	0	0	0	0	0	0
Positive fair value of derivatives	0	0	0	0	162 271	162 271
Loans to customers, net	4 153 575	1 904 724	9 320 584	15 570 916	-1 090 943	29 858 856
Available for sale securities	1 226 757	3 456 617	4 060 106	1 207 212		9 950 692
Investments held to maturity	205 662	281 079	614 396	525 748		1 626 885
Prepayments, accrued income and other assets	0	0	0	0	211 093	211 093
Deferred tax asset	0	0	0	0	59 644	59 644
Investments in associates	0	0	0	0	45 193	45 193
Tangible and intangible fixed assets	0	0	0	0	259 709	259 709
Total	10 777 729	6 146 191	13 995 086	17 303 876	-343 096	47 879 786
Amounts due to banks	4 573 312	2 470 536	7 961 429	14 816 684	-4 502 880	25 319 081
Amounts due to customers	6 362 050	16 372	12 580	0	5 277 952	11 668 954
Negative fair value of financial derivative transactions	0	0	0	0	2 063 201	2 063 201
Accruals, provisions and other liabilities	0	0	0	0	1 787 420	1 787 420
Income taxes payable	0	0	0	0	0	0
Provisions for off balance exposure	0	0	0	0	2 195 721	2 195 721
Equity	0	0	0	0	4 845 409	4 845 409
Total	10 935 362	2 486 908	7 974 009	14 816 684	11 666 823	47 879 786
Net interest position	-157 633	3 659 283	6 021 077	2 487 192	-12 009 919	

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

31 December 2004

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Maturity undefined CZK '000	Total CZK '000
Cash and current balances with banks	134 885	0	0	0	8 049	142 934
Amounts due from banks	6 676 207	250 000	651 836	0	10 246	7 588 289
Positive fair value of financial derivative transactions	0	0	0	0	347 477	347 477
Loans to customers, net	1 158 664	1 866 845	9 085 746	17 650 661	-39 516	29 722 400
Available for sale securities	1 659 858	3 416 149	3 027 766	175 068	0	8 278 841
Investments held to maturity	36 670	33 479	1 108 516	527 478	0	1 706 143
Prepayments, accrued income and other assets	0	0	0	0	313 701	313 701
Deferred tax asset	0	0	0	0	28 164	28 164
Investments in associates	0	0	0	0	97 137	97 137
Tangible and intangible fixed assets	0	0	0	0	287 676	287 676
Total	9 666 284	5 566 473	13 873 864	18 353 207	1 052 934	48 512 762
Amounts due to banks	4 660 200	1 828 660	8 730 061	16 375 669	-2 623 429	28 971 161
Amounts due to customers	4 359 619	111 903	31 930	1 944 295	2 877 418	9 325 165
Negative fair value of financial derivative transactions	0	0	0	0	1 761 044	1 761 044
Accruals, provisions and other liabilities	0	0	0	0	1 723 856	1 723 856
Income taxes payable	0	0	0	0	113 927	113 927
Provisions for loan losses	0	0	0	0	2 260 645	2 260 645
Equity	0	0	0	0	4 356 965	4 356 965
Total	9 019 819	1 940 563	8 761 991	18 319 964	10 475 924	48 512 762
Net position	646 465	3 625 910	5 111 873	33 243	-9 417 492	

The table below provides average interest rates of significant items of assets and liabilities as of 31 December 2005 and 31 December 2004.

	31 December 2005	31 December 2004
Selected assets		
Deposits with central bank	1.91 %	2.14 %
Amounts due from banks	2.09 %	2.19 %
Loans to customers	5.23 %	5.35 %
Securities available for sale	3.15 %	3.11 %
Securities at fair value through profit or loss	3.49 %	3.11 %
Investments held to maturity	3.80 %	5.45 %
Selected liabilities		
Amounts due to banks	4.41 %	4.37 %
Amounts due to customers	1.33 %	1.69 %

f) Liquidity Risk

Liquidity risk is the risk that the Bank will lose its ability to meet its financial obligations as they fall due or that it will not be able to fund its assets. Liquidity risk may result from a temporary payment insolvency and low liquidity of the market with financial instruments which makes it impossible to quickly close out positions thereby limiting access to funding. The basic liquidity management tool involves the record-keeping and planning of the Bank's cash flows. In support of liquidity management, the Bank uses two mechanisms - payment notices and price setting. The liquidity management strategy is established and implemented through the preparation of a 'Liquidity Scenario' and 'Emergency Plan for Events Jeopardising the Bank's Liquidity'. The Bank's liquidity position is monitored through the liquidity reserve limit in relation to the value of adjusted weighted risk exposure.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees, margins and settlement of 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 table below analyses assets and liabilities of the Bank into relevant maturity groupings based upon the remaining maturity period as of the balance sheet date.

31 December 2005

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Maturity undefined CZK '000	Total CZK '000
Cash and current balances with banks	63 494	0	0	0	0	63 494
Amounts due from banks	5 138 179	503 770	0	0	0	5 641 949
Trading securities	0	0	0	0	0	0
Positive fair value of financial derivative transactions	0	0	0	0	162 271	162 271
Loans to customers, net	6 915 456	1 704 757	9 299 420	11 939 223	0	29 858 856
Securities available for sale	1 226 757	3 456 617	4 060 106	1 207 212		9 950 692
Investments held to maturity	205 662	281 079	614 396	525 748		1 626 885
Prepayments, accrued income and other assets	21 237	106 505	64 506	4 527	14 318	211 093
Deferred tax asset	0	0	0	0	59 644	59 644
Investments in associates	0	0	0	0	45 193	45 193
Tangible and intangible fixed assets	0	0	0	0	259 709	259 709
Total	13 570 785	6 052 728	14 038 428	13 676 710	541 135	47 879 786
Amounts due to banks	4 686 746	2 384 560	8 059 352	10 188 423		25 319 081
Amounts due to customers	2 555 511	57 072	22 597	2 412 642	6 621 132	11 668 954
Negative fair value of derivative financial transactions	0	0	0	0	2 063 201	2 063 201
Accruals, provisions and other liabilities	0	0	0	0	1 787 420	1 787 420
Income taxes payable	0	0	0	0	0	0
Provisions for off balance exposures	0	0	0	0	2 195 721	2 195 721
Equity	0	0	0	0	4 845 409	4 845 409
Total	7 242 257	2 441 632	8 081 949	12 601 065	17 512 883	47 879 786
Net liquidity exposure	6 328 528	3 611 096	5 956 479	1 075 645	-16 971 748	

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31 December 2004

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Maturity undefined CZK '000	Total CZK '000
Cash and current balances with banks	142 934	0	0	0	0	142 934
Amounts due from banks	6 686 453	250 000	651 836	0	0	7 588 289
Positive fair value of financial derivative transactions	0	0	0	0	347 477	347 477
Loans to customers, net	3 491 607	1 644 641	8 689 091	15 902 285	5 224	29 722 400
Securities available for sale	1 659 858	3 416 149	3 027 766	175 068	0	8 278 841
Investments held to maturity	36 670	33 479	1 108 516	527 478	0	1 706 143
Prepayments, accrued income and other assets	189 011	22 723	101 755	212	0	313 701
Deferred tax asset	0	0	0	0	28 164	28 164
Investment in associated undertaking	0	0	0	0	97 137	97 137
Tangible and intangible assets	0	0	0	0	287 676	287 676
Total	12 206 533	5 366 992	13 578 964	16 605 043	755 230	48 512 762
Amounts due to banks	4 829 547	1 902 050	8 730 061	13 490 248	19 255	28 971 161
Amounts due to customers	1 185 901	112 162	31 930	2 690 775	5 304 397	9 325 165
Negative fair value of derivative financial transactions	0	0	1 761 044	0	0	1 761 044
Accruals, provisions and other liabilities	393 472	564 552	62 721	502 430	200 681	1 723 856
Income taxes payable	0	113 927	0	0	0	113 927
Provisions for loan losses	0	0	0	0	2 260 645	2 260 645
Equity	0	0	0	0	4 356 965	4 356 965
Total	6 408 920	2 692 691	10 585 756	16 683 453	12 147 441	48 512 762
Net liquidity exposure	5 797 613	2 674 301	2 993 208	-78 410	-11 386 713	

g) Operational Risk

The Bank defines operational risk as the risk of loss arising from human errors, the inappropriateness or failure of internal processes, failures of systems or the risk of loss resulting from external events.

The system of the Bank's operational risk management is built around the following four cornerstones:

- Strategy (clear vision, management attitude, culture);
- Organisation (Board of Directors, Assets and Liabilities Management Committee, internal audit, operational risk management coordinator, and the Bank's departments);
- Processes (identification, evaluation, countermeasures, monitoring and reporting);
- Infrastructure (system, source of information, data collection and communication).

Identification of Operational Risk

The Bank identifies individual operational risks in all of its departments and categorises them according to the underlying cause (human error, internal process, information system, external factor). Responsibility for identifying operational risks primarily rests with the head of the department where the risk originates (via self-evaluation form). Collection of information from individual departments and its processing is within the remit of the coordinator. The

Bank identifies and records each risk to which it is exposed, even a risk that is no longer treated as a risk due to the countermeasures that are currently being implemented.

Evaluation of Operational Risk

Operational risk is evaluated in terms of the likelihood of its occurrence (graded one to five) and the significance of impact if it materialises (graded one to five). The Bank has opted for a qualitative approach to evaluating the risk which better meets its needs and better reflects the situation within the Bank. The evaluation is based on a reasonable estimate and uses scores to assess the likelihood of the occurrence and the significance of impact. Following the evaluation, individual risks are rated according to their overall significance (risk profile) into the following three levels:

- Low (ideal risk profile where the Bank only checks the effectiveness of the existing measures);
- Medium (the risk is acceptable only if the implementation of an appropriate countermeasure to mitigate the risk is too costly);
- High (the risk is not acceptable, additional countermeasures are needed to be put in place and the risk mitigated).

Countermeasures

Responsibility for the implementation of an appropriate countermeasure against operational risks rests within the department where the risk originates (mitigation of the likelihood of the occurrence of operational risk or its impact on the Bank).

Monitoring and Reporting

The basic tool for monitoring is the database of incidents and a report on operational risk management within the Bank. These activities result in a risk profile of the Bank. Operational risk events include all events that have a direct impact on the Bank's profit or loss according to the Bank's activities during which the event occurred.

22/ ESTIMATED FAIR VALUE OF ASSETS AND LIABILITIES OF THE GROUP

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

a) Cash and balances within the central bank

The carrying values of cash and balances within the central bank are generally deemed to approximate their fair value.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2005

b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated by discounting future cash flows using prevailing market rates.

c) Due from banks

The fair value of dues from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Provisions are not taken into consideration when calculating fair values.

d) Loans to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and, hence, the fair value of total loans to customers approximates the carrying values as of the balance sheet date. Provisions are not taken into consideration when calculating fair values.

e) Amounts due to banks and customers

The fair value of term deposits repayable on demand approximates the carrying value of amounts repayable on demand as of the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as of the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

	31 December 2005		31 December 2004	
	Carrying value CZK '000	Fair value CZK '000	Carrying value CZK '000	Fair value CZK '000
Financial assets				
Cash and balances with the central bank	63 494	63 494	142 934	142 934
Amounts due from banks	5 641 949	5 633 937	7 588 289	7 578 300
Loans to customers	29 858 856	28 621 328	29 722 400	29 136 484
Investments held to maturity	1 626 885	1 622 753	1 706 143	1 687 572
Financial liabilities				
Amounts due to banks	25 319 081	25 246 001	28 971 161	28 911 220
Amounts due to customers	11 668 954	11 364 090	9 325 165	9 319 391

23/ SUBSEQUENT EVENTS

No significant events having a significant impact on the financial statements of the Bank for the year ended 31 December 2005 occurred subsequent to the balance sheet date. The Board of Directors has authorised these financial statements for submission to the General Meeting of Shareholders.

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Support and Strategy Division secretariat (incl. Marketing and Legal departments)	tel.: 255 721 252
Economic Division secretariat (incl. Accounting and Risk Management departments)	tel.: 255 721 455
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