

annual report

'06



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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Chairman's introduction

Dear clients, business partners and shareholders,

the calendar year just ended marked the 15th year of the Bank's business operations. Through that time, the Bank's activities have gradually but greatly expanded and been made more efficient. The good results for 2006 contributed once again to the Bank's many years of successful operations.

In 2006, the Bank discontinued drawing funds for preferential loans under the programmes included in the Operational Programme Industry and Enterprise, which had been co-financed from the Structural Funds. The Bank continued to provide subsidised guarantees, subordinated loans and financial subsidies under national programmes whose cycle also ended in 2006.

Last year, the co-operation with the State Housing Development Fund was extraordinarily successful in implementing the programme financed from its funds for repairing panel-block apartment houses. In addition to other factors, clarification of the conditions under which such supports can be provided in coming years contributed to notably increased interest in this programme. In the years ahead, the programme will undoubtedly occupy an important position in the Bank's operations.

The Bank also continued to participate in infrastructure financing. This particularly involved the programme in support of water sector investments carried out in collaboration with the Ministry of Agriculture and using funds received from the European Investment Bank and Council of Europe Development Bank as well as projects for municipality infrastructure development using the funds of Kreditanstalt für Wiederaufbau. The financing of transport infrastructure projects continued in collaboration with the Ministry of Transport and the State Fund of Transport Infrastructure.

The year 2006 was also a year of the Bank's very intensive preparation for a new programming period of the Structural Funds. Crucial programmes that to date had been financed only from state budget funds were successfully transferred into the framework of the Operational Programme Enterprise and Innovations (OPEI). At the same time, the Bank prepared new products for these programmes that will supplement the already well-established loans and guarantees of various types used by entrepreneurs and banks.

By its involvement in OPEI, the Bank has created an essential basis for the long term functioning with respect to both the breadth of product choices and range of sources. The use of loan or possibly guarantee instruments in the area of energy savings and renewable energy sources, in which OPEI is also active, will undoubtedly contribute to its further expansion. However, the potential to use non-grant forms of support is greater than suggested by their relatively limited use to date. The Bank's long-term efforts will continue to be focused on overcoming those obstacles still existing to more extensive use of non-grant forms of support and at the same time on increasing the effectiveness in applying such financial instruments.

I am convinced that the Bank has a clear idea of its operating directions. In light of the results it has achieved and of its new initiatives, I believe the Bank will continue to fulfil its mission as the development bank for the Czech Republic and to be an effective part of the Government's economic policy.

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 as "CMZRB" or the "Bank").

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

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

Throughout the entire period of its operation, the Bank has closely co-operated with the ministries, state funds, regions, domestic and foreign 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 across the entire Czech Republic that positively impact on those clients' development. 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%)	





While offering favourable price conditions, the Bank provides its clients bank guarantees, various types of preferential loans, as well as subsidies for obtaining ISO and EMAS certifications. Together with the State Housing Development Fund, the Bank actively participates in financially facilitating the repair and modernisation of panel-block apartment houses. Financing projects to improve the technical condition of the water sector and transport infrastructure constitutes 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 clientele. 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 of the end of 2006, the Bank had provided services to more than 22,000 clients.

Selected economic indicators

TABLE 1

	Unit	2002	2003	2004	2005	2006
Total assets	CZK mil.	89,757.0	47,990.0	48,422.0	47,835.0	42,909.0
Liabilities	CZK mil.	86,082.0	44,005.0	44,387.0	43,028.0	38,092.0
Shareholders' equity	CZK mil.	3,675.0	3,985.0	4,035.0	4,807.0	4,817.0
Share capital	CZK mil.	1,975.8	2,131.5	2,131.5	2,131.5	2,131.5
Profit after tax	CZK mil.	535.0	644.0	679.0	1,176.0	738.0
Guarantee portfolio	CZK mil.	7,372.0	8,201.0	9,326.0	10,810.0	11,627.0
Capital adequacy	%	21.7	22.2	23.8	21.3	22.7
Average number of employees		252	258	260	259	250
Number of branches		5	5	5	5	5



Highlights of 2006

February	Implementation launch of a programme of long-term loans to finance infrastructure - the MUNICIPALITY (<i>OBEC</i>) programme.
April	European Commission notifies the PANEL programme for repairing panel-block apartment houses. RECONSTRUCTION (<i>REKONSTRUKCE</i>) programme announced for entrepreneurs impacted by the 2006 floods. General Meeting of shareholders of the Bank.
June	Change of conditions for subordinated loans within the CREDIT (<i>KREDIT</i>) programme. Loan amount increased from CZK 7 million to CZK 12 million and repayment period extended from 8 years to 9 years. Renewed acceptance of applications for loans from the Regional Development Fund, along with review of their terms.
July	Conditions in the PANEL programme changed following its notification by the European Commission.
September	Termination of accepting applications for subordinated loans under the PROGRESS (<i>PROGRES</i>) programme and for preferential loans under the CREDIT programme.
October	With support of the European Commission and AECM, CMZRB organises the international conference "Guarantees - An Effective Tool of Support to Small and Medium-Sized Enterprises".
November	Full use achieved of the capacity of the European Investment Fund for counter-guarantees to guarantees for small and medium-sized enterprises. Termination of accepting applications for interest-free loans to start-up businesses under the START programme.
December	National CERTIFICATION (<i>CERTIFIKACE</i>) and MARKET (<i>TRH</i>) programmes announced for 2007. Agreement concluded with Ministry of Industry and Trade on using funds of the Phare Turnover Fund for preferential loans under the CREDIT programme. Changes announced in conditions of the PANEL programme valid from 1 January 2007.



Board of Directors

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

Supervisory board

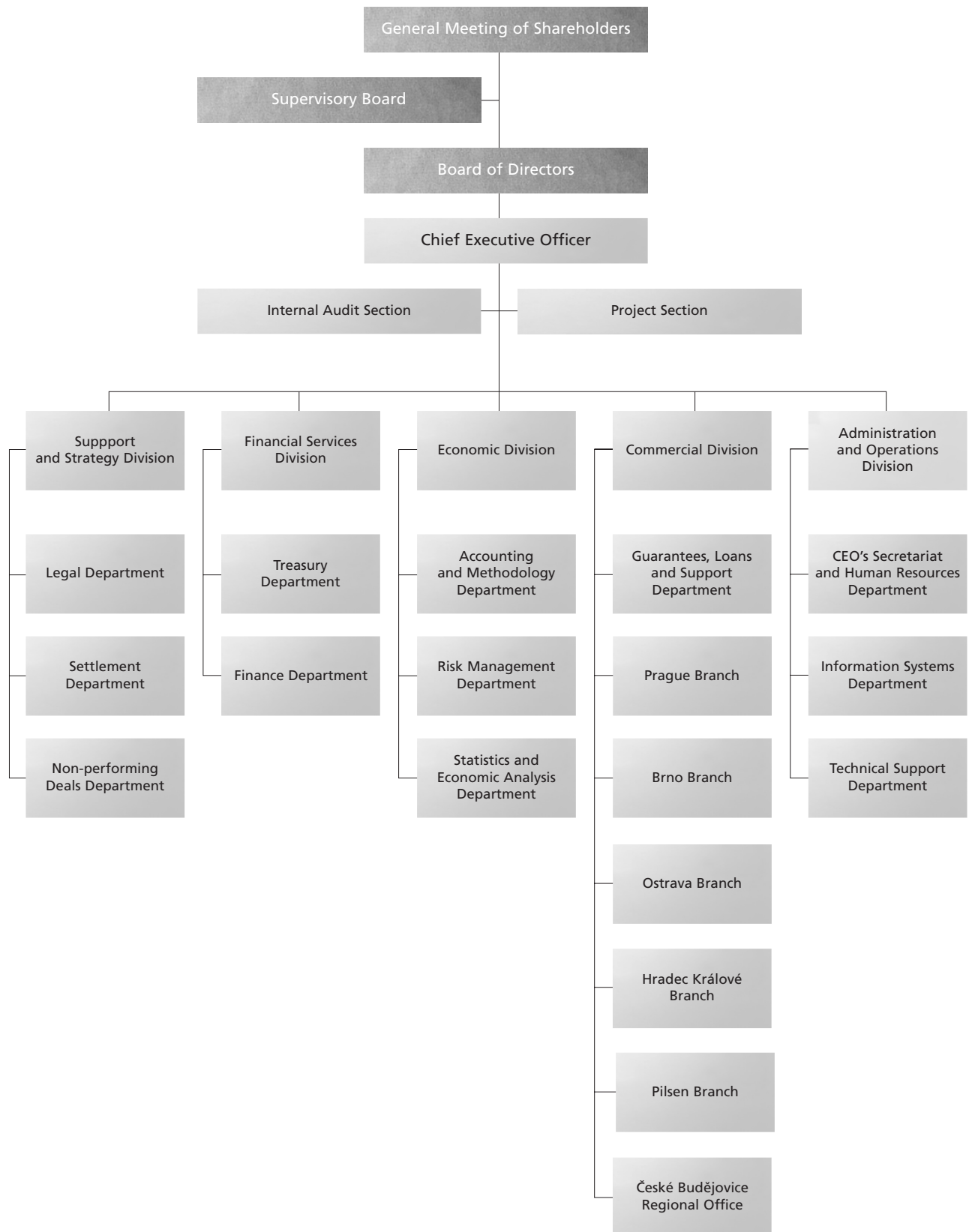
Chairman:	Robert Szurman, from 25 April 2006
Vice-Chairman:	Ladislav Dvořák
Members:	Vlastimil Czabe
	Eduard Janota
	Ladislav Koděra, from 10 May 2006
	Zdeněk Mareš, from 2 August 2006
	Jiří Nováček, from 25 April 2006
	Jana Šindelářová
	Zdeněk Vorlíček


During 2006, the following representatives ended their memberships on the Supervisory Board:

Václav Polák, Vice-Chairman of the Supervisory Board, on 25 April 2006,
Jaroslav Gacka, Member of the Supervisory Board, on 25 April 2006,
Václav Kupka, Member of the Supervisory Board, on 2 August 2006,
Josef Vaník, Member of the Supervisory Board, on 25 April 2006.



Bank's organisation chart





Report of the Board of Directors on the Bank's business activities
and financial situation for 2006





Economic environment and its impact on the Bank's performance

The focus of CMZRB's activity and the effectiveness of its operation as a development bank were influenced by several features of the domestic and world economies. No less important for the Bank's operations, however, were the general legislative framework created especially by legal rules regulating the principles for using the funds managed by the Bank and the fundamental strategic decisions of the Government concerning the directions and methods for using public funds to support development of selected parts of the economy.

Relatively rapid economic growth continued during 2006, positively influenced by access to EU markets and further growth in domestic demand in all the main segments (investments, private consumption and public consumption). This development occurred in an environment characterised by the Czech crown's strengthening exchange rate and by moderate growth in the inflation rate. The unemployment rate declined slightly as a result of the general economic growth. This macroeconomic development favourably influenced the demand from small and medium-sized enterprises for loans as well as their economic situations.

Long-term interest rates rose slightly in the first half of 2006. This trend reversed in the second half of the year, particularly due to the strengthening Czech crown. Thus, the rates ended 2006 at only slightly higher levels than those at the beginning of the year. That development contributed positively to the Bank's reaching its planned profitability. The Bank continued in its successful co-operation with important multinational financial institutions from which it obtained funds for financing small and medium-sized enterprises and the infrastructure of municipalities.

A demanding competitive environment across all segments of the financial market was reflected in continuing improvement in the choice of banking products, including loans for small and medium-sized enterprises and loans for municipalities, as well as the quality of banking services. For CMZRB, this development and its expected continuation represented an important impetus for preparing new products intended for the new programming period of the Structural Funds.

A notification of support for owners of panel-block apartment houses approved by the European Commission in April 2006 was an important impulse for the Bank's business operation. Together with the expected changes in VAT for housing development, it included factors that boosted the demand several-fold for products provided by the Bank, and especially for grants to cover interest costs.

The past year brought rising prices for fuels and energy, which, together with the Czech Republic's international commitments, confirms the necessity for greater reduction in energy consumption and intensified use of renewable energy sources. Also changing significantly was the energy market, which is one of the new markets that CMZRB is gradually to enter through the implementation of new programmes supporting energy savings.

Fundamental strategic documents for the new programming period were approved on the national level in 2006, of which the Operational Programme Enterprise and Innovations was the most important for the Bank's ongoing activity. New European legislation for using money under the Structural Funds and providing public support was approved, part of which came at the very end of 2006. Due to postponements in defining crucial legislative and implementation conditions for creating guarantee and loan funds for the new programming period of the Structural Funds, changes needed to be made in the initiation dates of individual support programmes for 2007.

The Bank's experience in using European and national funds demonstrated that the national legislative framework is not sufficiently developed for wider application of non-grant forms of support, and therefore its completion would be desirable.



1/ Unconsolidated data

Even as the number of employees decreased by 3.4 % during 2006 and operational costs were reduced by 3 %, the Bank's business operations continued to develop. There was growth in the portfolios of guarantee and loan transactions, as well as in revenues, for this most important of its business activities. Year on year, the profit after tax fell by 37 % to CZK 738 million. This drop in profit was entirely due to the exceptionally high profit in the previous year, when, in accordance with applicable law, CZK 495 million of general reserves were extraordinarily released to the Bank's revenues. After corrections for this extraordinary effect, the profit shows year-on-year growth of 8.3 % and profit per employee rises by 12.2 %. The profit per employee was thus some CZK 3 million in 2006. The return on average shareholders' equity¹ was 18.5 % and the return on average assets¹ was 1.3 %. Shareholders' equity grew by 0.2 % to total CZK 4.8 billion. In 2006, 60 % of the 2005 profit after tax (CZK 706 million) was paid out to the shareholders in dividends, which represented a 33.1 % return on the nominal value of a share.

Basic economic characteristic of the Bank, 2002 - 2006

TABLE 2

	Unit	2002	2003	2004	2005	2006
Total balance sheet	CZK mil.	89,757	47,990	48,422	47,835	42,909
Assets:						
Deposits and loans in banks	CZK mil.	45,139	8,027	7,588	5,642	6,264
Securities accepted by CNB for refinancing	CZK mil.	6,517	3,757	4,094	4,855	7,057
Debt securities	CZK mil.	6,100	6,302	5,891	6,722	5,411
Payments from guarantees and other classified receivables	CZK mil.	870	1,508	2,199	2,758	3,345
Liabilities and equity:						
Shareholders' equity	CZK mil.	3,675	3,985	4,035	4,807	4,817
Liabilities	CZK mil.	86,082	44,005	44,387	43,028	38,092
of which: reserves	CZK mil.	2,804	2,373	2,499	2,196	2,272
Off-balance sheet:						
Guarantees granted	CZK mil.	7,372	8,201	9,326	10,810	11,627
Total revenues	CZK mil.	6,119	6,169	6,835	6,597	5,892
of which:						
from securities and inter-bank operations	CZK mil.	1,448	964	739	645	780
from operations with clients	CZK mil.	2,246	1,513	1,555	1,545	1,586
Total expenses	CZK mil.	5,584	5,525	6,156	5,421	5,154
of which: net reserves and provisions	CZK mil.	254	-307	130	-180	287
Profit after tax	CZK mil.	535	644	679	1 176	738
Capital adequacy	%	21.7	22.2	23.8	21.3	22.7

As of the end of 2006, 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 3.5 billion. At the end of the year, the Bank had at its disposal reserve funds of CZK 1,150 million.

Total assets at the end of 2006 were 10.3 % lower than in the previous year and netted to a total of CZK 43 billion. This drop was due primarily to the reduction in the amounts due to banks (CZK -5.8 billion) and reflects repayment of long-term loans for financing infrastructure programmes. On the assets side, and corresponding to the change in liabilities, there were especially reduced loans to state institutions. 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 rose by 7.6 % to CZK 11.6 billion as of the end of 2006.

¹ Calculations made in accordance with the methodology stipulated in Czech National Bank Provision No. 1/2003, as amended.



On the assets side, the Bank had at its disposal a portfolio of financial investments amounting to CZK 19 billion (44 % of net assets) and placed especially into bank deposits (15 % of net assets), government bonds, bonds of selected banks and companies, as well as treasury bills (29 % of net assets). Loans granted to state institutions constituted an important assets item (38 % of net assets) as did loans to other clients (15 % of net assets) reported in the item amounts due from customers. The share of non-earning assets, including minimum obligatory reserves, in the total balance sheet was 2 %.

The funding sources on the liabilities and equities side were provided especially by amounts due to banks (46 % of liabilities and equity) and amounts due to clients (28 % of liabilities and equity), shareholders' equity (11 % 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 22.7 % as of 31 December 2006.

Additional indicators of the Bank's financial performance, 2002 - 2006

TABLE 3

Indicator	Unit	2002	2003	2004	2005	2006
Tier 1	CZK '000	2,873,759	3,297,199	3,322,241	3,596,045	4,062,106
Tier 2 and Tier 3	CZK '000	152,823	21,995	10,997	0	0
Deductible items	CZK '000	45,895	44,294	33,938	24,101	21,893
Total capital	CZK '000	2,890,688	3,319,193	3,333,239	3,596,045	4,062,106
Capital requirements	CZK '000	1,066,057	1,194,204	1,118,802	1,350,886	1,429,718
Specific interest rate risk	CZK '000	54,587	71,924	0	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	0	674	321	56	0
Derivatives	CZK '000	14,438	2,912	3,116	3,415	5,706
Other business portfolio instruments	CZK '000	1,800	0	0	0	0
Banking portfolio	CZK '000	963,630	1,063,050	1,101,158	1,317,928	1,405,658
General interest rate risk	CZK '000	27,670	53,076	10,122	24,072	17,009
Business portfolio exposure	CZK '000	0	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	3,932	2,569	4,085	5,415	1,345
Commodity risk	CZK '000	0	0	0	0	0
Options	CZK '000	0	0	0	0	0
Return on average assets (ROAA)	%	0.74	0.90	1.15	2.17	1.33
Return on average equity (ROAE)	%	19.97	21.62	20.51	33.30	18.49
Assets per employee	CZK '000	349,428	193,595	183,415	181,883	173,722
Administrative costs per employee	CZK '000	1,060	1,067	1,130	1,174	1,256
Net profit per employee	CZK '000	2,114	2,457	2,572	4,471	2,988

2/ Consolidated data

The Bank's consolidated financial result (i.e. including the 49 % share in the single associated company MUFIS, a. s.) was CZK 2.5 million lower than the unconsolidated financial result and it amounted to CZK 735.6 million. On including the holding's share in the associated company's shareholders' equity, the Bank's equity rose by CZK 43 million to CZK 4,860 million. The total assets increased by the same CZK 43 million to CZK 42,952 as of 31 December 2006.



Business activities in 2006

1/ Products

In 2006, the Bank provided the following products:

a) Bank guarantees

- Guarantees for bank loans under the GUARANTEE (*ZÁRUKA*) programme for small and medium-sized enterprises up to 80 % of the loan principal,
- guarantees for tender bids under the GUARANTEE programme for small and medium-sized enterprises in amounts of CZK 100,000 to CZK 5 million, and
- guarantees for bank loans to owners or co-owners of panel-block apartment houses up to 80 % of the loan principal under the programme to support the repair of panel-block apartment houses.

b) Loans

- Interest-free loans in programmes for start-up 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 to CZK 5 million, with maturity up to 6 years and covering up to 90 % of project costs;
- subordinated capital-project loans for small and medium-sized enterprises in amounts of CZK 500,000 to CZK 25 million and under conditions differentiated according to the date of submitting the application and by region, with interest rate of 1 % to 4 % p. a., maturity up to 10 years, grace period up to 6 years, and in amounts 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, with an interest rate of 5 % p. a. and maturity up to 5 years under the Programme of Preferential Loans for Micro-enterprises in the South Bohemian Region;
- long-term (up to 15 years) interest-free loans in amounts up to 60 % of costs for project construction and technology for municipalities, municipality associations, water and sewer utility companies, or other investors in water sector projects under the Programme of Support to Water Sector Investments; and
- long-term loans to finance investments in infrastructure owned by municipalities in amounts from CZK 10 million to CZK 100 million, with maturity up to 10 years and grace period up to 2.5 years.

c) Subsidies and grants

- Subsidies for small and medium-sized enterprises for costs of consulting services in connection with ISO certification or implementation of the EMAS programme,
- grants covering interest payments for loans to owners or co-owners of panel-block apartment houses, and
- grants to support development of industrial enterprises in 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 ("SMEs") 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 2006, a total of CZK 2,754 million were available for financing SME programmes, which was 19 % less than in 2005.

The largest part of the available funds (CZK 1,760 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 661 million), funds obtained by the Bank on the financial market (CZK 562 million), repayment instalments of preferential loans, and funds not paid out to enterprises due to violation of contractual conditions for supports provided in previous years (CZK 535 million).

In the CREDIT and START preferential loans programmes, implemented under the Operational Programme Industry and Enterprise, funds of CZK 991 million were used during 2006. The Bank provided 40 % of the programme financing using funds obtained in the financial market. The Structural Funds provided 45 % and the state budget 15 % of these programmes' resources.

Loans totalling CZK 5 million were provided under the Programme of Preferential Loans for Micro-enterprises in the South Bohemian Region.

In 2006, small and medium-sized enterprise submitted a total of 2,532 applications for support (see Table 4). Of that number, 2,075 applications were approved and 101 applications were rejected because they either did not meet programme criteria or the applications for guarantees and loans represented risks too high for project financing. A total of 97 applicants withdrew their applications during their processing. The remaining 259 applications that were not resolved in 2006 were carried into 2007 for further processing.

Applications for support and their settlement

TABLE 4

Indicator		2002	2003	2004	2005	2006
Total applications submitted	number	3,881	4,467	5,145	4,174	2,532
Approved	number	2,937	3,732	3,744	3,312	2,075
Rejected or withdrawn	number	291	442	570	497	198
Carried into following year	number	653	293	831	365	259

The greater part of provided supports was directed to small enterprises with up to 49 employees (see Table 5). The provided guarantees and loans represented an important tool of support to small and medium-sized enterprises.

Projects supported according to sizes of enterprises

TABLE 5

	Guarantees (excluding bids to public tenders)				Loans			
	number	amount			number	amount		
Number of Employees		% CZK mil.	%		% CZK mil.	%		
0 to 9	133	29.0	605	20.5	28	33.3	103	18.1
10 to 49	197	42.9	1,098	37.2	24	28.6	230	40.7
50 to 249	129	28.1	1,249	42.3	32	38.1	233	41.2
Total	459	100.0	2,951	100.0	84	100.0	566	100.0



b) Guarantee transactions

During 2006, the Bank issued under the GUARANTEE programme 459 subsidised guarantees for bank loans that totalled CZK 2,951 million and 210 guarantees for bids to public tenders amounting to CZK 113 million.

The total amount of all types of guarantees provided was CZK 3,064 million. The guarantees were provided on loans of CZK 5.15 billion (see Table 6).

Guarantees issued (excluding bids to public tenders) and loans guaranteed TABLE 6

Indicator		2002	2003	2004	2005	2006
Guarantees issued	number	520	499	511	572	459
Amount of guarantees issued	CZK mil.	2,406	2,677	3,076	3,405	2,951
Amounts of loans guaranteed	CZK mil.	4,243	4,528	5,368	5,858	5,145
Average guarantee rate	%	57	59	57	58	57

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

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

TABLE 7

Region		2002	2003	2004	2005	2006
Praha (Capital City of Prague)	%	7.6	4.3	5.4	7.8	5.1
Středočeský (Central Bohemia)	%	12.2	8.1	10.4	8.7	8.6
Jihočeský (South Bohemia)	%	5.7	4.7	2.9	3.7	1.8
Plzeňský (Pilsen)	%	6.8	6.8	6.8	13.3	10.2
Karlovarský (Karlovy Vary)	%	4.1	1.4	1.5	1.3	1.6
Ústecký (Ústí nad Labem)	%	3.2	3.6	3.3	4.0	2.8
Liberecký (Liberec)	%	4.0	2.1	3.5	5.2	10.5
Královéhradecký (Hradec Králové)	%	7.6	13.2	5.5	5.1	6.8
Pardubický (Pardubice)	%	7.9	7.4	9.1	6.7	4.5
Vysočina (Bohemian-Moravian Highlands)	%	2.1	1.3	4.7	5.3	6.5
Jihomoravský (South Moravia)	%	8.8	11.9	11.4	9.7	10.7
Olomoucký (Olomouc)	%	4.9	10.9	9.9	5.9	8.1
Zlínský (Zlín)	%	10.9	12.1	11.8	9.2	10.3
Moravskoslezský (Moravia-Silesia)	%	14.1	12.2	13.9	14.2	12.5
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 manufacturing and retail trade. In this respect, the year 2006 was no exception (see Table 8).



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

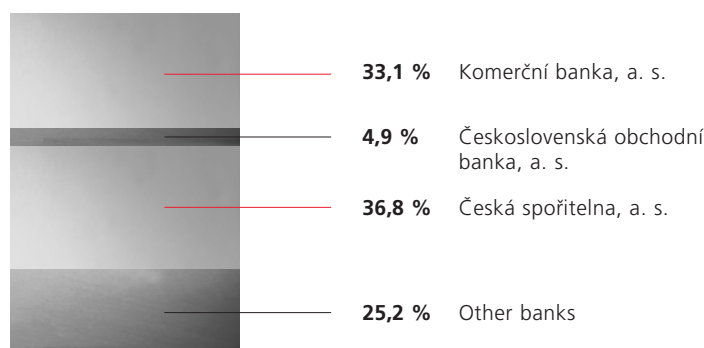
TABLE 8

Sector	2002	2003	2004	2005	2006	
Manufacturing	%	59.0	58.0	57.8	48.5	51.1
of which: food processing	%	11.7	11.0	11.2	5.0	0.9
Building industry	%	13.1	10.9	10.4	11.3	9.2
Transport services	%	1.1	1.7	1.7	2.2	1.1
Retail trade	%	16.5	18.1	19.6	26.2	26.3
Accommodation services	%	4.5	2.7	1.1	2.1	1.5
Services for the public	%	2.0	4.8	3.7	4.1	8.5
Health care	%	1.4	1.2	1.0	1.1	0.1
Others	%	2.3	2.6	4.8	4.4	2.1
Total	%	100.0	100.0	100.0	100.0	100.0

During 2006, the majority of guarantee transactions was made with CMZRB's shareholding banks (approximately 75 % of the total amount of the guarantees issued). As in previous years, Komerční banka, a. s., and Česká spořitelna, a. s., were the most substantial business partners (see Graph 1). Among the other banks, eBanka, a. s., was the most important partner (more than 10 % of guarantees issued).

Graph 1

Breakdown of guarantee transactions by lending banks (2006)



c) Loan transactions

The Bank provided during 2006 a total of 745 loans in an overall amount of CZK 1,502 million (see Table 9).

Preferential loans provided

TABLE 9

Indicator		2002	2003	2004	2005	2006
Loans provided	number	571	1,340	1,629	969	745
Amount of loans provided	CZK mil.	618	1,257	1,369	2,096	1,502
Average loan amount	CZK mil.	1.1	0.9	0.8	2.2	2.0

The largest number of loans was provided for financing projects carried out in the Moravia-Silesia Region (115 loans), and the least support went to the Liberec Region (12 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 - see Table 10).



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

TABLE 10

Region		2002	2003	2004	2005	2006
Praha (Capital City of Prague)	%	3.6	7.0	3.5	3.3	4.7
Středočeský (Central Bohemia)	%	10.9	10.6	7.7	9.3	5.7
Jihočeský (South Bohemia)	%	2.9	6.9	5.5	5.9	6.1
Plzeňský (Pilsen)	%	8.5	12.4	8.4	8.7	13.5
Karlovarský (Karlovy Vary)	%	4.4	2.3	3.7	2.5	3.5
Ústecký (Ústí nad Labem)	%	7.1	5.0	5.2	5.6	5.7
Liberecký (Liberec)	%	1.5	2.7	3.0	1.8	0.9
Královéhradecký (Hradec Králové)	%	7.1	4.8	6.9	9.9	5.6
Pardubický (Pardubice)	%	2.1	3.2	4.8	8.3	8.6
Vysočina (Bohemian-Moravian Highlands)	%	1.1	3.8	3.6	3.7	5.1
Jihomoravský (South Moravia)	%	12.5	9.4	9.3	9.3	14.6
Olomoucký (Olomouc)	%	4.6	4.6	7.3	6.9	6.5
Zlínský (Zlín)	%	7.6	8.0	8.3	13.2	8.2
Moravskoslezský (Moravia-Silesia)	%	26.1	19.3	22.9	11.7	11.5
Total	%	100.0	100.0	100.0	100.0	100.0

As in previous years, in 2006 projects in the manufacturing sector represented a significant part of those projects supported by preferential loans. 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 issued guarantees)

TABLE 11

Sector		2002	2003	2004	2005	2006
Manufacturing	%	38.3	40.8	37.1	55.4	41.6
of which: food processing	%	6.4	6.6	6.2	6.8	2.5
Building industry	%	10.2	10.1	11.1	5.4	11.5
Transport services	%	1.7	1.5	1.0	1.8	0.3
Retail trade	%	24.5	19.7	24.5	18.5	21.6
Accommodation services	%	12.0	13.2	14.2	9.8	15.7
Services for the public	%	4.0	5.3	4.8	4.9	6.0
Health care	%	2.2	2.6	2.6	1.5	0.7
Others	%	7.1	6.7	4.7	2.6	2.5
Total	%	100.0	100.0	100.0	100.0	100.0

Preferential loans were provided as:

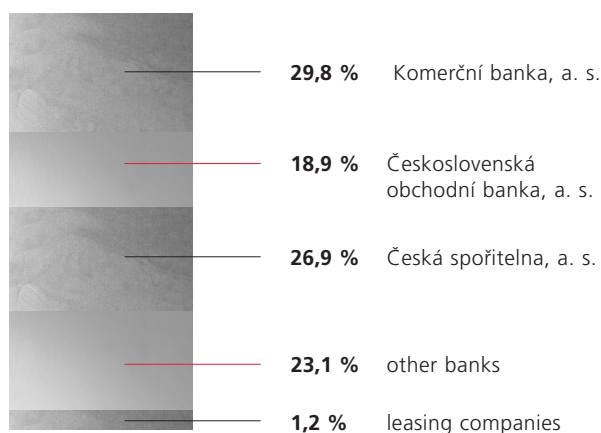
- **Interest-free loans** under the MARKET and START programmes. Overall, 307 interest-free loans were provided in the total amount of CZK 140 million. The largest portion of the loans were used in the Moravia-Silesia Region (22.0 % of the lent amount) and the South Moravia region (17.5 %) and for projects in retail trade (37.2 %).
- **Reduced-interest loans** under the MARKET and CREDIT programmes, as well as micro-loans in the South Bohemian Region. The number of loans provided was 236 and these totalled to CZK 424 million. They were directed in largest proportions to the Pilsen Region (16.5 % of the lent sum) and to the South Moravia Region (15.8 %). The loans were especially directed to projects in manufacturing (29.4 %) and retail trade (24.7 %).
- **Subordinated loans** under the PROGRESS, MARKET and CREDIT programmes. The number of loans provided was 202 and amounted to CZK 939 million. They were mainly used for financing the development of enterprises in industry (50.5 % of the lent amount). The largest portion of these was used by entrepreneurs in the South Moravia



Region (14.2 % of the loan sum). Loans provided by Komerční banka (38.3 %) and Česká spořitelna (28.4 %) constituted the most significant shares in project co-financing (see Graph 2).

Graph 2

SME 2006 - Subordinated loans,
by lending banks



d) Financial subsidies

Through the MARKET programme, the Bank in 2006 provided 1,322 subsidies to partially cover the costs for obtaining ISO certification. These totalled to CZK 112 million.

3/ Assistance for repairing panel-block apartment houses

Using funds provided by the State Housing Development Fund, CZK 1,963 million was provided in 2006 to assist in repairing prefabricated housing estates. Since 2001, that aggregate sum has totalled CZK 3,900 million.

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

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

The 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 under the PANEL programme, by recipients						TABLE 12	
Indicator		2002	2003	2004	2005	2006	
Projects supported	number	110	188	281	454	1,338.0	
Recipients:	- housing co-operatives	%	75.0	90.0	81.0	49.6	57.0
	- municipalities	%	15.0	6.0	5.5	1.3	0.6
	- owners associations	%	6.0	3.0	11.7	44.3	42.3
	- individuals	%	0.0	0.5	1.8	4.8	0.1
	- legal entities	%	4.0	0.0	0.0	0.0	0.1

a) Guarantees

In 2006, the Bank issued 302 guarantees amounting to CZK 1,255 million to help the applicants to obtain loans for financing repairs to panel-block apartment houses. The loans totalled CZK 1,941 (see Table 13). The number of guarantees provided to apartment owners associations significantly rose during 2006, which signals a change in their access to financing. That is one of the reasons to expect increasing support to be provided in coming years.

**Guarantees issued and loans guaranteed under the PANEL programme**

TABLE 13

Indicator		2002	2003	2004	2005	2006
Guarantees issued	number	41	96	118	257	302
Amount of guarantees issued	CZK mil.	340	484	602	893	1,255
Amount of loans guaranteed	CZK mil.	584	746	891	1,389	1,941
Average guarantee rate	%	58	65	68	64	65

b) Grants for interest payment

With advance approval from the State Housing Development Fund, the Bank in 2006 concluded a total of 1,036 contracts providing grants for interest payment amounting to CZK 1,587 million (see Table 14). Of these, 603 grants were provided to housing co operatives, 424 to apartment owners associations, 1 to an individual and 8 to municipalities.

Grants for interest payment

TABLE 14

Indicator		2002	2003	2004	2005	2006
Grants provided	number	69	92	163	197	1,036
Amount of grants	CZK mil.	358	261	395	222	1,587
Amount of supported loans	CZK mil.	1,121	793	1,310	877	5,540

4/ Infrastructure development

a) Preferential loans to support water sector investments

The aim of the programme of support to water sector investments was to enhance the quality of drinking water and wastewater treatment required to meet EU directives.

CMZRB's involvement in this programme was based on the Bank's using funds obtained from the European Investment Bank to provide preferential long-term loans to project investors. These loans supplemented the investors' own resources and allocations from the state budget designated for financing the specific projects. The investors were towns and municipalities, or associations of towns and municipalities, as well as water-sector joint-stock companies in which towns and municipalities were the majority shareholders. The concluding of agreements on preferential loans already had been discontinued in 2005. The loans were drawn in 2006 and the financing for the majority of projects under this programme was ended.

To cover the loan applications submitted, for which the funds from the European Investment Bank loan were not sufficient, the Bank concluded a loan agreement in June 2006 with the Council of Europe Development Bank. By the end of 2006, the Bank had provided an additional 29 preferential loans totalling CZK 376 million from the funds so obtained.

b) Infrastructure projects finance

Acting as a financial manager for infrastructure programmes, the Bank in 2006 arranged their financing in a total amount of CZK 16.1 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 9 programmes and projects directed mainly to transport and water sector infrastructure. The predominant part of that financing was for highway structures, into which CZK 12.7



billion was invested. More than half of these funds went to structures included in the D8 highway project for the section between Trmice and the Czech-German border, and CZK 4.2 billion was expended for the so-called Czech A-Highways Project (mainly 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 newly begun construction of the south-western section of the project underway to build a beltway around Prague. Nearly CZK 0.5 billion was used to improve the quality of the road network in completing Part II of the Programme for Improving the Condition of International Highways in the Czech Republic.

In the area of water sector infrastructure, the Bank in 2006 fully 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, repairs to dams and weirs, locks, embankment reinforcement and others. Meanwhile, financing continued for activities included in the Flood Prevention Programme for implementing the Czech Republic's protection strategy.

Financing fully continued in 2006 for the project to construct a campus for Masaryk University in Brno-Bohunice. The project financing in the amount of nearly CZK 1.2 billion was from a loan taken by the Czech Republic from the European Investment Bank, funds from the state budget (the chapter of the Ministry of Education, Youth and Sports), as well as funds provided by Masaryk University itself.

c) Loans under the MUNICIPALITY programme

The MUNICIPALITY (*OBEC*) programme, announced by the Bank, uses European Union funds from sources designated to support cities and municipalities. It is implemented in co-operation with the German development bank Kreditanstalt für Wiederaufbau and the Council of Europe Development Bank.

Loans provided by the Bank are designated for purchase or reconstruction of property owned by municipalities. This mainly concerns municipalities' technical infrastructure, school and pre school facilities, cultural and sport facilities, local streets and their lighting, and others.

As the municipalities were becoming familiar with the programme during its initial year of 2006, the Bank provided two loans totalling CZK 70 million.

5/ Trading in financial markets

The CMZRB's main tasks in trading on 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. The Bank's market risks are regularly hedged using currency and interest rate derivatives.

The Bank's investment strategy permits 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

In implementing the Regional Programme to Support Development of Industrial Enterprises in the North-western and Moravia-Silesia parts of the NUTS 2 Territory and Other Regions Receiving Targeted State Support in 2006, the Bank operated as a payment agency for grants approved by the Ministry for Regional Development. A total of 9 special-purpose grants amounting to CZK 69.8 million were paid out.



External communications

The Bank's external relations during 2006 were especially influenced by intensive preparation for a new programming period of the EU Structural Funds and by preparing national programmes for 2007 to support small and medium-sized enterprises. These facts were reflected in the Bank's more extensive communication with the state administrative bodies, and in particular with the Ministry of Industry and Trade, Ministry for Regional Development, and Ministry of Finance.

The Bank actively participated in the activities of working groups that prepared initial analytical studies, drafts of selected parts of the Operational Programme Enterprise and Innovations, as well as texts of loan and guarantee programmes for the period 2007 to 2013. The Bank participated significantly in elaborating the Concept to Support Small and Medium-sized Enterprises for the period 2007 to 2013 approved by the Government of the Czech Republic. The Bank's experience in financing small and medium-sized enterprises was usefully applied in co-operating with the Council to Support Entrepreneurship at the Ministry of Industry and Trade.

The preparation of new products for the following programming period using Structural Funds co-financing further required more extensive communication with other banks. The most important area for co-operation was in preparing the portfolio guarantee for bank loans, in which mainly shareholder banks participated. This contributed greatly to the quality of that product's final form.

In the area of support to housing, the Bank's involvement during 2006 significantly increased in activities focused on promotion and informing the public about the support for repairs of panel-block apartment houses. The experience obtained from working meetings with partners was used in amending the wording of the PANEL programme.

Throughout the entire year, the Bank continuously provided qualified information services and responses to telephone and e-mail enquiries from applicants for various forms of support. The content and number of such enquiries confirmed the importance and need for the Bank to have quality operations in this area and to continuously improve contents of its web presentation.

In support of regional development, the Bank continued to collaborate with the South Bohemian Region in implementing the programme of preferential loans for micro and small enterprises. To improve contacts with persons interested in CMZRB's products, the Bank carried on using the information centre for entrepreneurs established at the District Economic Chamber in Zlín and the regional office in České Budějovice.

The Bank's membership in the European Mutual Guarantee Association (AECM) contributed greatly last year with regard to foreign relations. This allowed the Bank to obtain and use specific information and positive foreign experience in developing the guarantee system for the coming period. Through AECM, the Bank participated in advancing changes in European legislation relating to public support. Also bringing much useful knowledge for the Bank's operations were its continuing long-term co-operation with the Kreditanstalt für Wiederaufbau and expert relations ensuing from its membership in the Club of Institutions Specialising in Long-Term Credit (ISLTC).

A special event of the last year was that the Bank got involved in implementing the EU technical assistance project prepared by AECM for financial institutions providing guarantees to small and medium-sized enterprises. As a part of this project, CMZRB staff members were able to participate in training programmes abroad and in two professional seminars in Prague run by experts from Portugal and France. The high point of the project was to hold the first conference with international attendance in the Czech Republic on the subject of guarantees as an effective tool of support for small and medium-sized enterprises. The conference was attended by representatives of the state administration, commercial banks, entrepreneurs, consulting companies and regional economic chambers, as well as by representatives of the European Commission and other foreign guests.

In order to build upon the business linkages developed to date with the European Investment Bank, the European Investment Fund, the Council of Europe Development Bank and Nordic Investment Bank, a number of meetings were held in relation to continuing and even extending the present co-operation. The goal is to increase in future the volume of funding sources the Bank can use to finance additional projects of business enterprises in the Czech Republic.

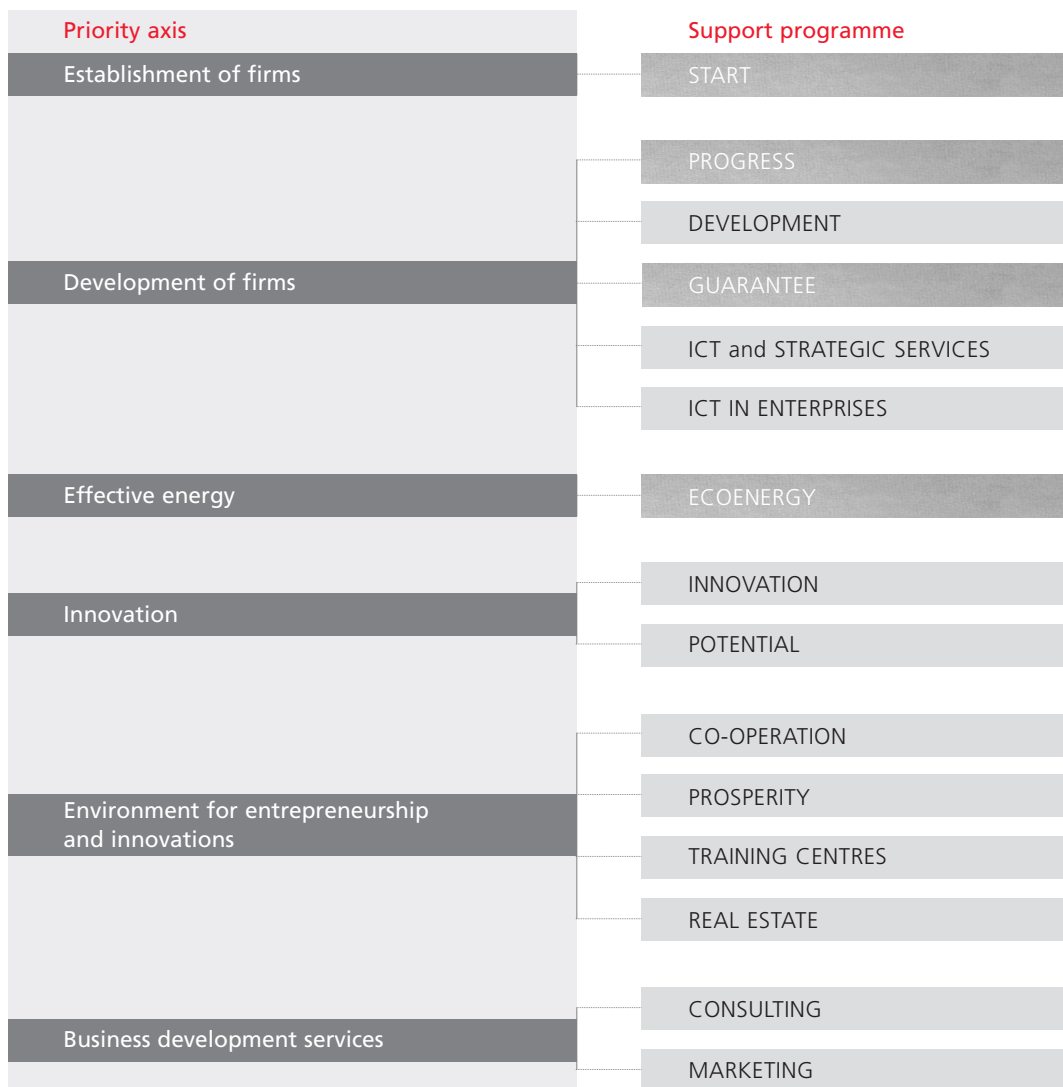


Goals for further development

CMZRB's long-term aim remains to fulfil its mission as a development bank while putting emphasis on reacting flexibly to satisfy the needs of clients, improving the effectiveness of the products provided, and growing the shareholders' capital. The Bank's activities during 2007, along with changes planned for the year, will to the maximum extent be directed toward achieving those ends.

The start of the new Structural Funds programming period for the years 2007 to 2013 formed the basic framework and established the starting position for CMZRB in what remains its predominant operations area, which is to provide support to small and medium-sized enterprises.

Operational Programme Enterprise and Innovations for 2007 - 2013



- Programmes using guarantees or loans as support instrumentS

The Bank aims during 2007 to launch a new guarantee product in the form of a portfolio guarantee. The product will be administratively less demanding and better accessible even for start-up businesses. Along with the guarantee product that already exists and is operating successfully, this new type of guarantee will establish a base for further long-term development of guarantees as a crucial tool for facilitating small and medium-sized enterprises' access to bank loans. The Bank's aim is to actively support the creation of necessary resource conditions for preferential development of this form of support to entrepreneurs.



Subordinated loans supplemented by financial subsidies will continue to strengthen CMZRB's co-operation with other banks in financing especially larger-scale development projects for small and medium-sized entrepreneurs. During 2007, products of this type will be developed in collaboration with the Czech Energy Agency under the ECOENERGY programme (a part of the Operational Programme Enterprise and Innovations) with the aim of allowing their operational implementation for financing projects directed to producing energy from renewable sources. Following on from the results of the European Commission's notification process for the relevant programme of support, the Bank will prepare for further extending its operations in the energy-savings area. That programme's most significant impacts on business results can be expected to appear over a longer term.

The favourable market situation for financing projects to repair panel-block apartment houses is at the same time a stimulus for examining possible or necessary changes for the Bank's further operations in this important market and for intensifying co-operation with the State Housing Development Fund.

Moreover, the Bank regards the waste management sector and projects in water management infrastructure to be appropriate opportunities for wider application of financial tools for non-grant types of support. CMZRB considers the effort to overcome domestic legislative barriers that condition increasing the Bank's exposure in these segments to be one of its priorities and integral to its operations.

In its business activities, the Bank will maintain and further develop, if possible, its position as the financial manager of funds for infrastructure projects and in financing investment projects to improve municipalities' infrastructures and environments.

CMZRB considers the use of modern information technologies in communication with partners and the Bank's clients, as well as inside the Bank, to be a precondition for improving the quality of services. This will always and to a large extent be connected with motivating the employees to discover opportunities to make positive changes and ensure their implementation.

**Českomoravská záruční a rozvojová banka, a. s.,
Supervisory Board's Report**

During 2006, the Supervisory Board regularly carried out its duties as defined by law and the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. 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 concept realization. The Supervisory Board was regularly informed about the Bank's activities, its financial situation and other essential matters.

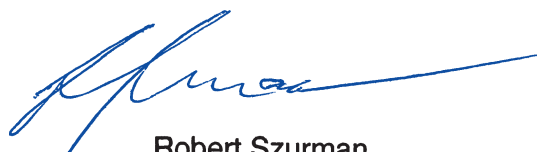
Having examined the nonconsolidated and consolidated financial statements for the year ended 31 December 2006, and on the basis of the external auditor's report, the Supervisory Board states that the accounting records and books were kept in a transparent manner and in compliance with the generally binding accounting regulations for banks as well as with the Articles of Association of the Bank. The accounting records and books reflect the Bank's actual financial situation in all important respects.

Deloitte Audit s. r. o. performed an audit of the nonconsolidated and consolidated financial statements and confirmed that the financial statements provided a true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a.s., as at 31 December 2006, and of the Bank's expenses, revenues, results of its operations and cash flows for the year then ended, in accordance with the Czech accounting standards.

Based upon the facts stated above and pursuant to the Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the Supervisory Board recommends approval of the nonconsolidated and consolidated financial statements of Českomoravská záruční a rozvojová banka, a. s., for the year ended 31 December 2006 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.

The Supervisory Board further reviewed the Report of the Board of Directors on Relations between the Controlling and Controlled Entities in 2006 and remarks that it took note of that Report without comment.

Prague, 19 March 2007



Robert Szurman
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. and subsidiaries, which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a. s., and subsidiaries as of 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

In Prague on 20 March 2007

Audit firm:

Deloitte Audit s.r.o.

Represented by:



Diana Rogerová, authorised employee



Consolidated Financial Statements
Prepared in Accordance with International Financial Reporting Standards
for the Year Ended 31 December 2006



Consolidated Profit and Loss Account for the Year Ended 31 December 2006

	Note	Year ended 31 December 2006	Year ended 31 December 2005
		CZK '000	CZK '000
Interest income		2 365 838	2 189 637
Interest expense		-1 765 140	-1 744 155
Net interest income	4.1	600 698	445 482
Fee and commission income		897 864	899 665
Fee and commission expense		-9 607	-19 898
Net fees and commissions	4.2	888 257	879 767
Net profit/(loss) on financial operations	4.3	138 716	267 673
Other income		3 469	1 672
Total operating income		142 185	269 345
Administrative expenses	4.4	-316 674	-315 013
Depreciation and other provisions	4.5	-41 545	-54 086
Other expenses		-27 008	-10 961
Total operating costs		-385 227	-380 060
Income from share of associated undertakings		-2 504	-51 944
Profit before provision for loan and investment losses and income taxes		1 243 409	1 162 590
Net (creation)/release of provisions	4.6	-286 594	-52 852
Profit/(loss) before income taxes		956 815	1 109 738
Income taxes	4.7	-213 914	-259 609
Deferred tax		-13 732	34 949
Net profit/(loss)		729 169	885 078



Consolidated Profit and Loss Account for the Year Ended 31 December 2006

	Note	31 December 2006 CZK '000	31 December 2005 CZK '000
Assets			
Cash and current balances with banks	5	218 188	63 494
Amounts due from banks	6	6 263 603	5 641 949
Financial assets at fair value through profit or loss	7	131 622	163 609
Positive fair value of financial derivative transactions		186 009	162 271
Loans to customers, net	8	23 233 598	29 858 856
Securities available for sale	9	9 873 948	9 787 083
Investments held to maturity	10	2 462 617	1 626 885
Prepayments, accrued income and other assets	11	184 423	169 851
Current income tax asset	4.8	66 538	41 242
Deferred tax asset		51 000	59 644
Investments in associates	12	42 689	45 193
Intangible fixed assets	13	21 893	24 101
Property and equipment	13	215 258	235 608
Total assets		42 951 386	47 879 786
Liabilities			
Amounts due to banks	14	19 518 438	25 319 081
Amounts due to customers	15	12 015 134	11 668 954
Negative fair value of financial derivative transactions		2 322 264	2 063 201
Accruals, provisions and other liabilities	16	1 970 378	1 787 420
Provisions for credit risk of off-balance sheet exposures and other provisions	17	2 272 474	2 195 721
Total liabilities		38 098 688	43 034 377
Shareholders' equity			
Share capital	18	2 131 550	2 131 550
Share premium and reserves		2 721 148	2 713 859
Total shareholders' equity		4 852 698	4 845 409
Total liabilities and shareholders' equity		42 951 386	47 879 786



Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2006

	Share capital	Capital contributions	Revaluation gains and losses	Retained earnings	Total
	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000
Balance at 31 December 2004	2 131 550	840 369	0	1 385 046	4 356 965
Revaluation gains/ (losses) on available for sale portfolio		10 986			10 986
Approved dividends				-407 620	
Other contributions to capital reserves					
Net profit				885 078	
Balance at 31 December 2005 restated	2 131 550	840 369	10 986	1 862 504	4 845 409
Revaluation gains/(losses) on available for sale portfolio			-16 110		-16 110
Approved dividends				-705 770	-705 770
Other contributions to capital reserves		350 000		-350 000	0
Net profit				729 169	729 169
Balance at 31 December 2006	2 131 550	1 190 369	-5 124	1 535 903	4 852 698



Consolidated Statement of Cash Flows for the Year Ended 31 December 2006

	Note	2006 CZK '000	2005 CZK '000
Profit before taxes		956 816	1 109 738
Adjustments for non-cash transactions			
Creation/(release) of provisions and adjustments for losses on loans		165 912	-106 729
Loans written off		121 013	169 758
Depreciation and amortisation of assets		41 545	54 086
Gains on sale of fixed assets		-78	-275
Net profit on re-measurement of equity investments		2 504	51 945
Change in fair values of financial derivatives		-101 190	-882 224
Other non-cash items		20 750	0
Adjustment for interest flows		-939 682	-454 301
<i>Operating profit before changes in operating assets and liabilities</i>		267 590	-58 002
Cash flows from operating activities			
<i>(Increase)/decrease in operating assets</i>			
Loans and advances to financial institutions		-588 734	-1 949 361
Loans and advances to clients		4 552 020	-1 886 596
Other assets		-144 512	102 608
<i>Increase/(decrease) in operating liabilities</i>			
Amounts owed to financial institutions		-3 459 386	-1 353 994
Amounts owed to customers		327 230	2 342 506
Other liabilities		203 184	63 654
<i>Net cash flow from operating activities before income tax</i>		1 157 391	1 159 537
Interest received		2 384 413	1 865 139
Interest paid		-1 424 167	-1 765 755
Income taxes paid		-239 228	302 781
Net cash flow from operating activities		1 878 409	1 561 702
Cash flows from investing activities			
Purchases of securities available for sale and held to maturity		-4 737 019	-3 855 269
Sales of securities available for sale and held to maturity		4 145 456	2 282 099
Purchase of tangible and intangible fixed assets		-39 659	-56 879
Proceeds from the sale of tangible and intangible fixed assets		0	31 036
Net cash flow from investing activities		-631 222	-1 599 013
Cash flows from financing activities			
Dividends paid		-705 770	-407 620
Net cash flow from financing activities		-705 770	-407 620
Net decrease in cash and cash equivalents		541 417	-444 931
Cash and cash equivalents at beginning of year		197 637	642 568
Cash and cash equivalents at end of year	19	739 053	197 637



Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2006





Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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 Prague) 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 2006. 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 account, 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, or 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

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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.

The Bank initially recognises undrawn loan commitments and guarantees at their fair value. After initial recognition the Bank measures guarantees and loan commitments at the higher of:

- (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; or
- (ii) the amount initially recognised less, when appropriate, recognised cumulative amortisation .

Specific provisions are made for estimated losses on these commitments on the same basis as set out in Note 4.7.

Proceeds from guarantees are recognised on an accruals basis using an effective interest rate (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



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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.

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 'Securities at fair value through profit and loss', 'Available for sale' and 'Held to maturity.'

Securities 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. Securities at fair value through profit and loss are recognised initially at cost which includes purchase price only. 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 at 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.



Securities at fair value through profit and loss

Securities at fair value through profit and loss 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'. No provisions for losses on securities were recognised in either 2005 or 2006.

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.

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.

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.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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 in the profit and loss account for all interest bearing instruments on an accruals basis using the effective interest rate. Loan origination fees are included in the effective interest rate and are therefore reported in 'Interest income'. Other fees and commissions are recognised in the period to which they relate on an accruals basis. Interest income includes amortised coupons and discount/premium 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 paid by the State under concluded contracts. This interest income is also recognised on an accruals basis using the effective interest rate.

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 based on the Bank's estimated that this interest is collectible. 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.

For details on accounting for provisions for off-balance sheet commitments please refer to Note 2 (d)

m) 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.

n) Leases

Assets held under finance leases when substantially all the risks and rewards of ownership are transferred, are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are depreciated over their useful lives.

Lease payments are apportioned between interest reported in finance charges (in Interest expense) and reduction of the lease obligation. Finance charges are allocated over the lease term so as to achieve a constant interest rate.

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



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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.

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 (refer to 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).

3/ CHANGES IN ACCOUNTING POLICIES IN 2006

Changes in Accounting Policies arising from the adoption of New IFRSs and amendments to IASs effective 1 January 2006:

- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective 1 January 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006); and
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006).



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

The impact of implementation of the above newly adopted standards on the financial statements of Českomoravská záruční a rozvojová banka, a.s., was immaterial.

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); 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 became effective subsequent to 1 January 2007 will not have a material impact on the financial statements.

The following standards or interpretations issued by IASB have not yet been endorsed by the EU:

- IFRS 8 Operating segments;
- IFRIC 10 Interim financial reporting and impairment;
- IFRIC 11: IFRS 2 on Group and treasury shares transactions;
- IFRIC 12 Service concession arrangements; and
- IAS 39 Financial instruments: Recognition and Measurement in the area of certain hedge accounting requirements.

These standards are not yet effective as of the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective.

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 2006 CZK '000	Year ended 31 December 2005 CZK '000
Interest on interbank transactions	345 802	251 593
Interest on loans granted to customers	388 963	281 355
Interest on loans granted to the State	1 196 671	1 263 817
Interest and discount on bonds	434 402	392 872
Total interest income	2 365 838	2 189 637
Interest on interbank transactions	1 042 114	1 097 349
Interest on deposits and loans from customers	97 300	95 025
Interest on deposits from the State	285 283	126 414
Interest expense from hedging interest rate derivatives	338 984	424 569
Interest on issued bills of exchange	1 459	798
Total interest expenses	1 765 140	1 744 155
Net interest income	600 698	445 482

Penalty interest is included in income on a cash basis. Recorded unpaid penalty interest of CZK 347,998 thousand (2005: CZK 378,549 thousand) was not accrued to income.

Interest income on loans and advances to customers reflects interest on substandard, doubtful and loss amounts of CZK 19,000 thousand (2005: CZK 19,140 thousand) due from customers.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

4.2 FEE AND COMMISSION INCOME

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Fees and commissions from lending activities	75 026	74 905
Fees and commissions from payment transactions	78 378	116 613
Fees and commissions from transactions with securities	34	91
Fees and commissions from foreign currency transactions	243	74
Fees and commissions from transactions with securities and derivatives for clients	21	38
Fees and commissions from guarantees	743 724	707 560
of which: governmental grants to clients	713 163	679 126
Fees and commissions from other financial operations	438	384
Total fee and commission income	897 864	899 665
Fee and commission expense	-9 607	-19 898
Net fees and commissions	888 257	879 767

4.3 NET PROFIT OR LOSS ON FINANCIAL OPERATIONS

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Profit or (loss) on the sale of securities	-9 422	9 243
Profit or (loss) from revaluation of securities at fair value through profit and loss	-7 041	6 947
Profit or (loss) from foreign currency transactions	16 587	19 651
Net change in the fair value of hedging derivatives	145 270	273 064
Profit or (loss) on other derivatives	-6 678	-41 232
Total net profit or loss on financial operations	138 716	267 673

4.4 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Wages, salaries and bonuses	158 219	156 436
Social security costs	51 682	50 785
Employees' expenses	209 901	207 221
Other administrative expenses	106 773	107 792
Total administrative expenses	316 674	315 013

Wages, salaries and bonuses comprise of:

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Compensations to supervisory board members	984	793
Compensations to Board of Directors members	5 221	5 211
Wages and salaries of the management	37 053	38 626
Other wages and salaries	101 190	99 069
Other employees' expenses	7 360	6 372
Directors' fees	811	765
Allocation to social fund	5 600	5 600
Total wages, salaries and bonuses	158 219	156 436



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

Other administrative expenses comprise:

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Audit, legal and tax advisory services	8 693	6 304
Rental charges	12 410	13 012
Other administrative expenses	85 652	88 476
Total other administrative expenses	106 755	107 792

Staff Analysis

	Year ended 31 December 2006	Year ended 31 December 2005
Number of members of the Supervisory Board	9	9
Number of members of the Board of Directors	5	5
Average number of managers	28	30
Total number of other employees	222	229

4.5 DEPRECIATION AND OTHER PROVISIONS

Depreciation and other provisions comprise:

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Depreciation of tangible and intangible fixed assets	41 545	54 086
Total depreciation and other provisions	41 545	54 086

4.6 NET (CREATION)/RELEASE OF PROVISIONS

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Net (creation)/release of specific loan provisions	-201 127	47 304
Net (creation)/release of provisions for other assets	-563	0
Net (creation)/release of provisions for off-balance sheet exposures	-76 753	-93 130
Net (creation)/release of other provisions	-271	120
Net impact of loans written off	-9 541	- 7 361
Net (creation)/release of provisions	-287 985	-53 067
Income from loans written off	1 391	215
Total (creation)/release of provisions	-286 594	-52 852

The balance of provisions for credit risk as of 31 December 2006 and 2005 comprises:

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Specific provisions for loans to customers (Note 8)	1 271 599	1 182 440
Specific provisions for other assets (Note 11)	812	249
Total specific provisions	1 272 411	1 182 689
Provisions for guarantees and other credit related commitments (Note 17)	2 250 736	2 174 254
Other provisions (Note 17)	21 738	21 467
Total provisions for off-balance sheet and other risks	2 272 474	2 195 721
Total provisions	3 544 885	3 378 410



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

The movement in the provisions for credit risk was as follows:

	2006 CZK '000	2005 CZK '000
Balance at 1 January	3 378 410	3 495 888
Net creation/(release) of provisions	287 985	53 067
Impact of loans written off and transferred	-121 510	-170 545
Balance at 31 December	3 544 885	3 378 410

4.7 INCOME TAXES

	Year ended 31 December 2006 CZK '000	Year ended 31 December 2005 CZK '000
Pre-tax profit	956 815	1 109 738
Theoretical tax calculated at a tax rate of 24% (26%)	229 636	288 532
Non-taxable income	-196 573	-279 295
Non-tax deductible expenses	198 506	280
Items increasing/decreasing tax base	164	0
Due corporate income tax rate of 24% (26% in 2005)	231 733	289 252
Tax overpayment from previous periods	-17 819	-29 643
Income tax - due	213 914	259 609
Income tax advance payments	298 271	330 494
Total income tax asset/-liability	66 538	41 242

Profit and loss reconciliation

	31 December 2006 CZK '000	31 December 2005 CZK '000
Statutory profit and loss, unconsolidated gross	965 730	1 400 649
Income tax charge	-227 646	-224 660
Statutory profit and loss unconsolidated net	738 084	1 175 989
Share of MUFIS's profit	-2 504	-51 944
Contribution to the social fund in accordance with statutory provisions	-6 411	-6 365
Decrease in provisions under IFRS	0	-232 602
Profit and loss calculated in accordance with IFRS	729 169	885 078

Deferred Tax

The recognised deferred tax asset can be analysed as follows:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Provisions and reserves for loans and guarantees	43 082	41 164
Other reserves and provisions	5 217	5 797
Difference between accounting and tax accumulated depreciation	1 082	1 205
Differences arising from the re-measurement of hedging derivatives	0	14 947
Unrealised gains and losses from Available-for-Sale securities	1 619	-3 469
Total deferred tax asset	51 000	59 644
Deferred tax balance at 1 January	59 644	28 164
Movement through the profit and loss account	-13 732	34 164
Movement through equity	5 088	-3 469
Deferred tax balance at 31 December	51 000	59 644



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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.

In 2004, the Bank incurred a loss on trading derivatives which was not a tax-deductible expense according to tax legislation in 2004. In 2005, the Bank recorded a deferred tax asset on this loss because a tax legislation change was expected in 2005 which gave this loss the status of a tax-loss carry forward starting in the 2006 financial year. This loss was utilised in 2005 since the change in legislation which occurred after the financial statements were issued allowed for tax loss amortisation in the 2005 tax return.

5/ CASH IN HAND AND CURRENT BALANCES WITH BANKS

	31 December 2006 CZK '000	31 December 2005 CZK '000
Cash in hand	10 506	9 259
Obligatory minimum reserves	207 682	54 235
Total cash in hand and balances with central banks	218 188	63 494

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank. These deposits bear interest at the CZK repo rate at 31 December 2006 of 2.50 percent p.a. (31 December 2005: 2 percent p.a.).

6/ AMOUNTS DUE FROM BANKS

	31 December 2006 CZK '000	31 December 2005 CZK '000
Current accounts	32 153	679
Term deposits with banks and central banks	1 790 000	2 857 720
Amounts due under repo transactions	4 100 000	2 776 464
Other amounts due from banks	130 057	0
Securities acquired under initial offerings	205 753	0
Accrued interest	5 640	7 086
Total amounts due from banks	6 263 603	5 641 949

All the amounts due from banks are unimpaired exposures.

7/ SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2006 Fair value CZK '000	31 December 2005 Fair value CZK '000
State coupon bonds	131 622	163 609
Total trading securities	131 622	163 609



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

8/ LOANS TO CUSTOMERS

	31 December 2006 CZK '000	31 December 2005 CZK '000
Loans to private legal entities and individuals	6 310 070	5 359 354
Loans to the Ministry of Finance	22 446 706	30 555 387
Fair value change in loans to the Ministry of Finance	-5 841 688	-6 700 522
Loans to municipalities	1 076 650	1 224 358
Other receivables from customers	2	5
Securities acquired under initial offerings	259 454	338 240
Accrued interest	254 003	264 474
Gross amounts due from customers	24 505 197	31 041 296
Loan specific and general provisions (Note 4.7)	-1 271 599	-1 182 440
Net amounts due from customers	23 233 598	29 858 856

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 2006		31 December 2005	
	Assets CZK '000	Liabilities CZK '000	Assets CZK '000	Liabilities CZK '000
CZK - principal	16 215 314	9 497 593	18 227 766	10 266 734
CZK - accrued interest	234 444	10 637	245 648	9 628
EUR - principal	6 203 837	11 970 894	6 575 622	13 728 862
EUR - accrued interest	5 456	156 531	6 257	178 726
USD - principal	27 556	27 556	40 570	40 570
USD - accrued interest	114	114	168	168
Fair value re-measurement	-5 841 688	- 6 700 522	-3 989 093	-4 717 960
Total	16 845 033	14 962 803	21 106 938	19 506 728

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 2006 comprises the following, broken down by classification:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Standard	19 540 482	26 640 143
Watch	3 136 934	2 690 489
Substandard	567 087	371 175
Doubtful	167 091	104 739
Loss	580 146	631 996
Securities acquired under initial offerings	259 454	338 240
Accrued interest	254 003	264 474
Total	24 505 197	31 041 256
Loan specific and general provisions (Note 4.7)	-1 271 599	-1 182 400
Net amounts due from customers	23 233 598	29 858 856



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

The loan portfolio of the Group as of 31 December 2006 comprises the following, broken down by type of collateral:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Bank guarantees and collateral by reliable guarantors	602 519	1 029 080
Cash collateral	36 538	38 965
Real estate collateral	2 451 256	2 604 608
Other loan collateral	259 606	339 675
Uncollateralised	21 155 278	27 028 928
Total	24 505 197	31 041 256
Loan specific and general provisions (Note 4.7)	-1 271 599	-1 182 400
Net amounts due from customers	23 233 598	29 858 856

Set out below is the breakdown of loans by sector:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Mining of minerals	10 702	15 657
Processing	2 181 609	1 850 119
Production and distribution of electricity, gas and water	1 356 945	1 467 024
Construction	406 182	353 479
Trade, repair of motor vehicles and products for personal consumption	997 869	881 657
Accommodation and public catering	416 681	401 399
Transportation, warehouses and communication	78 193	55 258
Financial institutions	201 897	3 280 245
Insurance	1 003	1 003
Public administration and defence	18 173 290	25 037 826
Other activities	426 823	433 115
Accruals	254 003	264 474
Total	24 505 197	31 041 256
Loan specific and general provisions (Note 4.7)	-1 271 599	-1 182 400
Net amounts due from customers	23 233 598	29 858 856

Public administration and defence loans in 2005 included a short term loan to Česká konsolidační agentura, s.p., in the amount of CZK 3,000,000 thousand.

9/ SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

	31 December 2006 Fair value CZK '000	31 December 2005 Fair value CZK '000
Fixed income debt securities	2 661 172	3 737 596
Variable yield debt securities	2 222 618	2 502 591
Treasury bills	4 990 158	3 546 896
Total securities available for sale	9 873 948	9 787 083

As of 31 December 2006, the available-for-sale portfolio included securities at a fair value of CZK 6,970,422 thousand (2005: CZK 6,774,787 thousand) that were publicly traded on stock exchanges and securities at a fair value of CZK 2,903,526 thousand (2005: CZK 3,012,296 thousand) that were not publicly traded securities.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

The available securities are denominated in various currencies (refer to 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 2006 CZK '000	31 December 2005 CZK '000
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	5 225 467	4 413 178
- Financial institutions in the Czech Republic	1 548 401	2 014 513
- Foreign financial institutions	2 154 228	2 512 488
- Other entities in the Czech Republic	339 953	380 507
- Other foreign entities	605 899	466 397
Total debt securities available for sale	9 873 948	9 787 083

10/ INVESTMENTS HELD TO MATURITY

Investments held to maturity comprise:

	31 December 2006 Carrying value CZK '000	31 December 2005 Carrying value CZK '000
Fixed income debt securities	2 462 617	1 626 885
Total investments held to maturity	2 462 617	1 626 885

As of 31 December 2006, the Group's held-to-maturity portfolio included CZK 208,240 thousand (2005: CZK 282,772 thousand) state bonds that were not publicly traded on stock exchanges. The remaining balance is from bonds not traded on the securities exchange.

Investments held to maturity are denominated in various currencies (refer to Note 21).

State bonds in the amount of CZK 2,016,578 thousand (2005: CZK 1,144,956 thousand) are eligible for rediscounting with the central bank.

Investments held to maturity, allocated by issuer, comprise:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Debt securities held to maturity issued by:		
State institutions in the Czech Republic	2 053 628	1 144 956
Foreign financial institutions	208 240	282 772
Other entities in the Czech Republic	200 749	199 157
Total debt securities held to maturity	2 462 617	1 626 885



11/ PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

Prepayments, accrued income and other assets comprise:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Receivables from unsettled transactions with securities	700	700
Accrued expenses and deferred income	79 428	89 349
Other receivables and other assets	105 107	80 051
Total other assets, gross	185 235	170 100
Impairment provisions (Note 4.7)	-812	-249
Total other assets, net	184 423	169 851

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 964/4, 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 2006.

Shareholder structure	31 December 2006	31 December 2005
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. As of 31 December 2006, MUFIS works with programme funding amounting to USD 24 million.

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	The Bank's share of profit/(loss) CZK '000
At 31 December 2006 and for the year then ended	87 121	42 688	695 270	-5 110	-2 504
At 31 December 2005 and for the year then ended	92 230	45 193	964 378	-106 008	-51 944



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

In the 2005 financial year, MUFIS restructured its USD loans. A significant portion of the loans was prepaid at an earlier date in order to lower future interest payments of MUFIS. The penalties connected with this prepayment resulted in a significant loss for MUFIS in 2005. However, this loss is lower than the net present value of the future interest payments had the loan not been prepaid. MUFIS also successfully negotiated for maturity restructurings of its loans in 2006.

13/ TANGIBLE AND INTANGIBLE FIXED ASSETS

Intangible Fixed Assets

	31 December 2005 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2006 CZK '000
Cost				
Software	154 289	14 325	1 159	167 455
Goodwill	0	0	0	0
Other	79 558	0	0	79 558
Fixed assets under construction and prepayments	870	14 525	15 203	192
Total	234 717	28 850	16 362	247 205
Accumulated amortisation				
Software	131 058	15 855	1 159	145 754
Goodwill	0	0	0	0
Other	79 558	0	0	79 558
Total	210 616	15 855	1 159	225 312
Net book value	24 101			21 893

Tangible Fixed Assets

	31 December 2005 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2006 CZK '000
Cost				
Land	10 544	0	0	10 544
Buildings	300 221	1 184	0	301 405
Equipment and fittings	154 264	3 919	4 928	153 255
Fixed assets under construction and prepayments made	5	5 706	5 451	260
Total	465 034	10 809	10 379	465 464
Accumulated depreciation				
Buildings	89 096	14 304	0	103 400
Equipment and fittings	140 330	11 386	4 910	146 806
Total	229 426	25 690	4 910	250 206
Net book value	235 608			215 258

Minimum lease payments

	CZK '000 Up to 1 year	CZK '000 1 year to 5 years	CZK '000 More than 5 years	CZK '000 Total
2006				
Lease repayments due	161	0	0	161
2005				
Lease repayments due	470	161	0	631

As of 31 December 2006 finance leases represent three cars that will be fully repaid in 2007.



14/ AMOUNTS DUE TO BANKS

	31 December 2006 CZK '000 Accounting value	31 December 2005 CZK '000 Accounting value
Loans received from banks	901 357	569 301
Loans received from European Investment Bank (EIB)	21 663 325	24 224 688
Change in fair values of loans received from EIB	-6 700 522	-4 717 960
Change in fair values of other loans	4 804	882
Received term deposits	3 450 791	3 970 000
Loans received under repo transactions	0	1 057 972
Accrued interest	198 683	214 198
Total amounts owed to banks	19 518 438	25 319 081

Please refer to Note 8 for additional details of loans received from the European Investment Bank (EIB).

15/ AMOUNTS DUE TO CUSTOMERS

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

	31 December 2006 Carrying amount CZK '000	31 December 2005 Carrying amount CZK '000
Current accounts	5 229 380	6 620 558
Term deposits	4 320 814	2 531 320
Repo operations with clients	82 054	0
Other credits received from clients	17 500	15 000
Security deposits	29 840	32 059
Other payables to clients	2 335 546	2 470 017
Total	12 015 134	11 668 954

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

	31 December 2006 CZK '000	31 December 2005 CZK '000
Amounts owed to state institutions	9 610 893	8 658 982
Amounts owed to local government institutions	24 025	35 686
Amounts owed to social security funds	300 112	300 115
Payables to other customers	2 058 938	2 671 955
Accrued interest	21 166	2 216
Total amounts owed to customers	12 015 134	11 668 954

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 2006 CZK '000	31 December 2005 CZK '000
Support programmes funding	2 082 728	1 959 334
Fund to cover risks attached to the Regional Guarantee, Prefab and Reconstruction Programmes	1 298 820	1 077 296
Total risk funds and programmes funding	3 381 548	3 036 630



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

16/ ACCRUALS, PROVISIONS AND OTHER LIABILITIES

Accruals, provisions and other liabilities comprise:

	31 December 2006 CZK '000	31 December 2005 CZK '000
Other liabilities to employees	10 880	9 871
Deferred expenses and accrued income	1 846 561	1 673 322
Other credit balances with respect to specific government programmes	46 935	40 225
Other	66 002	64 002
Total accruals, provisions and other liabilities	1 970 378	1 787 420

Accrued income represents mostly deferred fees from bank guarantees.

17/ PROVISIONS

Movements in provisions 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 2005	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
Creation	535 805	10 118	21 738	799 394
Use	-396 235	-73 206	-21 467	-722 641
At 31 December 2006	2 176 714	74 022	21 738	2 272 474

The use and release of reserves for guarantees and loans provided in 2005 included the release of general reserves for guarantees and loans in the amount of CZK 495,000 thousand. A portion of the profit from this transaction in the amount of CZK 350,000 thousand was used for the creation of a fund covering losses from credit risks.

18/ EQUITY AND PROFIT ALLOCATION

Share capital

	31 December 2006 CZK '000	31 December 2005 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 2006

The Bank's shareholders and their ownership interests as of 31 December 2006 and 2005 are set out below:

Name	2006 %	2005 %
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 2006 is proposed to be allocated as follows:

- CZK 590,470 thousand will be distributed as dividends,
- The remaining portion will be transferred to retained earnings.

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

	31 December 2006 CZK '000	31 December 2005 CZK '000	Change in the year CZK '000
Cash and balances with central banks	218 188	63 494	154 694
Current accounts with other banks	32 153	679	31 474
Treasury bills	488 712	133 464	355 248
Total	739 053	197 637	541 416

20/ 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 2006 CZK '000	31 December 2005 CZK '000
Total issued client guarantees	11 626 892	10 810 417
Commitments issued to clients	675 217	1 169 452
Total balance of off balance sheet commitments	12 302 109	11 979 869

Management of the Bank believes that, as of 31 December 2006, 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).



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

Contingencies

On 21 February 2002, a Czech company, AO Invest spol. s r.o., filed a lawsuit 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.

21/ RELATED PARTY TRANSACTIONS

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

	31 December 2006 CZK '000	31 December 2005 CZK '000
Amounts due from banks		
Komerční banka, a.s. - current account	375	251
Československá obchodní banka, a.s.	300 000	200 000
Česká spořitelna, a.s. - term deposit - repo	0	376 464
Česká spořitelna, a.s. - term deposit - term deposit	300 000	0
Amounts due from customers		
Ministry of Finance	0	23 854 865
Amounts due to banks		
Česká spořitelna, a.s. - loan	0	100 000
Česká spořitelna, a.s. - deposit - repo	0	1 057 972
Komerční banka, a.s. - deposit - repo	0	250 000
Československá obchodní banka, a.s. - term deposit	18 788	200 000
Amounts due to customers		
MUFIS, a.s. - current account	661	7 644
MUFIS, a.s. - term deposit	45 300	118 700
Ministry of Industry and Trade - current account	57 980	142 830
Ministry of Industry and Trade - term deposit	4 517	142 830
Ministry for Regional Development - current account	126 322	127 501
Ministry of Finance - other deposits	2 814 087	3 022 618

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

	31 December 2006 CZK '000	31 December 2005 CZK '000
Interest income		
Komerční banka, a.s.	0	2 366
Česká spořitelna, a.s.	0	4 975
Ministry of Finance	1 188 286	1 024 273
Interest expense		
Komerční banka, a.s.	0	57
Česká spořitelna, a.s.	0	22 167
Ministry of Finance	2 677	3 712
Commission income		
Ministry for Regional Development	41 599	45 383
Ministry of Industry and Trade	713 163	679 126
Ministry of Finance	55 142	86 518



22/ 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 quantified losses on the portfolio of on (loans) and off balance sheet (guarantees) exposures compares the total quantified losses of doubtful and loss receivables with the redemption of these 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.

The incurred loss method is derived from calculated probabilities of default on individual internal risk categories described below and loss given default for specified type of exposures (loans, loans granted within the water infrastructure support programme and 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 (internal rating) 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.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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 provisioning coefficient in accordance with the relevant ČNB regulation. The Bank supports the relevant provisioning coefficients through the analyses described above.

At each balance sheet date, the Bank assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. The evidence of impairment is contained in the risk (internal rating) category assigned to the exposure based on regular reviews. The risk category is lowered as a result of past loss events occurring after initial recognition. Standard loans (risk categories 5 and 6) where there is no evidence of impairment on an individual basis are assessed for impairment on a collective basis.

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 every 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 provisions 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 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.

The Bank supports its provisioning coefficients in a manner similar to loan receivables. Guarantees granted to standard category clients (risk category 5 and 6) are assessed for impairment on a collective basis.

Immovable and movable asset collateral is recorded in a manner similar to 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's 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 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.

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 Industry and Enterprise Operational Programme ('Operační program Průmysl a podnikání - the OPPP Programme')

With effect from 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.

The practice referred to above is valid only for loans granted prior to 31 March 2006. With effect from 1 April 2006, the Bank, at its own expense, recovers the receivables and allocates recovery proceeds and recovered costs of court proceedings to the Loan Fund from which the loans were granted.

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, a group of economically linked borrowers and territorial segments. These risks are periodically monitored and reassessed at least on an annual basis. Credit risk limits are approved by the Board of Directors.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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 only include entities from 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 2006

Assets				Provisions and accumulated depreciation	Total CZK '000
	Czech Republic CZK '000	European Union CZK '000	Other CZK '000	CZK '000	
Cash and current balances with banks	218 188	0	0	0	218 188
Amounts due from banks	5 623 900	639 703	0	0	6 263 603
Trading securities	131 622	0	0	0	131 622
Positive fair values of financial derivative transactions	186 009	0	0	0	186 009
Loans to customers, net	24 505 197	0	0	-1 271 599	23 233 598
Available for sale securities	7 113 821	2 154 228	605 899		9 873 948
Investments held to maturity	2 254 377	208 240	0	0	2 462 617
Prepayments, accrued income and other assets	141 107	109 042		812	250 961
Deferred tax asset	51 000	0	0	0	51 000
Investments in associates	42 689	0	0	0	42 689
Tangible and intangible fixed assets	712 669	0	0	-475 518	237 151
Total	40 980 579	3 111 213	605 899	-1 746 305	42 951 386



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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	0	0	0	63 494
Amounts due from banks	4 438 495	1 203 454	0	0	5 641 949
Trading securities	163 609	0	0	0	163 609
Positive fair values of financial derivative transactions	162 271	0	0	0	162 271
Loans to customers, net	31 041 296	0	0	-1 182 440	29 858 856
Available for sale securities	6 808 197	2 425 832	553 054	0	9 787 083
Investments held to maturity	1 344 113	282 772	0	0	1 626 885
Prepayments, accrued income and other assets	102 051	109 042	0	0	211 093
Deferred tax asset	59 644	0	0	0	59 644
Investments in associates	45 193	0	0	0	45 193
Tangible and intangible fixed assets	700 000	0	0	-440 291	259 709
Total	44 928 363	4 021 100	553 053	-1 622 731	47 879 786

Summary of Restructured Receivables

Year	Balance in CZK '000*	Number
2006	199 889	112
2005	175 103	90

* 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



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

interest rates) and techniques to calculate capital adequacy as set out in 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 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 in 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

	2006		2005	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest rate derivatives				
FRAs	0	0	0	0
Swaps	1 771 800	1 771 800	757 556	757 556
Currency derivatives				
Forwards	1 255 344	1 249 699	551 037	549 926
Swaps	1 157 621	1 127 875	1 496 259	1 492 461
Total	4 184 765	4 149 374	2 804 852	2 799 943

	2006		2005	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest rate derivatives				
FRAs	0	0	0	0
Swaps	9 504	9 260	13 556	11 275
Currency derivatives				
Forwards	39 528	34 258	1 357	250
Swaps	99 307	83 276	126 789	140 733
Total	148 339	126 794	141 702	152 258



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

Set out below is the maturity analysis of trading derivatives as of 31 December 2006:

	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
FRAs	0	0	0	0	0
Interest rate swaps	100 000	1 250 000	321 800	100 000	1 771 800
Forwards	38 531	89 162	1 057 667	69 984	1 255 344
Currency swaps	-	234 125	923 496	0	1 157 621
Total	138 531	1 573 287	2 302 963	169 984	4 184 765

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
FRAs	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	0	457 556	757 556
Total	651 037	518 940	678 844	956 031	2 804 852

Hedging Derivatives

	2006		2005	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest swaps	800 000	800 000	100 000	100 000
Cross currency swaps	6 909 662	7 903 912	7 898 662	8 715 774
Total	7 709 662	8 703 912	7 998 662	8 815 774

	2006		2005	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest swaps	6 593	684	1 286	0
Cross currency swaps	31 077	2 194 786	19 283	1 910 644
Total	37 670	2 195 470	20 569	1 910 944

Set out below is the maturity analysis of hedging derivatives as of 31 December 2006:

	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	0	155 560	242 467	6 511 635	6 909 662
Cross currency swaps	0	200 000	600 000	0	800 000
Total	0	355 560	842 467	6 511 635	7 709 662



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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

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 2006

	CZK CZK '000	EUR CZK '000	USD CZK '000	HUF CZK '000	Total CZK '000
Cash and current balances with banks	218 158	30	0	0	218 188
Amounts due from banks	6 101 440	31 671	130 490	2	6 263 603
Trading securities	131 622	0	0	0	131 622
Positive fair value of financial derivative transactions	186 009	0	0	0	186 009
Loans to customers, net	16 996 635	6 209 293	27 670	0	23 233 598
Securities available for sale	8 816 361	564 274	174 003	319 310	9 873 948
Investments held to maturity	2 254 377	208 240	0	0	2 462 617
Prepayments, accrued income and other assets	250 961	0	0	0	250 961
Deferred tax asset	51 000	0	0	0	51 000
Investments in associates	42 689	0	0	0	42 689
Tangible and intangible fixed assets, net	237 151	0	0	0	237 151
Total	35 286 403	7 013 508	332 163	319 312	42 951 386
Amounts due to banks	6 084 522	13 276 403	157 513	0	19 518 438
Amounts due to customers	11 959 767	54 951	416	0	12 015 134
Negative fair value of financial derivative transactions	2 322 264	0	0	0	2 322 264
Accruals, provisions and other liabilities	1 970 378	0	0	0	1 970 378
Income taxes payable	0	0	0	0	0
Provisions for off balance sheet exposures	2 272 474	0	0	0	2 272 474
Equity	4 852 698	0	0	0	4 852 698
Total	29 462 103	13 331 354	157 929	0	42 951 386
On balance sheet position, net	5 824 300	-6 317 846	174 234	319 312	
Off balance sheet position, net	0	6 512 738	-167 008	-294 840	
Net position	5 824 300	194 892	7 226	24 472	



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

31 December 2005

	CZK CZK '000	EUR CZK '000	USD CZK '000	HUF CZK '000	Total CZK '000
Cash and current balances with banks	63 494	0	0	0	63 494
Amounts due from banks	5 583 912	57 760	277	0	5 641 949
Trading securities	163 609	0	0	0	163 609
Positive fair value of financial derivative transactions	162 271	0	0	0	162 271
Loans to customers, net	23 236 239	6 581 879	40 738		29 858 856
Securities available for sale	8 819 519	275 934	261 160	430 470	9 787 083
Investments held to maturity	1 626 885	0	0	0	1 626 885
Prepayments, accrued income and other assets	211 091	2	0	0	211 093
Deferred tax asset	59 644	0	0	0	59 644
Investments in associates	45 193	0	0	0	45 193
Tangible and intangible fixed assets, net	259 709	0	0	0	259 709
Total	40 231 561	6 915 575	302 175	430 470	47 879 786
Amounts due to banks	10 608 656	14 669 687	40 738	0	25 319 081
Amounts due to customers	11 626 791	41 673	490	0	11 668 954
Negative fair value of financial derivative transactions	2 063 201	0	0	0	2 063 201
Accruals, provisions and other liabilities	1 787 252	168	0	0	1 787 420
Income taxes payable	0	0	0	0	0
Provisions for off balance sheet exposures	2 195 721	0	0	0	2 195 721
Equity	4 845 409	0	0	0	4 845 409
Total	33 127 039	14 711 528	41 228	0	47 879 786
On balance sheet position, net	7 104 532	-7 795 785	260 779	430 474	
Off balance sheet position, net	0	7 821 214	-245 880	-390 014	
Net position	7 104 532	25 429	14 899	40 460	

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.

The Bank has a significant portion of amounts due to customers which are not interest bearing instruments. These comprise part of state deposits and risk funds (see Note 15). These liabilities are presented as liabilities with non-specified interest rate sensitivity.

The fair value adjustments to Loans to Customers and Amounts due to Banks are presented with non-specified interest rate sensitivity.

Impaired loans are carried on a non-accrual basis and presented as items with non-specified interest rate sensitivity.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

Accrued interest is presented as items with non-specified interest rate sensitivity.

31 December 2006

	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	207 682	0	0	0	10 506	218 188
Amounts due from banks	5 418 038	490 000	205 770	0	149 795	6 263 603
Trading securities	0	0	50 174	81 448	0	131 622
Positive fair value of derivatives	0	0	0	0	186 009	186 009
Loans to customers, net	1 070 852	1 838 617	9 377 475	14 055 660	-3 109 006	23 233 598
Available for sale securities	2 292 725	4 225 113	2 758 527	597 583	0	9 873 948
Investments held to maturity	208 240	220 149	1 537 730	496 498		2 462 617
Prepayments, accrued income and other assets	0	0	0	0	250 961	250 961
Deferred tax asset	0	0	0	0	51 000	51 000
Investments in associates	0	0	0	0	42 689	42 689
Tangible and intangible fixed assets	0	0	0	0	237 151	237 151
Total	9 197 537	6 773 879	13 929 676	15 231 189	-2 180 895	42 951 386
Amounts due to banks	2 843 225	2 606 475	7 572 662	12 993 112	-6 497 036	19 518 438
Amounts due to customers	4 355 295	2 509 516	1 161	0	5 149 162	12 015 134
Negative fair value of financial derivative transactions	0	0	0	0	2 322 264	2 322 264
Accruals, provisions and other liabilities	0	0	0	0	1 970 378	1 970 378
Income taxes payable	0	0	0	0	0	0
Provisions for off balance exposure	0	0	0	0	2 272 474	2 272 474
Equity	0	0	0	0	4 852 698	4 852 698
Total	7 198 520	5 115 991	7 573 823	12 993 112	10 069 940	42 951 386
Net interest position	1 999 017	1 657 888	6 355 853	2 238 077	-12 250 835	



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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	163 609	0	0	163 609
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	3 896 497	1 207 212		9 787 083
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	

The table below provides average interest rates of significant items of assets and liabilities as of 31 December 2006 and 31 December 2005.

	31 December 2006	31 December 2005
Selected assets		
Deposits with central bank	2.19 %	1.91 %
Amounts due from banks	2.24 %	2.09 %
Loans to customers	5.90 %	5.23 %
Securities available for sale	3.23 %	3.15 %
Securities at fair value through profit or loss	3.18 %	3.49 %
Investments held to maturity	3.09 %	3.80 %
Selected liabilities		
Amounts due to banks	4.83 %	4.41 %
Amounts due to customers	1.94 %	1.33 %

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



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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.

The current accounts of the Bank are presented as items with undefined maturity.

The fair value of derivatives of the Bank are presented as items with undefined maturity because most of these derivatives are multiple settlement cross currency swaps where fair value cannot be reliably separated into liquidity gaps.

The Bank has a significant portion of amounts due to customers which are held for an undefined amount of time to finance individual support programmes. These comprise part of state deposits and risk funds (see Note 15). These liabilities are presented as liabilities with undefined maturity.

31 December 2006

	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	207 682	0	0	0	10 506	218 188
Amounts due from banks	5 434 874	492 919	205 753	0	130 057	6 263 603
Trading securities	382	154	50 020	81 066	0	131 622
Positive fair value of financial derivative transactions	0	0	0	0	186 009	186 009
Loans to customers, net	4 730 048	1 562 122	9 112 590	7 828 838	0	23 233 598
Securities available for sale	1 491 541	3 840 784	3 958 339	583 284		9 873 948
Investments held to maturity	208 240	220 149	1 537 730	496 498	0	2 462 617
Prepayments, accrued income and other assets	0	0	0	0	250 961	250 961
Deferred tax asset	0	0	0	0	51 000	51 000
Investments in associates	0	0	0	0	42 689	42 689
Tangible and intangible fixed assets	0	0	0	0	237 151	237 151
Total	12 072 767	6 116 128	14 864 432	8 989 686	908 373	42 951 386
Amounts due to banks	3 151 414	2 496 970	6 524 026	7 346 028	0	19 518 438
Amounts due to customers	1 951 883	2 556 551	18 911	2 273 899	5 213 890	12 015 134
Negative fair value of derivative financial transactions	0	0	0	0	2 322 264	2 322 264
Accruals, provisions and other liabilities	0	0	0	0	1 970 378	1 970 378
Income taxes payable	0	0	0	0	0	0
Provisions for off balance exposures	0	0	0	0	2 272 474	2 272 474
Equity	0	0	0	0	4 852 698	4 852 698
Total	5 103 297	5 053 521	6 542 937	9 619 927	16 631 704	42 951 386
Net liquidity exposure	6 969 470	1 062 607	8 321 495	-630 241	-15 723 331	-



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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	2 108	48 525	112 976	0	163 609
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	1 226 758	3 454 509	4 011 580	1 094 236	0	9 787 083
Investments held to maturity	205 662	281 079	614 396	525 748	0	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	13 570 786	6 052 728	14 038 427	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	6 328 529	3 611 096	5 956 478	1 075 645	-16 971 748	

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); and
- 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 a self-evaluation form). Collection of information from individual departments and its processing is within the remit of the coordinator.



Notes to the Consolidated Financial Statements for the Year Ended 31 December 2006

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); and
- High (the risk is not acceptable, additional countermeasures need 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.

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 amounts due 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 2006		31 December 2005	
	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	218 188	218 188	63 494	63 494
Amounts due from banks	6 263 603	6 223 794	5 641 949	5 633 937
Loans to customers	23 233 598	21 673 163	29 858 856	28 621 328
Investments held to maturity	2 016 578	2 443 748	1 626 885	1 622 753
Financial liabilities				
Amounts due to banks	19 518 438	19 499 637	25 319 081	25 246 001
Amounts due to customers	12 015 134	11 844 597	11 668 954	11 364 090

23/ SUBSEQUENT EVENTS

No significant events having a material impact on the financial statements of the Bank for the year ended 31 December 2006 occurred subsequent to the balance sheet date.

The Board of Directors has authorised these financial statements for submission to the General Meeting of Shareholders. These financial statements have been signed, on the basis of authority delegated by the Board of Directors, by Ladislav Macka, Chairman of the Board and Chief Executive Officer, and Jan Ulip, Member of the Board and Chief Financial Officer.



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Secretariat of the Deputy to the CEO heading Commercial Division and Branch network	tel.: 255 721 431
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Economic Division secretariat (incl. Accounting and Risk Management departments)	tel.: 255 721 455
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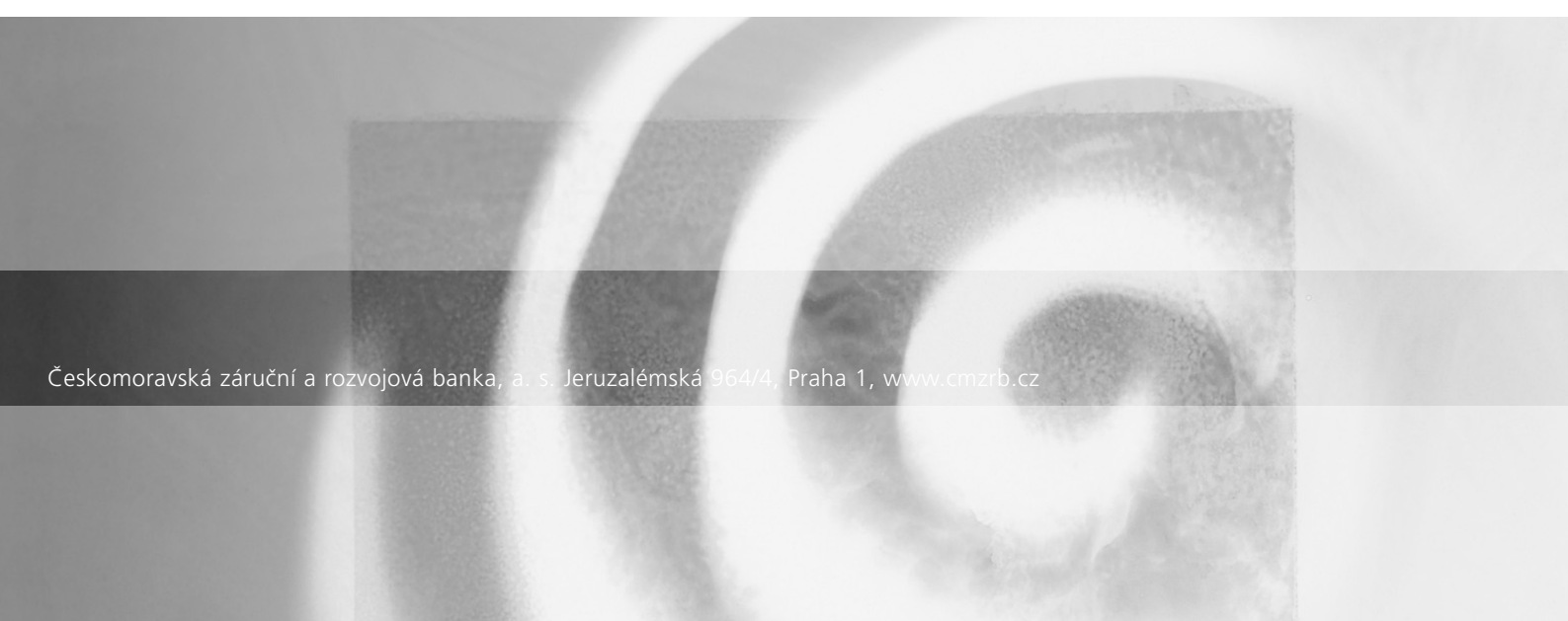
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