'07

Annual Report

ČESKOMORAVSKÁ
ZÁRUČNÍ A ROZVOJOVÁ
BANKA, a.s.

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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Presentation part

Financial part

Dear clients, business partners and shareholders,

The commencement of the new programming period for structural funds was undoubtedly the most crucial event influencing the Bank's activities and results in 2007. We entered the year expecting and prepared for the Operational Programme Enterprise and Innovation to continue smoothly from the previous operational programme. Unfortunately, our expectations were not fulfilled. Even in this situation, however, the Bank demonstrated that it could respond actively. After a delayed start and through increased efforts, we succeeded to fulfil the goals of the loan and guarantee programmes with which we entered the past year - and did so even in a shortened time.

For 2007, the Bank prepared a number of significant product innovations for small and medium-sized entrepreneurs. The favourable response from clients and banks confirmed that these changes were undertaken at the right time and that they answered to needs in the market. The most important of these is the introduction of M-Guarantees, which permit fast and simple providing of guarantees for small loans. The great interest in subordinated loans under the PROGRESS programme is unquestionably a positive reflection of the entire operational programme's absorption capacity.

The development of the PANEL programme for repairing panel-block apartment houses can be regarded as exceptional and dramatic. Funds from the State Housing Development Fund for its financing were again increased during 2007. Nevertheless, it was necessary in October of 2007 to suspend further acceptance of applications for grants covering interest costs. It is altogether clear from the pace that this programme set last year that it would be desirable to make substantial changes in the status of this significant part of the housing fund within a reasonable time. The programme's continued functioning and the effectiveness of its activity will depend not only upon the necessary level of its funding, but also upon the conditions established for providing this support.

The Bank also remained engaged in infrastructure financing, where it continued in implementing a programme of preferential loans for municipalities using funds received from the bank Kreditanstalt für Wiederaufbau.

Projects for energy conservation and renewable energy sources represent a main challenge in developing the Bank's products and activities in 2008. The Bank has long been preparing to expand its activities in this area, and it already has some experience from financing similar projects in the past. The expansion of activities to new areas, together with the tried-and-tested loans and guarantee programmes within the Operational Programme Enterprise and Innovation, represent main thrusts for the Bank and its business activities in the coming years.

I am convinced that it is possible to extend the application of financial engineering instruments in the forms of guarantees and loans even beyond the Operational Programme Enterprise and Innovation. The current share of these support instruments does not much exceed 1 % of the total funds of all operational programmes. This creates an opportunity the realisation of which would undoubtedly increase the efficiency of using public funds designated for such support. CMZRB's involvement in this endeavour can be seen as a long-term and realistic goal. Toward this end, the Bank will, among other things, make use of the advantage of market-neutral activity in managing public funds that its specialisation and shareholders structure provides.

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

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 the regions of the Czech Republic, to assist in developing other selected areas of the economy that require public support.

Throughout its entire time in operation, the Bank has closely co-operated with ministries, state funds, regions, banks, economic chambers and advisory firms. The specific character of CMZRB's activities, the development of modern banking and communication technologies, and traditionally good co-operation with its partners allow the Bank to provide its clients with high quality banking services across the entire Czech Republic and that positively impact 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 %)

Bank's offices

The Bank provides its clients bank guarantees, various types of preferential loans, and investment and financial services. 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 also 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 2007, the Bank had provided services to 24,832 clients.

Selected economic indicators

TABLE No. 1

	Unit	2003	2004	2005	2006	2007
Total assets	CZK mil.	47,990	48,422	47,835	51,707	57,055
Liabilities	CZK mil.	44,005	44,387	43,028	46,890	52,185
Shareholders' equity	CZK mil.	3,985	4,035	4,807	4,817	4,870
Share capital	CZK mil.	2,132	2,132	2,132	2,132	2,132
Profit after tax	CZK mil.	644	679	1,176	738	795
Guarantee portfolio	CZK mil.	8,201	9,326	10,810	11,627	11,996
Capital adequacy	%	22.2	23.8	21.3	22.7	20.2
Average number of employees		258	260	259	250	239
Number of branches		5	5	5	5	5

January	New conditions in the PANEL programme.
February	National CERTIFICATION (CERTIFIKACE) and MARKET (TRH) programmes announced for support of small and medium-sized enterprises.
March	Acceptance of applications begins for the national CERTIFICATION and MARKET programmes.
	Renewed acceptance of applications for regional loans in South Bohemia Region.
April	General Meeting of the Bank's shareholders.
June	PROGRESS (PROGRES), GUARANTEE (ZÁRUKA) and START programmes announced for support of small and medium-sized enterprises.
	CMZRB organises the annual meeting of the Institutions of the European Union Specialising in Long-Term Credit (ISLTC) in Prague.
	Acceptance of applications begins for regional loans in Zlín Region.
	Acceptance of applications extended for another year for municipal loans in the MUNICIPALITY (OBEC) programme.
July	Acceptance of applications begins in the Operational Programme Enterprise and Innovations - the PROGRESS, GUARANTEE and START programmes.
	Acceptance of applications begins for M-Guarantees in the MARKET and PANEL programmes.
	New conditions in the PANEL programme.
August	Acceptance of applications begins for M-Guarantees in the GUARANTEE and START programmes.
October	Acceptance of applications ends for subordinated loans in the PROGRESS programme and for grants covering interest costs in the PANEL programme.
December	Operational Programme Enterprise and Innovations approved.
	Acceptance of applications ends in the national CERTIFICATION and MARKET programmes.
	Loan agreement signed with the European Investment Bank securing resources for co-financing of loan programmes under the Operational Programme Enterprise and Innovations.

Board of Directors

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

Supervisory Board

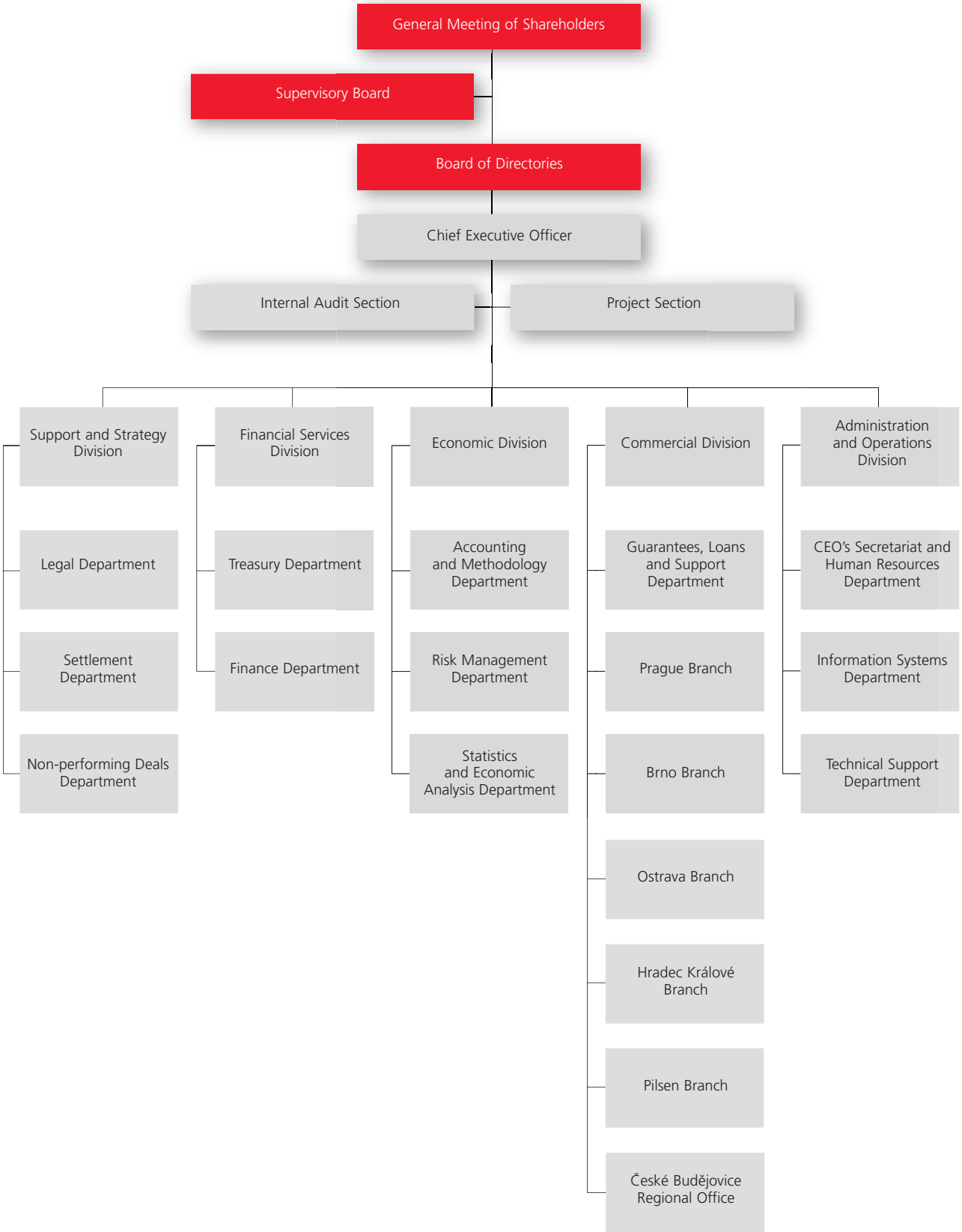
Chairman:	Robert Szurman
Vice-Chairman:	Ladislav Dvořák
Members:	Vlastimil Czabe
	Eduard Janota
	Ladislav Koděra
	Zdeněk Mareš
	Milan Novák, from 24 April 2007
	Jana Šindelářová
	Daniel Toušek, from 24 April 2007

During 2007, the following representatives ended their memberships on the Supervisory Board:

Jiří Nováček, on 24 April 2007,

Zdeněk Vorlíček, on 24 April 2007.

Bank's organisation chart



Report of the Board of Directors on the Bank's business activities
and financial situation for 2007

Two groups of external influences affected the Bank's business and financial results during 2007. The first of these was based in the overall development of the national economy, which naturally reflected indications in the European and global economies. The second group of external factors, whose immediate effects were felt very intensively in 2007, consisted of outcomes from the actions of European and national authorities. These directly influenced the structure and course of the Bank's transactions on its main markets (i.e., support for small and medium-sized enterprises and housing). The impact of these factors can be expected to carry through to subsequent years.

Rapid economic growth continued during 2007, positively influenced by access to EU markets and further by increasing domestic demand in all the main segments (investment, private consumption and public consumption). The Czech crown continued to strengthen - and rather quickly - against the main currencies. The crown's exchange rate gains partly cushioned the rising prices of important commodities (e.g. energy and foodstuffs). Together with increasing wage dynamics and effects connected with the expected impacts from planned fiscal changes and adjustments in the health and social insurance system, these factors influenced the rise in inflation (which was greater than expected). The unemployment rate declined slightly as a result of the overall economic expansion, although in some occupations or regions there were problems in hiring enough suitably qualified employees.

The Czech National Bank reacted to the inflationary development by gradually raising its basic interest rate, which went from 2.5 % at the start of 2007 to 3.5 % by the year's end. This development was progressively reflected in the levels of interest rates on loans, which positively influenced demand for CMZRB's preferential loans aimed at entrepreneurs. This also increased the importance and attractiveness of the grants covering interest costs under the PANEL programme. Expectations that VAT rates would increase in that sector also played a role.

Long-term interest rates rose during the first half of 2007 but then steadied somewhat in the second half. Overall, they ended at a level some 1 % higher than at the beginning of the year. This development was slightly positive for achieving the Bank's planned profitability.

Investors' diminished trust in the banking sector that was caused by tremors on the US mortgage market did not influence the Bank's capacity to finance its lending programmes, and CMZRB continued in its successful co-operation with important supranational financial institutions (European Investment Bank, Council of Europe Development Bank) from which it obtained the means of co-financing loans during 2007 within the Operational Programme Enterprise and Innovations.

The considerable delay in approving the Operational Programme Enterprise and Innovations resulted in a decline in the Bank's business activity in the first half of 2007. Even though approval for the operational programme came only at the end of the year, it created a strong base for CMZRB's activities in 2008 and beyond. This also offered clearer points of departure for the Bank's new activities that are aimed at further development in these areas.

Reinforcement of the funds for financing the PANEL programme meant that the results achieved in that business area during 2007 were considerably better than expected. The absence of a clear vision for this programme's further financing, however, creates great uncertainty as to its continuation, and especially for 2008.

In the final phase of preparing the Operational Programme Enterprise and Innovations, funding was increased for the ECOENERGY (EKOENERGIE) programme, thus creating a favourable environment for making use of the Bank's products in this market segment. CMZRB's expansion in this area balanced the negative impact from terminating loan and guarantee programmes in Prague Region that had long been in operation and were functioning well. The state budget for 2008 does not include funds for financing these programmes in this area.

1/ Unconsolidated data

Basic economic characteristics of the Bank, 2003 - 2007 TABLE No. 2

		Unit	2003	2004	2005	2006	2007
Total balance sheet		CZK mil.	47,990	48,422	47,835	51,707	57,055
Assets:	Deposits and loans in banks	CZK mil.	8,027	7,588	5,642	6,264	11,898
	Securities accepted by CNB for refinancing	CZK mil.	3,757	4,094	4,855	7,057	8,511
	Debt securities	CZK mil.	6,302	5,891	6,722	5,411	7,101
	Payments from guarantees and other classified receivables	CZK mil.	1,508	2,199	2,758	3,345	3,002
Liabilities and equity:	Shareholders' equity	CZK mil.	3,985	4,035	4,807	4,817	4,870
	Liabilities	CZK mil.	44,005	44,387	43,028	46,890	52,185
	of which: reserves	CZK mil.	2,373	2,499	2,196	2,272	2,199
Off-balance sheet:	Guarantees granted	CZK mil.	8,201	9,326	10,810	11,627	11,996
Total revenues		CZK mil.	6,169	6,835	6,597	5,892	5,501
of which:	from securities and interbank operations	CZK mil.	964	739	645	780	858
	from operations with clients	CZK mil.	1,513	1,555	1,545	1,586	1,631
Total expenses		CZK mil.	5,525	6,156	5,421	5,154	4,706
of which:	net reserves and provisions	CZK mil.	-307	130	-180	287	142
Profit after tax		CZK mil.	644	679	1,176	738	795
Capital adequacy		%	22.2	23.8	21.3	22.7	20.2

In 2007, the extent of the Bank's business activity was unfavourably impacted by the delayed start of the support programmes for small and medium-sized enterprises financed through EU structural funds. The overall value of the portfolio of guarantee and loan transactions did not change significantly, despite a decline of 7 % in the small and medium-sized enterprise segment.

Results in the financial area remained positive, with profit after tax rising to CZK 795 million. This represents an increase of 7.7 % year on year. The result was achieved despite an overall decrease in revenues from business operations, and in particular due to a reduction in net reserves creation. Higher revenues from financial investments and a reduction in operating costs connected with a 4.4 % decrease in the number of employees also had positive impacts.

Profit per employee rose by 12.7 % to CZK 3.3 million. The return on average annual shareholders' equity[1)] was 19 % and return on average annual assets[1] was 1.6 %.

Shareholders' equity as of 31 December 2007 grew by 1.1 % to a total CZK 4.9 billion. In 2007, 80 % of the 2006 after-tax profit (CZK 590 million) was paid out to shareholders in dividends, which represented a 27.7 % return on the nominal value of a share.

As of the end of 2007, all known losses were fully covered by reserves and provisions in amounts corresponding to Czech and international standards, and the total balance of reserves and provisions on credit risks was CZK 3.5 billion. As of the end of the year, the Bank had at its disposal reserve funds of CZK 1,150 million.

[1] Calculations are made in accordance with the methodology set in the Czech Nationl Bank's Decree No. 123/2007 stipulating the prudential rules for banks, credit unions and securities dealers.

Total assets at the end of 2007 were 7.9 % higher than in the previous year and netted to CZK 57 billion. This growth was made possible especially by an increase in the amounts due to clients (+8.3 billion) and a simultaneous reduction in the amounts due to banks (CZK -3.6 billion) as a result of repaying long-term loans for financing infrastructure programmes. On the assets side, and corresponding to the change in liabilities, there was in particular an increase in amounts due from banks (CZK +5.6 billion) and the value of bonds (CZK 3.1 billion) with a simultaneous reduction in loans to state institutions. The balance sheet does not include bank guarantees issued primarily for long-term investment loans and which comprise a significant part of the Bank's business activities and credit exposure. Their value had risen by 3 % to CZK 12 billion as of the end of 2007.

On the assets side, the Bank had at its disposal a portfolio of financial investments amounting to CZK 27.5 billion (48 % of net assets) and placed especially into bank deposits (21 % of net assets), government bonds, bonds of selected banks and companies, as well as treasury bills (27 % of net assets). Loans provided to state institutions constituted an important net assets item (39 % of net assets), as did loans to other clients (11 % of net assets) reported in the item amounts due from customers. The share of non-earning assets, including minimum mandatory reserves, was 2 % of the total balance sheet.

The funding sources on the liabilities and equities side were provided primarily by amounts due to banks (45 % of liabilities and equity) and amounts due to clients (36 % of liabilities and equity), shareholders' equity (9 % of liabilities and equity), reserves (4 % 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 20.2 % as of 31 December 2007.

The year 2007 continued the growth trend in CMZRB's earnings. The negative impact from the forced curtailment of its business activity was balanced by a reduced relative burden from credit risks and improved efficiencies in the operating area.

Additional indicators of the Bank's financial performance, 2003 - 2007 TABLE No. 3

Indicator		Unit	2003	2004	2005	2006	2007
Total capital (Tier 1)		CZK '000	3,297,199	3,322,241	3,596,045	4,062,106	4,203,389
of which:	- share capital	CZK '000	2,131,550	2,131,550	2,131,550	2,131,550	2,131,550
	- compulsory reserve fund	CZK '000	786,376	800,000	800,000	800,000	800,000
	- other profit allocations	CZK '000	0	0	0	350,000	350,000
	- retained profit from previous years	CZK '000	423,567	424,630	688,595	802,450	943,652
	- deductible items	CZK '000	-44,294	-33,938	-24,101	-21,893	-21,814
	- of which: intangible fixed assets	CZK '000	-44,294	-33,938	-24,101	-21,893	-21,814
Additional capital (Tier 2)		CZK '000	21,995	10,997	0	0	0
Total capital to cover market risks (Tier 3)		CZK '000	0	0	0	0	0
Deductible items		CZK '000	44,294	33,938	24,101	21,893	21,814
Total capital		CZK '000	3,319,193	3,333,239	3,596,045	4,062,106	4,203,389
Capital requirements		CZK '000	1,194,204	1,118,802	1,350,886	1,429,718	1,666,670
Specific interest rate risk		CZK '000	71,924	0	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	674	321	56	0	110
Derivatives		CZK '000	2,912	3,116	3,415	5,706	5,765
Other business portfolio instruments		CZK '000	0	0	0	0	0
Banking portfolio		CZK '000	1,063,050	1,101,158	1,317,928	1,405,658	1,630,322
General interest rate risk		CZK '000	53,076	10,122	24,072	17,009	33,698
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	2,569	4,085	5,415	1,345	1,641
Commodity risk		CZK '000	0	0	0	0	0
Options		CZK '000	0	0	0	0	0
Return on average assets (ROAA)		%	0.90	1.15	2.17	1.31	1.63
Return on average equity (ROAE)		%	21.62	20.51	33.30	18.49	19.01
Assets per employee		CZK '000	193,595	183,415	181,883	214,123	239,727
Administrative costs per employee		CZK '000	1,067	1,130	1,174	1,256	1,306
Net profit per employee		CZK '000	2,457	2,572	4,471	2,988	3,341

2/ Consolidated data

The Bank's consolidated financial result (i.e. including the 49 % share in the single associated company MUFIS, a. s.) is CZK 11.5 million higher, amounting to CZK 806.7 million. Upon including the holding's share in the associated company's shareholders' equity, the Bank's equity rises by CZK 54 million to CZK 4,924 million. The total assets increase by the same CZK 54 million to CZK 57,109 million.

1/ Products

In 2007, the Bank provided the following products:

a) Guarantees

- Guarantees for bank loans with an increasing level of liability that depends on the time when the call for exercising the guarantee is submitted (hereinafter just "gradual guarantees"), under the GUARANTEE and MARKET programmes for small and medium-sized enterprises up to 80 % of the loan principal;
- guarantees for bank loans provided in a simplified procedure and with a limited guaranteed amount for a portfolio of guaranteed loans (hereinafter just "portfolio guarantees"), provided under the GUARANTEE and MARKET programmes for small and medium-sized enterprises for loans up to CZK 5 million and up to 70 % of the loan principle;
- gradual and portfolio guarantees for bank loans under the GUARANTEE programme with a financial subsidy of 10 % toward the guaranteed loan assigned to small enterprises for financing projects located in areas where state support is focused; the loan shall amount to a maximum of CZK 5 million, with maturity longer than 3 years;
- portfolio guarantees for bank loans under the START and MARKET programmes for start-up micro-enterprises up to 80 % of the loan principle, with a financial subsidy of 15 % toward the guaranteed loan, the amount of which shall not exceed CZK 1.5 million, its maturity must be longer than 3 years;
- guarantees for bank loans to owners or co-owners of panel-block apartment houses up to 80 % of the loan principal under the PANEL programme to support the repair of panel-block apartment houses;
- portfolio guarantees for bank loans to owners or co-owners of panel-block apartment houses up to 80 % of the loan principal under the PANEL programme to support the repair of panel-block apartment houses;
- guarantees for tender bids under the CERTIFICATION programme for small and medium-sized enterprises in amounts of CZK 100,000 to CZK 5 million.

b) Loans

- Interest-free loans under the START and MARKET programmes for start-up businesses in amounts up to CZK 1.5 million, with maturity up to 7 years and covering up to 90 % of project costs;
- loans under the CREDIT programme at a fixed interest rate of 4 % p. a., with maturity up to 6 years and covering up to 90 % of project costs;
- subordinated capital-project loans under the CREDIT programme for small and medium-sized enterprises in amounts up to CZK 12 million at a fixed interest rate of 3 % p. a., with maturity up to 9 years, grace period up to 5 years, and covering up to 50 % of the project costs;
- subordinated capital-project loans under the PROGRESS programme for small and medium-sized enterprises in amounts up to CZK 25 million, with a fixed interest rate of 3 % p. a., maturity up to 11 years and grace period up to 6 years;
- regional loans for small and micro-enterprises in South Bohemia Region in amounts up to CZK 1 million, with a fixed interest rate of 5 % p. a. and maturity up to 5 years under the Programme of Preferential Regional Loans for Micro- and Small Enterprises in South Bohemia Region;
- regional loans for small enterprises in Zlín Region in amounts up to CZK 750,000, with a fixed interest rate of 5 % p. a. and maturity up to 5 years under the Programme of Preferential Loans for Small Enterprises in Zlín Region;
- long-term (up to 15 years) interest-free loans in amounts up to 60 % of costs for construction and technology for municipalities, municipality associations, enterprises operating water and sewer utilities, or other investors in water sector projects under the Programme of Support to Water Sector Investments; and
- long-term loans under the MUNICIPALITY programme to finance investments in infrastructure owned by cities and municipalities in amounts from CZK 8 million to CZK 100 million, with maturity up to 15 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, and
- grants to cover interest costs of loans to owners or co-owners of panel-block apartment houses.

2/ Support to small and medium-sized enterprises

a) Overall results

The Bank provided support to small and medium-sized enterprises ("SMEs") as agreed with the Ministry of Industry and Trade by means of the CERTIFICATION, CREDIT, GUARANTEE, MARKET, PROGRESS and START programmes. Based on agreements with the region, support is provided to small enterprises under the Programme of Preferential Loans for Micro- and Small Enterprises in South Bohemia Region and the Programme of Preferential Loans for Small Enterprises in Zlín Region.

In 2007, a total of CZK 2,429 million was available for financing all SME programmes, which was 12 % less than in 2006. Not until the middle of August 2007, the Bank had at its disposal CZK 1,715 million designated for the crucial programmes PROGRESS, START and GUARANTEE. This affected business activity, particularly in the administration of guarantees. The largest part of the available funds was used in the PROGRESS programme (CZK 793 million) and the GUARANTEE programme (CZK 534 million).

The resources for the SME programmes were mainly comprised of public funds (65 % of total, from the state budget, EU and the Phare Revolving Fund), funds obtained by the Bank on the financial market (16 %), as well as preferential loan repayments and funds not paid out to enterprises due to violation of contractual conditions for supports provided in previous years (15 %). Funds obtained by the Bank on the financial market were used especially for financing the PROGRESS and START loan programmes implemented within the Operational Programme Enterprise and Innovations.

In 2007, small and medium-sized enterprises submitted a total of 3,164 applications for support (see Table 4). Of that number, 1,745 applications were approved and 115 applications were rejected because either they did not meet programme criteria or they represented risks too high for financing the projects. A total of 150 applicants withdrew their applications during processing. The remaining 1,154 applications that were not resolved in 2007 (of which 70 % represented the demand for subsidies in connection with the ISO certification or EMAS implementation at the close of 2007) were carried into 2008 for further processing.

Applications for support and their settlement — TABLE No. 4

Indicator		2003	2004	2005	2006	2007
Total applications submitted	number	4,467	5,145	4,174	2,532	3,164
Approved	number	3,732	3,744	3,312	2,075	1,745
Rejected or withdrawn	number	442	570	497	198	265
Carried into following year	number	293	831	365	259	1,154

The greater part of loans and guarantees provided was directed to small enterprises with up to 49 employees (see Table 5).

Supported projects divided according to sizes of enterprises — TABLE No. 5

	Guarantees (excluding bids to public tenders)				Loans			
	number		amount		number		amount	
Number of employees		%	CZK mil.	%		%	CZK mil.	%
0 to 9	271	56.2	875	45.5	110	60.4	277	29.8
10 to 49	179	37.1	787	40.9	49	26.9	341	36.7
50 to 249	32	6.6	263	13.7	23	12.6	314	33.6
Total	482	100.0	1,925	100.0	182	100.0	931	100.0

b) Guarantees

During 2007, the Bank issued under the START, MARKET and GUARANTEE programmes 482 subsidised guarantees for bank loans totalling CZK 1,925 million, of which 288 were portfolio guarantees amounting to CZK 414 million, and 71 were guarantees for bids to public tenders totalling CZK 29 million.

The total amount of all types of guarantees provided was CZK 1,954 million, which, considering the short time of the support programmes' functioning, testified to the increasing interest in this product. The guarantees were provided on loans of CZK 2,959 million (see Table 6).

Guarantees issued (excluding bids to public tenders) and loans guaranteed — TABLE No. 6

Indicator		2003	2004	2005	2006	2007
Guarantees issued	number	499	511	572	459	482
Amount of guarantees issued	CZK mil.	2,677	3,076	3,405	2,951	1,925
Amount of loans guaranteed	CZK mil.	4,528	5,368	5,858	5,145	2,959
Average guarantee rate	%	59	57	58	57	65

The largest portion of guarantees was used to support projects located in the Moravia-Silesia Region (see Table 7).

Regional structure of guarantees issued
(in % of contracted value of newly issued guarantees) — TABLE No. 7

Region		2003	2004	2005	2006	2007
Praha (Capital City of Prague)	%	4.3	5.4	7.8	5.1	8.5
Středočeský (Central Bohemia)	%	8.1	10.4	8.7	8.6	4.6
Jihočeský (South Bohemia)	%	4.7	2.9	3.7	1.8	4.9
Plzeňský (Pilsen)	%	6.8	6.8	13.3	10.2	7.2
Karlovarský (Karlovy Vary)	%	1.4	1.5	1.3	1.6	0.6
Ústecký (Ústí nad Labem)	%	3.6	3.3	4.0	2.8	5.9
Liberecký (Liberec)	%	2.1	3.5	5.2	10.5	1.4
Královéhradecký (Hradec Králové)	%	13.2	5.5	5.1	6.8	1.5
Pardubický (Pardubice)	%	7.4	9.1	6.7	4.5	10.5
Vysočina (Bohemian-Moravian Highlands)	%	1.3	4.7	5.3	6.5	4.4
Jihomoravský (South Moravia)	%	11.9	11.4	9.7	10.7	9.5
Olomoucký (Olomouc)	%	10.9	9.9	5.9	8.1	8.0
Zlínský (Zlín)	%	12.1	11.8	9.2	10.3	6.6
Moravskoslezský (Moravia-Silesia)	%	12.2	13.9	14.2	12.5	26.4
Total	%	100.0	100.0	100.0	100.0	100.0

A sectoral breakdown of guarantees issued points to the long-term dominance of projects in manufacturing and retail trade. In this respect, the year 2007 was no exception (see Table 8).

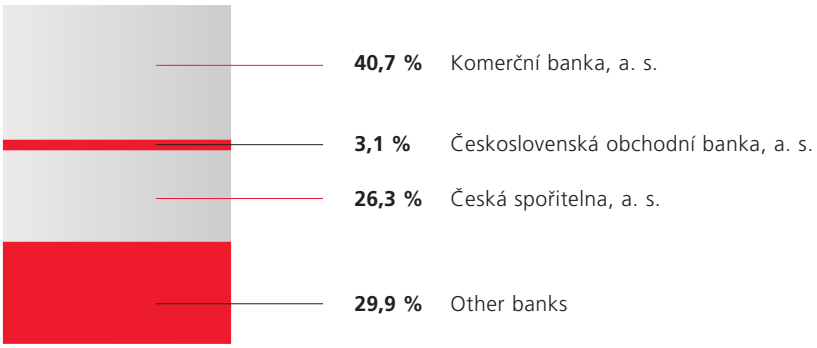
Sectoral structure of guarantees issued
(in % of contracted value of newly issued guarantees) TABLE No. 8

Sector		2003	2004	2005	2006	2007
Manufacturing	%	58.0	57.8	48.5	51.1	41.1
Building industry	%	10.9	10.4	11.3	9.2	6.9
Transport services	%	1.7	1.7	2.2	1.1	2.7
Retail trade	%	18.1	19.6	26.2	26.3	41.9
Accommodation services	%	2.7	1.1	2.1	1.5	2.3
Services for the public	%	4.8	3.7	4.1	8.5	1.4
Health care	%	1.2	1.0	1.1	0.1	2.2
Others	%	2.6	4.8	4.4	2.1	1.5
Total	%	100.0	100.0	100.0	100.0	100.0

During 2007, the majority of guarantee transactions were made with CMZRB's shareholding banks (approximately 70 % 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 partners in this area (see Graph 1). Among the other banks, eBanka, a. s. (7.5 %), GE Money Bank, a. s. (6.6 %), and Raiffeisenbank, a. s. (5.8 %), were the most significant partners.

Graph No. 1

Percentage breakdown
of guarantee transactions
by lending banks (2007)



c) Loans

The Bank provided a total of 182 loans during 2007 in an overall amount of CZK 931 million, which, considering the limited period of the programmes' operation, constitutes a result comparable with that of 2006 (see Table 9).

Preferential loans provided TABLE No. 9

Indicator		2003	2004	2005	2006	2007
Loans provided	number	1,340	1,629	969	745	182
Amount of loans provided	CZK mil.	1,257	1,369	2,096	1,502	931
Average loan amount	CZK mil.	0.9	0.8	2.2	2.0	5.1

The largest proportion of loans was used by entrepreneurs in Pilsen Region (see Table 10).

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

TABLE No. 10

Region		2003	2004	2005	2006	2007
Praha (Capital City of Prague)	%	7.0	3.5	3.3	4.7	1.8
Středočeský (Central Bohemia)	%	10.6	7.7	9.3	5.7	7.2
Jihočeský (South Bohemia)	%	6.9	5.5	5.9	6.1	7.9
Plzeňský (Pilsen)	%	12.4	8.4	8.7	13.5	18.5
Karlovarský (Karlovy Vary)	%	2.3	3.7	2.5	3.5	3.8
Ústecký (Ústí nad Labem)	%	5.0	5.2	5.6	5.7	0.5
Liberecký (Liberec)	%	2.7	3.0	1.8	0.9	3.9
Královéhradecký (Hradec Králové)	%	4.8	6.9	9.9	5.6	15.9
Pardubický (Pardubice)	%	3.2	4.8	8.3	8.6	6.0
Vysočina (Bohemian-Moravian Highlands)	%	3.8	3.6	3.7	5.1	4.4
Jihomoravský (South Moravia)	%	9.4	9.3	9.3	14.6	14.0
Olomoucký (Olomouc)	%	4.6	7.3	6.9	6.5	5.9
Zlínský (Zlín)	%	8.0	8.3	13.2	8.2	4.5
Moravskoslezský (Moravia-Silesia)	%	19.3	22.9	11.7	11.5	5.8
Total	%	100.0	100.0	100.0	100.0	100.0

As in previous years, projects in the manufacturing sector represented a significant part of those projects supported by preferential loans during 2007. Retail trade, too, continued to make up a substantial share of the projects (see Table 11).

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

TABLE No. 11

Sector		2003	2004	2005	2006	2007
Manufacturing	%	40.8	37.1	55.4	41.6	53.7
Building industry	%	10.1	11.1	5.4	11.5	3.9
Transport services	%	1.5	1.0	1.8	0.3	5.6
Retail trade	%	19.7	24.5	18.5	21.6	28.0
Accommodation services	%	13.2	14.2	9.8	15.7	4.7
Services for the public	%	5.3	4.8	4.9	6.0	1.3
Health care	%	2.6	2.6	1.5	0.7	0.1
Others	%	6.7	4.7	2.6	2.5	2.7
Total	%	100.0	100.0	100.0	100.0	100.0

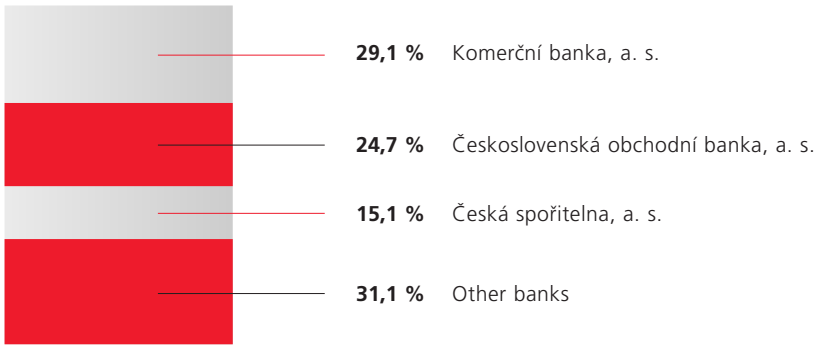
Preferential loans were provided as:

- Interest-free loans under the MARKET and START programmes. Overall, 53 interest-free loans were provided in the total amount of CZK 41 million. The largest proportions of the loans were used for projects in Prague (40 % of the amount lent) and Zlín Region (13 %), and for retail trade projects (40 %).
- Subordinated loans under the CREDIT and PROGRESS programmes. The number of loans provided was 99 and totalled CZK 838 million. They were mainly used for financing the development of enterprises in industry (56 % of the amount lent). The largest proportion of these was used by entrepreneurs in Pilsen Region (21 % of the loan sum). Loans provided by Komerční banka, a. s., (29 %), Československá obchodní banka, a. s., (25 %) and České spořitelna, a. s. (15 %) constituted the most significant shares in project co-financing (see Graph 2).

- Reduced-interest loans under the CREDIT programme and the regional programmes for South Bohemia and Zlín regions. The number of loans provided was 30 and these totalled CZK 52 million. They were especially directed to projects in manufacturing (56 % of the amount lent).

Graph No. 2

Percentage structure of subordinated loans by lending banks and leasing companies (2007)



d) Subsidies

Through the MARKET and CERTIFICATION programmes, CMZRB in 2007 provided 1,020 subsidies to partially cover costs for obtaining ISO certifications. These totalled CZK 84 million.

3/ Assistance for repairing panel-block apartment houses

Using funds provided by the State Housing Development Fund, CZK 3,424 million was provided in 2007 to assist in repairing prefabricated housing estates. Since 2001, that aggregate sum has totalled CZK 6,678 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 costs of 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, by recipients — TABLE No. 12

Indicator			2003	2004	2005	2006	2007
Projects supported		number	188	281	454	1,338	2,345
Recipients:	- housing co-operatives	%	90.0	81.0	49.6	57.0	43.9
	- municipalities	%	6.0	5.5	1.3	0.6	0.7
	- owners associations	%	3.0	11.7	44.3	42.3	55.0
	- individuals	%	0.5	1.8	4.8	0.1	0.0
	- legal entities	%	0.0	0.0	0.0	0.1	0.2

a) Guarantees

In 2007, the Bank issued 328 guarantees totalling CZK 1,281 million (of which 13 were portfolio guarantees amounting to CZK 43 million) to help the applicants to obtain loans for financing repairs to panel-block apartment houses. The loans totalled CZK 2,158 million (see Table 13). The number of guarantees provided to apartment owners associations rose once again during 2007, which signals the continuation of changes in their access to financing.

Guarantees issued and loans guaranteed under the PANEL programme — TABLE No. 13

Indicator		2003	2004	2005	2006	2007
Guarantees issued	number	96	118	257	302	328
Amount of guarantees issued	CZK mil.	484	602	893	1,255	1,281
Amount of loans guaranteed	CZK mil.	746	891	1,389	1,941	2,158
Average guarantee rate	%	65	68	64	65	59

b) Grants covering interest costs

With advance approval from the State Housing Development Fund, CMZRB in 2007 concluded a total of 2,017 contracts providing grants to cover interest costs and amounting to CZK 3,271 million (see Table 14). Of these, 885 grants were provided to housing co-operatives and 1,109 to apartment owners associations.

Grants covering interest costs provided under the PANEL programme — TABLE No. 14

Indicator		2003	2004	2005	2006	2007
Grants provided	number	92	163	197	1,036	2,017
Amount of grants	CZK mil.	261	395	222	1,587	3,271
Amount of supported loans	CZK mil.	793	1,310	877	5,540	10,217

4/ Infrastructure development

a) Loans to support water sector investments

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

CMZRB provided project investors with preferential long-term loans, which it refinanced using resources obtained as a loan from the Council of Europe Development Bank. These loans supplemented the investors' own resources and allocations from the state budget provided to finance projects included under this programme. The investors were towns and municipalities, or associations of towns and municipalities, as well as joint-stock companies in the water sector in which towns and municipalities were the majority shareholders.

From 2005 to the end of 2007, the Bank, utilising funds from the Council of Europe Development Bank, had provided 31 preferential loans totalling CZK 431 million. Two of these were provided in 2007 and amounted to CZK 55 million.

b) Loans under the MUNICIPALITY programme

The MUNICIPALITY (OBEC) programme, launched by CMZRB in 2006, uses European Union funds designated to support towns 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 the purchase or reconstruction of property owned by towns and municipalities. This mainly concerns municipalities' technical infrastructure, school and pre-school facilities, cultural and sport facilities, local streets and their lighting, and others.

In 2007, the Bank provided 8 such loans totalling CZK 112 million.

c) Infrastructure projects finance

Acting as a financial manager for infrastructure programmes, CMZRB in 2007 arranged their financing in a total amount of CZK 10.6 billion, including the water sector programme mentioned above. This amount included resources obtained from the European Investment Bank and the Council of Europe Development Bank, state budget funds, financing from the State Fund of Transport Infrastructure, and investors' own funds.

The Bank used the aforementioned funds to finance a total of 10 programmes and projects directed primarily to transport and water sector infrastructure. The predominant part of that financing was again in 2007 for highway structures, into which CZK 8.6 billion was invested. More than a third of these funds (CZK 3.2 billion) went to structures included in the D8 highway project for the section between Trmice and the Czech-German border, and around CZK 2.4 billion was expended on the so-called Czech A-Highways Project (mainly for highway D11 from Prague to Hradec Králové). In 2007, funding fully began also for construction of the south-western section of the project to build a beltway around Prague (CZK 2.6 billion). The remaining funds were used to finance structures related to the project for bypassing Pilsen, including connecting feeder roads (CZK 0.4 billion). Nearly CZK 0.4 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 2007 fully completed the financing of the Flood Prevention Programme, which constituted the first stage of the Government's protection strategy for the Czech Republic. In 2007, financing of the programme for repairing flood damages that occurred in 2002 was also fully completed when the remaining CZK 60 million of the received loan (upon agreement with the European Investment Bank) was used for the programme for repairing damage caused during flooding in 2006.

Financing continued in 2007 for the project to construct a campus for Masaryk University in Brno-Bohunice. The project financing in the amount of nearly CZK 1 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.

5/ Trading on financial markets

CMZRB's main purposes for 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. CMZRB 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.

The Bank's external relations during 2007 were especially influenced by complications due to the delay in launching programmes for the new programming period of the EU structural funds and by the belated launch of national programmes for 2007 to support small and medium-sized enterprises. These facts were reflected in the Bank's more extensive communication with state administrative bodies and in particular with the Ministry of Industry and Trade, Ministry for Regional Development, and Ministry of Finance. This communication was made more challenging due to the Czech Republic's being the first in Europe to have created loan funds fully in compliance with EU legislation and its being one of a relatively small number of EU states to have taken advantage of structural fund resources for a guarantee fund.

The intensity of communication with the State Housing Development Fund in 2007 was also exceptional. This was due to implementing a number of partial adjustments in the conditions of the PANEL programme and addressing difficulties in financing the high number of applications submitted for grants covering interest costs in the PANEL programme. Good co-operation between the Fund and the Bank allowed for resolving a substantial proportion of submitted applications that were still in process during 2007 and for establishing stabilised conditions for administering the provided support in future years.

Over the course of 2007, CMZRB signed contracts with six banks operating within the Czech Republic and thereby created the necessary legal basis to provide portfolio guarantees for bank loans (the M-Guarantee) for both small and medium-sized enterprises as well as for owners of panel-block apartment houses. Also increased was the number of non-banking institutions with which the Bank concluded contracts on co-operation in providing subordinated loans under the PROGRESS programme.

The launch of new support programmes for small and medium-sized enterprises and changes in the PANEL programme kept the Bank's branches and head office very active during the year in informing the public about the conditions for the provision of these supports. All through the year, too, CMZRB continuously provided expert information services and responses to telephone and e-mail enquiries from applicants for various forms of support.

In support of regional development, the Bank continued to collaborate with South Bohemia Region in implementing the programme of preferential loans for micro- and small enterprises and also launched the providing of similar loans in Zlín Region.

Regarding foreign relations, CMZRB's membership in the European Mutual Guarantee Association (AECM) again proved to be very meaningful over the past year. Through AECM, the Bank participated especially in formulating suggestions to proposed changes in European legislation in respect of public support. The knowledge acquired in this area during 2007 demonstrated that it is increasingly important to thoroughly understand a given issue and for the Bank to respond correctly to changes that are in preparation.

In May 2007, CMZRB organised the annual meeting of the leading officials of the Institutions of the European Union Specialising in Long-Term Credit (ISLTC). The main theme of the meeting was the exchange of member institutions' experience in using EU structural funds to support small and medium-sized enterprises and infrastructure financing. In addition to the highest representatives of member banks, representatives of the European Commission and guests from the Czech National Bank also took part in the meeting.

During the year, several meetings were held with representatives of the European Investment Bank, the Council of Europe Development Bank, Kreditanstalt für Wiederaufbau, and the Nordic Investment Bank in relation to continuing, and even expanding, the existing co-operation. The result, among others, was to acquire a new credit line from the EIB for EUR 20 million and the possibility to continue providing the MUNICIPALITY loans programme.

The fulfilment of the Bank's development strategy in 2007 was coupled with the difficulties of securing resources to finance programmes supporting small and medium-sized enterprises under the Operational Programme Enterprise and Innovations, as well as for the PANEL programme supporting repairs of panel-block apartment houses. The fundamental goal for 2008 will be for the Bank to increase its business activity in order to uphold the long-term intentions for CMZRB to be profitable and to grow the shareholders' capital.

The Bank will continue systematically to carry out the individual components of the long-term strategy approved for the period up to 2013. Its long-term aim is to discharge to the fullest extent the Bank's mission as the Czech Republic's development bank. Toward that end, it is essential that CMZRB will react flexibly to new opportunities that arise and to create products corresponding to clients' needs.

In 2008, CMZRB will strive for further growth in providing the portfolio guarantee product (M-Guarantee) introduced last year. This product, together with the successfully functioning gradual guarantee, will create a basis for further long-term development of guarantees as a crucial tool for facilitating small and medium-sized enterprises' access to bank loans. CMZRB aims to increase the number of banks collaborating in providing M-Guarantees and to increase their usage by start-up entrepreneurs. The amount of public funds available for financing guarantees offers real possibilities for continuing the guarantee programmes and for entrepreneurs to obtain prompt access to such supports.

In the case of subordinated loans that are very much in demand, the integration of additional funds (toward which the Bank has long been working), together with necessary changes in the conditions of providing these loans, should ensure a more fluent running of this programme than was seen in 2007.

The greatest opportunity for expanding the Bank's business activity lies in its broader access to the market for energy conservation and producing renewable energy. The approved Operational Programme Enterprise and Innovations, along with preparations for new products already achieved, permit CMZRB to begin in 2008 to provide subordinated loans (supplemented by financial subsidies) for projects on the production of heating and electrical energy from renewable sources. To support providing energy services in form of projects for securing energy savings (the EPC method), long-term preferential loans are prepared for entrepreneurs who are able to offer these services on the market.

Another important task for CMZRB in 2008 will be to examine various solutions for the long-term sustainable continuation of supporting repairs to panel-block apartment houses. In its other business activities, the Bank will continue striving to maintain, and perhaps even to develop further, its activities as a financial manager of funds for infrastructure projects and as a provider of financing for investment projects intended to improve municipal infrastructures and environments.

In 2008, it also will be necessary to react to changes in EU legislation that are being prepared in the area of public support, as well as to changes that are already known in domestic legislation and in other areas, that will come into effect as from 2009 and that will impact the Bank's activities. Along with major changes being prepared in the main business processes in relation to the implementation of electronic processing and archiving of documents, all of this puts before the Bank a very demanding set of tasks for it to carry out in 2008.

Českomoravská záruční a rozvojová banka, a. s.,

Supervisory Board's Report

During 2007, 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 2007, 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 reflected 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 2007, 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. The Supervisory Board acknowledged the Auditor's report by consent.

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 that the General Meeting approve the nonconsolidated and consolidated financial statements of Českomoravská záruční a rozvojová banka, a. s., for the year ended 31 December 2007, as well as the proposed profit distribution as submitted by the Board of Directors. It also recommends the approval of the Bank's long-term development strategy and the amendment to the Articles of Association put forward by the Board of Directors.

The Supervisory Board further reviewed the Report of the Board of Directors on Relations between the Controlling and Controlled Entities in 2007 and remarks that it took note of that Report without comment.

Prague, 18 March 2008

Robert Szurman
Supervisory Board Chairman

Independent auditor's report to shareholders

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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 2007, 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 2007, 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 2008

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 2007

Consolidated Profit and Loss Account for the Year Ended 31 December 2007

	Note	Year ended 31 December 2007	Year ended 31 December 2006
		CZK '000	CZK '000
Interest income		2 652 063	2 456 561
Interest expense		-1 492 885	-1 765 140
Net interest income	**4.2**	**1 159 178**	**691 421**
Fee and commission income		778 130	897 864
Fee and commission expense		-7 142	-9 607
Net fees and commissions	**4.3**	**770 988**	**888 257**
Net profit/(loss) on financial operations	4.4	-390 928	138 716
Other income		3 958	3 469
Total operating income		**-386 970**	**142 185**
Administrative expenses	4.5	-318 345	-316 674
Depreciation and other provisions	4.6	-38 083	-41 545
Other expenses		-2 208	-27 008
Total operating costs		**-358 636**	**-385 227**
Income from share of associated undertakings	4.16	11 523	-2 504
Profit before provision for loan and investment losses and income taxes		**1 196 083**	**1 334 132**
Net (creation)/release of provisions	4.7	-225 903	-377 317
Profit/(loss) before income taxes		**970 180**	**956 815**
Income taxes	4.8	-159 372	-213 914
Deferred tax		-11 560	-13 732
Net profit/(loss)		**799 248**	**729 169**

Consolidated Balance Sheet as of 31 December 2007

	Notes	31 December 2007	31 December 2006
		CZK '000	CZK '000
Assets			
Cash and current balances with banks	4.9	189 686	218 188
Amounts due from banks	4.10	11 898 106	6 263 603
Financial assets at fair value through profit or loss	4.11	199 672	131 622
Positive fair value of financial derivative transactions	5.2.2	171 675	186 009
Loans to customers, net	4.12	28 690 297	32 031 604
Securities available for sale	4.13	11 626 673	9 873 948
Investments held to maturity	4.14	3 785 814	2 462 617
Prepayments, accrued income and other assets	4.15	97 366	184 423
Current income tax asset		90 961	66 538
Deferred tax asset		77 897	51 000
Investments in associates	4.16	54 212	42 689
Intangible fixed assets		21 814	21 893
Property and equipment	4.17	204 581	215 258
Total assets		**57 108 754**	**51 749 392**
Liabilities			
Amounts due to banks	4.18	25 900 667	28 316 444
Amounts due to customers	4.19	20 349 997	12 015 134
Negative fair value of financial derivative transactions	5.2.2	2 042 674	2 322 264
Accruals, provisions and other liabilities	4.20	1 700 875	1 970 378
Provisions for credit risk of off-balance sheet exposures and other provisions	4.21	2 198 701	2 272 474
Total liabilities		**52 192 914**	**46 896 694**
Shareholders' equity			
Share capital		2 131 550	2 131 550
Share premium and reserves		2 784 290	2 721 148
Total shareholders' equity	**4.22**	**4 915 840**	**4 852 698**
Total liabilities and shareholders' equity		**57 108 754**	**51 749 392**

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2007

	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 2005	2 131 550	840 369	10 986	1 862 504	4 845 409
Revaluation gains/ (losses) on available for sale portfolio	0	0	-16 110	0	-16 110
Approved dividends	0	0		-705 770	-705 770
Other contributions to capital reserves	0	350 000	0	-350 000	0
Net profit	0	0	0	729 169	729 169
Balance at 31 December 2006	2 131 550	1 190 369	-5 124	1 535 903	4 852 698
Revaluation gains/(losses) on available for sale portfolio	0	0	-145 636	0	-145 636
Approved dividends	0	0	0	-590 470	-590 470
Other contributions to capital reserves	0	0	0	0	0
Net profit	0	0	0	799 248	799 248
Balance at 31 December 2007	2 131 550	1 190 369	-150 760	1 744 681	4 915 840

Consolidated Statement of Cash Flows for the Year Ended 31 December 2007

	Note	2007	2006
		CZK '000	CZK '000
Profit before taxes		970 180	956 816
Adjustments for non-cash transactions			
Creation/(release) of provisions and adjustments for losses on loans		-9 749	165 912
Loans written off		151 553	121 013
Depreciation and amortisation of assets		38 083	41 545
Gains on sale of fixed assets		0	-78
Net profit on re-measurement of equity investments		-11 523	2 504
Change in fair values of financial derivatives		94 371	-101 190
Other non-cash items		-56 608	-69 973
Adjustment for interest flows		-1 075 079	-939 682
Operating profit before changes in operating assets and liabilities		101 228	176 867
Cash flows from operating activities			
(Increase)/decrease in operating assets			
Loans and advances to financial institutions		-5 705 910	-588 734
Loans and advances to clients		2 284 529	4 642 743
Other assets		31 440	-144 512
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		-1 859 412	-3 459 386
Amounts owed to customers		8 296 791	327 230
Other liabilities		-240 589	203 184
Net cash flow from operating activities before income tax		2 908 077	1 157 392
Interest received		2 550 927	2 384 413
Interest paid		-1 449 656	-1 424 167
Income taxes paid		-251 166	-239 228
Net cash flow from operating activities		*3 758 182*	*1 878 409*
Cash flows from investing activities			
Purchases of securities available for sale and held to maturity		-3 665 104	- 4 737 019
Sales of securities available for sale and held to maturity		169 390	4 145 456
Purchase of tangible and intangible fixed assets		-55 300	-39 659
Proceeds from the sale of tangible and intangible fixed assets		483	0
Net cash flow from investing activities		-3 550 533	-631 222
Cash flows from financing activities			
Dividends paid		-590 470	-705 770
Net cash flow from financing activities		-590 470	-705 770
Net decrease in cash and cash equivalents		-382 821	541 417
Cash and cash equivalents at beginning of year		1 596 790	876 193
Cash and cash equivalents at end of year	4.23	1 213 969	1 596 790

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2007

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

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 2007. 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.

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 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's 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) Dates of recognition and derecognition of financial instruments from the Group's balance sheet

All financial assets with normal delivery terms are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment). When settlement date accounting is applied, the financial asset is recognised on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash). However, in case a portfolio of financial assets measured at fair value, the acquired financial asset is measured reflecting changes in its fair value from the purchase trade date to the sale trade date according to the categorisation into an individual portfolio, accrued interest on debt financial assets is recognised from the purchase settlement date to the sale settlement date.

All loans and receivables are recognised when funds are provided to customers. Loans and receivables are derecognised when fully repaid by the borrower. Assigned receivables are derecognised when payment is collected from the assignee, and receivables which the Group decided to write off are derecognised at the write-off date.

The Group remeasures derivative instruments at fair value from the trade date to the settlement date, that is, delivery of the last related cash flow.
The Group settles and derecognises financial liabilities at the date on which all related risks and costs attributable to the specific liability are transferred or settled.

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 in accounting books from the date on which a bank guarantee agreement is entered into. The Bank's 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 3 (e). The Bank uses the risk category method which compares quantified losses together with the incurred loss method derived from calculated probabilities of default on individual internal risk categories.

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

e) Foreign Currencies

Transactions and balances are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The Group's functional currency is the Czech Crown (CZK). Transactions in currencies other than the Group's functional currencies (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

The presentation currency, in which the consolidated financial statements are prepared, is the Czech Crown.

At each balance sheet date:

(i) cash items denominated in foreign currencies are translated into CZK at the CNB rate ruling at the financial statements date;
(ii) non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNB mid-rate ruling at the transaction date; and
(iii) non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB rate ruling at the date on which the fair value was determined.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in 'Net profit/(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 'Net (creation)/release of provisions'.

Write-offs of bad receivables are reported in the profit and loss account line 'Net (creation)/release of provisions'. The receivable is written off against the related provision or reserve. Recoveries of receivables, if previously written off, are included 'Net (creation)/release of provisions.'

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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.

Fair Value of Securities

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes the fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

Securities at Fair Value through Profit or Loss

Securities designated as 'At fair value through profit or loss' are securities held for trading (equity and debt securities, treasury bills, bills of exchange and participation certificates) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. These securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.

Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line 'Net profit/(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 'Net (creation)/release of provisions.'. No provisions for losses on securities were recognised in either 2006 or 2007.

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 from bonds and impairment losses are recognised in profit and loss. Foreign exchange gains and losses from shares are recognised are recognised in equity.

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 underlying operating records. The operating records 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.

Derivative financial instruments are initially recognised in the underlying operating records 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/(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 /(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.

Provisions for impaired loans (including interest) is reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

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 Loans, Guarantees and Other 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 the underlying operating records and primarily include guarantees and undrawn loan commitments. Provisions for guarantees are made for estimated losses on the commitments. The Bank uses the risk category method which compares quantified losses together with the incurred loss method derived from calculated probabilities of default on individual internal risk categories.

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Bank regularly assesses its loan portfolio for possible impairment. As part of this analysis, the Bank splits all loans into two categories: non-performing loans, i.e., a larger than insignificant part of the principal and interest is past due for more than 90 days, and performing loans. If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The recognition, use and release of provisions is accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is

recognised. Provisions are used when loans are sold or written off. Provisions are released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid).

The Bank makes an estimate of realised losses on an individual basis for individually significant loans, and on a portfolio basis for individually insignificant loans by reference to historical indicators.

Management of the Bank uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data.

The Group writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of these loans. Subsequent recoveries are credited to the profit and loss statement in 'Net (creation)/release of provisions' if previously written off.

For further information on credit risk refer to Note 5.1.

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 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 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 4.23).

s) Accounting estimates

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.

t) Changes in presentation

In 2007, the Bank revised its policy of accounting for the changes of fair values of the loans received and provided as part of the EIB/KOBA transaction. Prior to 2007, the Bank did not offset the payments received and provided under this transaction. The Bank has restated the comparative information to reflect the revised methodology.

3/ CHANGES IN ACCOUNTING POLICIES IN 2007

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).

and effective 1 January 2007:

- 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 impact of implementing the above newly adopted standards on the Bank's financial statements was immaterial with the exception of IFRS.

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.

a) Presentation Changes resulting from the Adoption of IFRS 7 Financial Instruments: Disclosures

In accordance with application of IFRS 7 'Financial Instruments: Disclosures' the Bank has adjusted the presentation of financial statements. Comparative information for 2006 has been adjusted on the same basis.

Set out below are the values of financial instruments in individual classes. The table presents a comparison between the classes of recognised financial assets and liabilities under IFRS 7 Financial Instruments: Disclosures, and the categories of financial assets and liabilities under IAS 39 Financial Instruments: Recognition and Measurement:

Year ended 31 December 2007	Loans and receivables (not for trading) CZK '000	Invest-ments held to maturity CZK '000	Financial assets measured at fair value CZK '000	Financial assets available for sale CZK '000	Financial liabilities CZK '000	Financial liabilities measured at fair value CZK '000	Other assets/ liabilities (including equity) CZK '000
IFRS 7/IAS 39							
Financial assets							
Cash, deposit with CNB	189 686	0	0	0	0	0	0
Receivables to banks	11 898 106	0	0	0	0	0	0
Receivables to customers	28 774 396	0	0	0	0	0	0
Securities (AFS)	0	0	0	11 626 673	0	0	0
Securities (FVTPL)	0	0	199 672	0	0	0	0
Financial derivatives	0	0	171 675	0	0	0	0
Securities (HTM)	0	3 785 814		0	0	0	0
Other assets	0	0	0	0	0	0	546 831
Financial liabilities							
Payables to banks	0	0	0	0	25 900 667	0	0
Payables to customers	0	0	0	0	20 349 997	0	0
Financial derivatives	0	0	0	0	0	2 042 674	0
Other liabilities	0	0	0	0	0	0	8 815 416

4/ ADDITIONAL INFORMATION ON THE FINANCIAL STATEMENTS

4.1. 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.

4.2. INTEREST INCOME

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Interest on interbank transactions	355 806	351 553
Interest on loans granted to customers	461 241	398 529
Interest on loans granted to the State	1 177 089	1 196 671
Interest income from hedging interest rate derivatives	78 980	0
Interest and discount on bonds	494 848	419 085
Of which FVTPL	*6 782*	*8 740*
Of which AFS	*376 324*	*336 863*
Of which HTM	*111 742*	*73 481*
- of which interest from impaired assets: unwinding of discount	*84 099*	*90 723*
Total interest income	**2 652 063**	**2 456 561**
Interest on interbank transactions	1 050 758	1 042 114
Interest on deposits and loans from customers	106 717	97 300
Interest on deposits from the State	334 583	285 283
Interest expense from hedging interest rate derivatives	0	338 984
Interest on issued bills of exchange	827	1 459
Total interest expenses	**1 492 885**	**1 765 140**
Net interest income	**1 159 178**	**691 421**

Penalty interest is included in interest income on a cash basis. Unpaid penalty interest of CZK 303,712 thousand (2006: CZK 347,998 thousand) was not accrued to income.

4.3. FEE AND COMMISSION INCOME

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Fees and commissions from lending activities	59 134	75 026
Fees and commissions from payment transactions	60 756	78 378
Fees and commissions from transactions with securities	41	34
Fees and commissions from foreign currency transactions	23	243
Fees and commissions from transactions with securities and derivatives for clients	9	21
Fees and commissions from guarantees	657 894	743 724
of which: governmental grants	547 464	649 518
Fees and commissions from other financial operations	273	438
Total fee and commission income	**778 130**	**897 864**
Fee and commission expense from loans	3 084	3 016
Fee and commission expense from deposits	1 036	1 115
Fee and commission expense from trading activities	2 920	4 648
Fees and commissions expense from other financial operations	102	828
Total fee and commission expense	**7 142**	**9 607**
Net fees and commissions	**770 988**	**888 257**

4.4. NET PROFIT OR LOSS ON FINANCIAL OPERATIONS

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Profit or (loss) on the sale of securities	35 757	-9 422
Profit or (loss)from revaluation of securities at fair value through profit and loss	-12 433	-7 041
Profit or (loss)from foreign currency transactions	-76 036	16 587
Net change in the fair value of hedging derivatives	-337 570	145 270
Profit or (loss)on other derivatives	-646	-6 678
Total net profit or loss on financial operations	**-390 928**	**138 716**

4.5. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Wages, salaries and bonuses	158 846	158 219
Social security costs	52 143	51 682
Total employees' expenses	**210 989**	**209 901**
Other administrative expenses	107 356	106 773
Total administrative expenses	**318 345**	**316 674**

Wages, salaries and bonuses comprise of:

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Compensations to Supervisory Board members	885	984
Compensations to Board of Directors members	5 539	5 221
Wages and salaries of the management	39 727	37 053
Other wages and salaries	98 897	101 190
Other employees' expenses	6 363	7 360
Directors' fees	835	811
Allocation to social fund	6 600	5 600
Total wages, salaries and bonuses	**158 846**	**158 219**

Other administrative expenses comprise:

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Audit, legal and tax advisory services	7 351	8 693
Rental charges	12 190	12 410
Other administrative expenses	87 815	85 670
Total other administrative expenses	**107 356**	**106 733**

Staff Analysis

	Year ended 31 December 2007	Year ended 31 December 2006
Number of members of the Supervisory Board	9	9
Number of members of the Board of Directors	5	5
Average number of managers	29	28
Total number of other employees	**210**	**222**

4.6. DEPRECIATION AND OTHER PROVISIONS

Depreciation and other provisions comprise:

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Depreciation of tangible and intangible fixed assets	38 083	41 545
Total depreciation and other provisions	**38 083**	**41 545**

4.7. NET (CREATION)/RELEASE OF PROVISIONS

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Net (creation)/release of specific loan provisions	-265 450	-291 851
Net (creation)/release of provisions for other assets	-481	-563
Net (creation)/release of provisions for guarantees and commitments	74 810	-76 482
Net (creation)/release of other provisions	-1 037	-271
Net impact of loans written off	-34 272	-9 541
Net (creation)/release of provisions	**-226 430**	**-378 708**
Income from loans written off	527	1 391
Total (creation)/release of provisions	**-225 903**	**- 377 317**

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

The balance of provisions for credit risk as of 31 December 2007 and 2006 comprises:

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Specific provisions for loans to customers (Note 4.12)	1 404 762	1 362 322
Specific provisions for other assets (Note 4.15)	1 293	812
Total specific provisions	**1 406 055**	**1 363 134**
Provisions for guarantees and other credit related commitments (Note 4.21)	2 175 926	2 250 736
Other provisions (Note 4.21)	22 775	21 738
Total provisions for operating records and other risks	**2 198 701**	**2 272 474**
Total provisions	**3 604 756**	**3 635 608**

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

	2007 CZK '000	2006 CZK '000
Balance at 1 January	3 635 608	3 378 410
Net creation/(release) of provisions	225 903	377 317
Impact of loans written off and transferred	-256 755	-120 119
Balance at 31 December	**3 604 756**	**3 635 608**

4.8. INCOME TAXES

	Year ended 31 December 2007 CZK '000	Year ended 31 December 2006 CZK '000
Pre-tax profit	970 180	956 815
Theoretical tax calculated at a tax rate of 24 % (24 %)	232 843	229 636
Non-taxable income	-224 400	-196 573
Non-tax deductible expenses	191 203	198 506
Items increasing/decreasing tax base	-39 438	164
Due corporate income tax rate of 24 % (24 % in 2006)	**160 206**	**231 733**
Tax overpayment from previous periods	-832	-17 819
Income tax - due	**160 204**	**213 914**
Income tax - deferred	**11 560**	**13 732**
Income tax advance payments	251 165	298 271
Total income tax asset/-liability	**90 961**	**66 538**
Effective tax rate	**17,6%**	**23,7%**

Profit and loss reconciliation

	31 December 2007 CZK '000	31 December 2006 CZK '000
Statutory profit and loss, unconsolidated gross	**966 092**	**965 730**
Income tax charge	-170 932	-227 646
Statutory profit and loss unconsolidated net	795 160	738 084
Share of MUFIS's profit	11 523	-2 504
Contribution to the social fund in accordance with statutory provisions	-7 435	-6 411
Decrease in provisions under IFRS	0	0
Profit and loss calculated in accordance with IFRS	**799 248**	**729 169**

Deferred Tax

The recognised deferred tax asset can be analysed as follows:

	31 December 2007 CZK '000	31 December 2006 CZK '000
Provisions and reserves for loans and guarantees	32 909	43 082
Other reserves and provisions	4 783	5 217
Difference between accounting and tax accumulated depreciation	129	1 082
Unrealised gains and losses from Available-for-Sale securities	40 076	1 619
Total deferred tax asset	**77 897**	**51 000**
Deferred tax balance at 1 January	**51 000**	**59 644**
Movement through the profit and loss account	-11 560	-13 732
Movement through equity	38 457	5 088
Deferred tax balance at 31 December	**77 897**	**51 000**

The deferred tax asset is calculated taking into account the statutory income tax rate of 21 percent valid in 2008 when the Bank anticipates realising the differences.

4.9. CASH IN HAND AND CURRENT BALANCES WITH BANKS

	31 December 2007 CZK '000	31 December 2006 CZK '000
Cash in hand	10 457	10 506
Obligatory minimum reserves	179 229	207 682
Total cash in hand and balances with central banks	**189 686**	**218 188**

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank. These deposits bear interest at the CZK repo rate at 31 December 2007 of 3.50 percent p. a. (31 December 2006: 2.50 percent p. a.).

4.10. AMOUNTS DUE FROM BANKS

	31 December 2007 CZK '000	31 December 2006 CZK '000
Current accounts	637	32 153
Term deposits with banks and central banks	4 408 696	1 790 000
Amounts due under repo transactions	7 110 778	4 100 000
Other amounts due from banks	126 727	130 057
Securities acquired under initial offerings	205 736	205 753
Accrued interest	45 532	5 640
Total amounts due from banks	**11 898 106**	**6 263 603**

All the amounts due from banks are unimpaired exposures.

4.11. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2007 Fair value CZK '000	31 December 2006 Fair value CZK '000
State coupon bonds	199 672	131 622
Total trading securities	**199 672**	**131 622**

4.12. LOANS TO CUSTOMERS

	31 December 2007 CZK '000	31 December 2006 CZK '000
Loans to private legal entities and individuals	6 312 203	6 306 364
Fair value change in loans to private legal entities	-32 224	3 706
Loans to the Ministry of Finance	20 260 909	22 446 706
Fair value change in loans to the Ministry of Finance	2 022 736	2 956 318
Loans to municipalities	1 147 981	1 076 650
Other receivables from customers	23	2
Securities acquired under initial offerings	59 853	259 454
Accrued interest	323 578	344 726
Gross amounts due from customers	**30 095 059**	**33 393 926**
Loan specific and general provisions (Note 4.7)	-1 404 762	-1 362 322
Net amounts due from customers	**28 690 297**	**32 031 604**

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 2007		31 December 2006	
	Assets CZK '000	Liabilities CZK '000	Assets CZK '000	Liabilities CZK '000
CZK - principal	14 265 127	8 728 452	16 215 314	9 497 593
CZK - accrued interest	220 777	15 517	234 444	10 637
EUR - principal	5 977 884	10 579 888	6 203 837	11 970 894
Hedged portion	5 977 884	4 735 503	6 203 837	5 917 649
Unhedged portion	0	5 844 385	0	6 053 245
EUR - accrued interest	4 823	139 069	5 456	156 531
USD - principal	17 897	17 897	27 556	27 556
USD - accrued interest	74	74	114	114
Fair value re-measurement	2 022 736	1 465 116	2 956 318	2 097 484
Total	**22 509 318**	**20 946 013**	**25 643 039**	**23 760 809**

The Bank entered into cross currency swap transactions to close out the open positions and to cover the associated foreign currency and cash flow stream including the principal and interest rate exposures (refer to Note 5.2).

Analysis by internal rating

The loan portfolio of the Group as of 31 December 2007 comprises the following, broken down by classification:

	31 December 2007 CZK '000	31 December 2006 CZK '000
Standard	25 566 552	28 338 488
Watch	2 871 766	3 136 934
Substandard	538 134	567 087
Doubtful	294 225	167 091
Loss	440 951	580 146
Securities acquired under initial offerings	59 853	259 454
Accrued interest	323 578	344 726
Total	**30 095 059**	**33 393 926**
Loan specific and general provisions (Note 4.7)	-1 404 762	-1 362 322
Net amounts due from customers	**28 690 297**	**32 031 604**

Analyse of Provisions by risk category

		2007 Type of provision		2006 Type of provision	
		Individual	Portfolio	Individual	Portfolio
1 - 6	Standard	0	167 770	0	154 039
7	Watch	307 725	149 887	382 648	0
8	Sub-standard	156 757	0	132 561	0
9	Doubtful	159 112	0	64 090	0
10	Loss	463 511	0	628 984	0
Total		**1 087 105**	**317 657**	**1 208 283**	**154 039**
Total provisions			**1 404 762**		**1 362 322**

The Bank created portfolio provisions up to RK 6, standard loans in 2006. With effect from 1 January 2007, the Bank has changed the methodology of provisioning for loan receivables.

Sector analysis

	31 December 2007 CZK '000	31 December 2006 CZK '000
Mining of minerals	6 950	10 702
Processing	2 015 170	2 181 609
Production and distribution of electricity, gas and water	1 180 167	1 356 945
Construction	351 151	406 182
Trade, repair of motor vehicles and products for personal consumption	945 251	997 869
Accommodation and public catering	379 890	416 681
Transportation, warehouses and communication	91 625	78 193
Financial institutions	543 677	201 897
Insurance	1 003	1 003
Public administration and defence	23 915 997	26 971 296
Other activities	340 600	426 823
Accruals	323 578	344 726
Total	**30 095 059**	**33 393 926**
Loan specific and general provisions (Note 4.7)	-1 404 762	-1 362 322
Net amounts due from customers	**28 690 297**	**32 031 604**

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

Analysis by collateral

The loan portfolio of the Group as of 31 December 2007 comprises the following, broken down by type of collateral:

	31 December 2007 CZK '000	31 December 2006 CZK '000
Bank guarantees and collateral by reliable guarantors	263 009	602 519
Cash collateral	34 907	36 538
Real estate collateral	2 206 155	2 451 256
Other loan collateral	60 254	259 606
Uncollateralised	27 530 734	30 044 007
Total	**30 095 059**	**33 393 926**
Loan specific and general provisions (Note 4.7)	-1 404 762	-1 362 322
Net amounts due from customers	**28 690 297**	**32 031 604**

Summary of Restructured Receivables

Year	Balance in CZK '000*	Number
2007	626 279	137
2006	199 889	112

* Balances presented together with default interest recorded operating records..

Aging analysis of loans past due which are not classified as individually impaired

2007

CZK '000	Overdue 30 days	Past due 30 - 60 days	Past due 60 - 90 days
Subordinated loans for funding of small and medium-sized businesses	12	20	14
Loans for funding of water infrastructure and municipal infrastructure	0	0	0
Programme loans to small and medium-sized businesses	167	1	0
Loans to small or starting businessmen	1 059	300	387
Other	0	0	0
Total	**1 238**	**320**	**401**

In 2006 the Bank had no portfolio impaired loans in default.

Analysis of portfolio impaired loans to customers by collateral

2007

CZK '000	Bank guarantee and collateral by reliable guarantors	Collateral by pledged real estate	Uncollateralised
Subordinated loans for funding of small and medium-sized businesses	0	0	46
Loans for funding of water infrastructure and municipal infrastructure	0	0	0
Programme loans to small and medium-sized businesses	0	69	99
Loans to small or starting businessmen	427	0	1 319
Other	0	0	0
Total	**427**	**69**	**1 463**

4.13. SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

	31 December 2007 Fair value CZK '000	31 December 2006 Fair value CZK '000
Fixed income debt securities	6 456 873	2 661 172
Variable yield debt securities	2 274 858	2 222 618
Treasury bills	2 894 942	4 990 158
Total securities available for sale	**11 626 673**	**9 873 948**

As of 31 December 2007, the available-for-sale portfolio included securities at a fair value of CZK 8,798,108 thousand (2006: CZK 6,970,422 thousand) that were publicly traded on stock exchanges and securities at a fair value of CZK 2,828,565 thousand (2006: CZK 2,903,526 thousand) that were not publicly traded securities.

The available securities are denominated in various currencies (refer to Note 5.3).

Treasury bills are eligible for rediscounting with the central bank.

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

	31 December 2007 CZK '000	31 December 2006 CZK '000
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	5 749 090	5 225 467
- Financial institutions in the Czech Republic	2 574 911	1 548 401
- Foreign financial institutions	2 391 982	2 154 228
- Other entities in the Czech Republic	90 817	339 953
- Other foreign entities	819 873	605 899
Total debt securities available for sale	**11 626 673**	**9 873 948**

4.14. INVESTMENTS HELD TO MATURITY

Investments held to maturity comprise:

	31 December 2007 Carrying value CZK '000	31 December 2006 Carrying value CZK '000
Fixed income debt securities	3 785 814	2 462 617
Total investments held to maturity	**3 785 814**	**2 462 617**

Investments held to maturity are denominated in various currencies (refer to Note 5.3).

State bonds in the amount of CZK 3,560,270 thousand (2006: CZK 2,016,578 thousand) are eligible for rediscounting with the central bank.

Investments held to maturity, allocated by issuer, comprise:

Debt securities held to maturity issued by	31 December 2007 CZK '000	31 December 2006 CZK '000
State institutions in the Czech Republic	3 583 427	2 053 628
Foreign financial institutions	0	208 240
Other entities in the Czech Republic	202 387	200 749
Total debt securities held to maturity	**3 785 814**	**2 462 617**

4.15. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

Prepayments, accrued income and other assets comprise:

	31 December 2007 CZK '000	31 December 2006 CZK '000
Receivables from unsettled transactions with securities	715	700
Accrued expenses and deferred income	85 272	79 428
Other receivables and other assets	12 672	105 107
Total other assets, gross	**98 659**	**185 235**
Impairment provisions (Note 4.7)	-1 293	-812
Total other assets, net	**97 366**	**184 423**

4.16. 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 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 2007.

Shareholder structure	31 December 2007	31 December 2006
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 2007, MUFIS works with programme funding amounting to USD 27 million.

Summary Audited Financial Information

	Equity CZK '000	The Bank's share of equity CZK '000	Total assets CZK '000	Profit/(loss) after tax CZK '000	The Bank's share of profit/(loss) CZK '000
At 31 December 2007 and for the year then ended	110 636	54 212	672 140	23 515	11 523
At 31 December 2006 and for the year then ended	87 121	42 689	695 270	-5 110	-2 504

In 2005, MUFIS restructured its USD loans. A significant portion of the loans were 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 that the net present value of the future interest payments had the loan not been prepaid. MUFIS also successfully negotiated maturity restructurings of its loans in 2006.

In 2007, MUFIS slightly increased its operating profit. In addition, MUFIS extended the maturity of part of its long-term liability to 2008 and the second part to 2012 which had a positive impact on the Company's cash flow position.

4.17. TANGIBLE AND INTANGIBLE FIXED ASSETS

Intangible Fixed Assets

	31 December 2006 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2007 CZK '000
Cost				
Software	167 455	16 180	0	183 635
Goodwill	0	0	0	0
Other	79 558	0	0	79 558
Fixed assets under construction and prepayments	192	16 079	16 236	35
Total	**247 205**	**32 259**	**16 236**	**263 228**
Accumulated amortisation				
Software	145 754	16 102	0	161 856
Goodwill	0	0	0	0
Other	79 558	0	0	79 558
Total	**225 312**	**16 102**	**0**	**241 414**
Net book value	**21 893**			**21 814**

Tangible Fixed Assets

	31 December 2006 CZK '000	Additions CZK '000	Disposals CZK '000	31 December 2007 CZK '000
Cost				
Land	10 544	0	0	10 544
Buildings	301 405	337	0	301 742
Equipment and fittings	153 255	11 227	5 862	158 620
Fixed assets under construction and prepayments made	260	11 477	11 737	0
Total	**465 464**	**23 041**	**17 599**	**470 906**
Accumulated depreciation				
Buildings	103 400	13 745	0	117 145
Equipment and fittings	146 806	8 236	5 862	149 180
Total	**250 206**	**21 981**	**5 863**	**266 325**
Net book value	**215 258**			**204 581**

Minimum lease payments

2006	Up to 1 year	1 year to 5 years	More than 5 years	Total
Lease repayments due	161	0	0	161

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

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

4.18. AMOUNTS DUE TO BANKS

	31 December 2007 Accounting value CZK '000	31 December 2006 Accounting value CZK '000
Loans received from banks	1 311 496	1 068 639
Loans received from European Investment Bank (EIB)	19 592 437	21 496 043
Change in fair values of loans received from EIB	1 465 116	2 097 484
Change in fair values of other loans	-28 352	4 804
Received term deposits	3 366 444	3 450 791
Accrued interest	193 526	198 683
Total amounts due to banks	**25 900 667**	**28 316 444**

Please refer to Note 5.5 for additional details of loans received from the European Investment Bank (EIB).

4.19. AMOUNTS DUE TO CUSTOMERS

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

	31 December 2007 Carrying amount CZK '000	31 December 2006 Carrying amount CZK '000
Current accounts	7 058 047	5 229 975
Term deposits	6 734 045	4 320 814
Repo operations with clients	123 177	82 054
Repo operations with the Ministry of Finance	4 072 280	0
Other credits received from clients	17 462	17 500
Security deposits	27 377	29 245
Other payables to clients	2 317 609	2 335 546
Total	**20 349 997**	**12 015 134**

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

	31 December 2007 CZK '000	31 December 2006 CZK '000
Amounts owed to state institutions	18 335 541	9 610 893
Amounts owed to local government institutions	29 286	24 025
Amounts owed to social security funds	300 110	300 112
Payables to other customers	1 628 571	2 058 938
Accrued interest	56 489	21 166
Total amounts due to customers	**20 349 997**	**12 015 134**

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 2007 CZK '000	31 December 2006 CZK '000
Support programmes funding	2 168 731	2 082 728
Fund to cover risks attached to the Regional Guarantee, Prefab and Reconstruction Programmes, ZÁRUKA a START OPPI, TRH 2007	980 866	1 298 820
Total risk funds and programmes funding	**3 149 597**	**3 381 548**

4.20. ACCRUALS, PROVISIONS AND OTHER LIABILITIES

Accruals, provisions and other liabilities comprise:

	31 December 2007 CZK '000	31 December 2006 CZK '000
Other liabilities to employees	16 340	10 880
Deferred expenses and accrued income	1 563 792	1 846 561
Other credit balances with respect to specific government programmes	58 989	46 935
Other	61 754	66 002
Total accruals, provisions and other liabilities	**1 700 875**	**1 970 378**

Accrued income represents mostly deferred fees from bank guarantees.

4.21. 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 2006	**2 037 144**	**137 110**	**21 467**	**2 195 721**
Creation	535 805	10 118	253 471	799 394
Use	-396 235	-73 206	-253 200	-722 641
At 31 December 2006	**2 176 714**	**74 022**	**21 738**	**2 272 474**
Creation	427 513	20 559	203 119	651 191
Use	-486 285	-36 597	-202 082	-724 964
At 31 December 2007	**2 117 942**	**57 984**	**22 775**	**2 198 701**

Other provisions include the creation, usage and release of the provision for corporate income tax as of 31 December 2007: CZK 180,344 thousand (as of 31 December 2006: CZK 231,733 thousand).

4.22. EQUITY AND PROFIT ALLOCATION

Share capital

	31 December 2007 CZK '000	31 December 2006 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.

The Bank's shareholders and their ownership interests as of 31 December 2007 and 2006 are set out below:

Name	2007 %	2006 %
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	13
Česká spořitelna, a. s.	13	13
Československá obchodní banka, a. s.	1.67	1.67
Total	**100**	**100**

Profit Allocation

The net profit for the year ended 31 December 2007 is proposed to be allocated as follows:

- CZK 636,137 thousand will be distributed as dividends; and
- The remaining portion will be transferred to retained earnings.

4.23. COMPOSITION OF CASH AND CASH EQUIVALENTS AS REPORTED IN THE CASH FLOW STATEMENT

	31 December 2007 CZK '000	31 December 2006 CZK '000	Change in the year CZK '000
Cash and balances with central banks	189 686	218 188	-28 502
Current accounts with other banks	637	32 153	-31 516
Treasury bills	1 023 646	1 346 449	-322 803
Total	**1 213 969**	**1 596 790**	**-382 821**

The definition of cash and cash equivalents was corrected compared to the prior year. In the cash flow statement the Bank has restated the opening balance where all treasury bills with maturity up to 3 months were recorded.

4.24. 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 2007 CZK '000	31 December 2006 CZK '000
Total issued client guarantees	11 995 892	11 626 892
Commitments issued to clients	3 348 435	675 217
Total balance of commitments	**15 344 027**	**12 302 109**

Management of the Bank believes that, as of 31 December 2007, 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 4.10).

Payables from repo transactions are included in amounts owed to banks and clients (Notes 4.18 and 4.19).

Other 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.

4.25. RELATED PARTY TRANSACTIONS

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

	31 December 2007 CZK '000	31 December 2006 CZK '000
Amounts due from banks		
Komerční banka, a.s. - current account	460	375
Československá obchodní banka, a. s.	0	300 000
Československá obchodní banka, a. s. - repo	230 000	0
Česká spořitelna, a. s - current account	2	0
Česká spořitelna, a. s. - term deposit - repo	3 380 778	0
Česká spořitelna, a. s. - term deposit - term deposit	450 000	300 000
Amounts due from customers		
Ministry of Finance	20 302 484	22 446 706
Amounts due to banks		
Československá obchodní banka, a. s. - term deposit	16 089	18 788
Amounts due to customers		
MUFIS - current account	481	661
MUFIS. - term deposit	50 300	45 300
MUFIS - term deposit - repo	100 000	0
Ministry of Industry and Trade - current account	894 434	57 980
Ministry of Industry and Trade - term deposit	196	4 517
Ministry for Regional Development - current account	98 124	126 322
Ministry of Finance - other deposits	2 605 818	2 814 087
Ministry of Finance - repo	4 065 700	0

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

	31 December 2007 CZK '000	31 December 2006 CZK '000
Interest income		
Komerční banka, a. s.	1 507	1 451
Česká spořitelna, a. s.	24 137	3 490
Československá obchodní banka, a. s.	6 710	3 625
Ministry of Finance	1 175 716	1 188 286
Interest expense		
Komerční banka, a. s.	561	309
Česká spořitelna, a. s.	986	5 276
Československá obchodní banka, a. s.	2 415	519
Ministry of Finance	39 876	2 677
Commission income		
Ministry for Regional Development	32 385	41 599
Ministry of Industry and Trade	547 464	649 518
Ministry of Finance	36 578	55 142

5/ RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1. CREDIT RISK

5.1.1. RISK MANAGEMENT METHOD

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.

The monitoring of credit risk in respect of individual exposures involves assessing the following criteria (at minimum):

- Current financial and economic situation of the client;
- Compliance with contractual terms, specifically reviews of the repayments of loan principal and interest amounts, payment of the fee for the provision of a guarantee, contractual penalties and charges, provision of information to the Bank, and balances on the client's bank accounts;
- Restructuring; and
- External factors, primarily economic, political and legal.
- Loan analysts quarterly monitor the development of selected data and information for the monitoring of all clients as part of a client's financial analysis

Monitoring on a portfolio basis

With effect from 1 January 2007, monitoring on a portfolio basis has been applied to on and off balance sheet receivables from clients whose exposure does not exceed CZK 3,000,000 as of the transaction date.

The development and current financial and economic positions of the client are monitored as follows:

- Staff of the Risky Transactions Department monitor the records of clients in bankruptcy, settlement and liquidation on an ongoing basis, with regular weekly double-checks;
- Staff of business units monitor, on a monthly basis, the summary of clients for which the central loan register indicates that they have past due receivables; and

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 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 operating evidence 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).

Risk Categories

The Bank has risk (internal rating) categories 5 to 10, which are linked to the Czech National Bank's risk categories: standard loans 5 and 6, watch 7, substandard 8, doubtful 9 and loss 10.

In respect of transactions entered into on financial markets and issuers of securities, solvency of the borrower is assessed on the basis of ratings published by internationally recognised rating agencies and the evaluation of economic and other aspects. The solvency of counterparties and issuers is periodically assessed over the whole life of the loan transaction.

Credit Enhancement

In the course of its lending and guarantees business, the Bank accepts movable and immovable assets pledged as collateral. This fact is also considered in calculation of provisions. The Bank also uses various forms of guarantee statements to collateralise its loan receivables.

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.

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 to 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

If the client does not pay the outstanding balance at maturity, 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 charged against the funds of the State budget from which they were provided.

The Bank's Approach to Imposing Penalties for Failure to Comply with the Conditions set out in the START Programme and Loans up to CZK 1 million in the KREDIT Programme (outside of the OPPP 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 and the contract was entered into in the period from 1 January 2003 to 31 March 2006. 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 the 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. With regard to the contracts entered into through 31 December 2002 and since 1 April 2004, the Bank does not inform the taxation authority and recovers the outstanding balance.

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 START and CREDIT loans under the OPPP Programme. The products are financed from the State budget funds, structural funds and funds obtained by the Bank on financial markets. If the terms and conditions underlying the programme are breached, the loans fall due for instant repayment. If the loan is not repaid, the Bank informs the taxation authority to make payment to the State budget and settles, in accordance with the rules agreed with the Czech Ministry of Industry and Trade, the loan receivable against the funds from the State budget and EU structural funds which participated in the loan funding. Loan receivables originated after 1 April 2006 are recovered by the Bank.

Preferential Loans within the Business and Innovation Operational Programme ('Operačního programu Podnikání a inovace - the OPPI Programme')

With effect from 1 July 2007, the Bank has been providing guarantee and loan OPPI programmes - ZÁRUKA, START and PROGRES under which it has issued guarantees, zero-interest loans and subordinated loans. The products were financed from the loan/guarantee funds created with the use of the funding from the State budget and structural funds; loans were also financed from the funds obtained by the Bank on financial markets.

If the terms and conditions underlying the programme are breached, the client is called upon to refund the unauthorised public aid.

The Bank bears the cost of recovering the receivables relating to the public aid and receivables, if any, arising from guarantees or loans. Following collection of the receivable or its settlement against the programme funding when deemed uncollectible, the receivable is removed from the books, the loss exceeding the agreed portion of drawn loans or the level of funds on the risk coverage accounts in respect of guarantees is settled by the Bank.

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.

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, Euro Bund Futures). 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.

5.1.2. ADDITIONAL DISCLOSURES

AA) QUALITY OF LOANS

31 December 2007

	Risk category							
Programs	4,5	6	7	8	9	10	Not specified	Total
Loans provided to state institutions	20 300 319	0	0	0	0	0	2 165	20 302 484
Subordinated loans for funding of small and medium-sized businesses	147 300	573 649	1 234 137	273 150	108 511	0	0	2 336 747
Loans for funding of water and municipal infrastructure	957 309	830 641	962 906	13 393	13 912	0	0	2 778 161
Programme loans of small and medium-sized businesses	2 106	80 376	323 329	103 516	79 417	95 745	0	684 489
Loans for small and starting businessmen	0	24 833	359 392	149 031	93 254	21 974	140 333	788 817
Other	0	501 384	189	77	1	324 945	3 823	830 419
Securities acquired in IPOs	0	59 853	0	0	0	0	0	59 853
Changes in fair value of provided loans	0	0	0	0	0	0	1 990 511	1 990 511
Accruals and deferrals	0	0	0	0	0	0	323 578	323 578
Total	21 407 034	2 070 736	2 879 953	539 167	295 095	442 664	2 460 410	30 095 059

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

31 December 2006

	Risk category							
Programs	4,5	6	7	8	9	10	Not specified	Total
Loans provided to state institutions	22 446 706	0	0	0	0	0	0	22 446 706
Subordinated loans for funding of small and medium-sized businesses	100 156	440 910	1 160 790	166 838	5 542	0	0	1 874 236
Loans for funding of water and municipal infrastructure	1 105 934	845 596	914 900	15 707	14 982	0	0	2 897 119
Programme loans of small and medium-sized businesses	6 015	130 006	445 565	142 641	42 522	103 627	0	870 377
Loans for small and starting businessmen	1 478	56 663	626 849	243 475	104 774	21 291	226 851	1 281 381
Other	0	0	168	30	0	456 848	3 828	460 874
Securities acquired in IPOs	0	259 454	0	0	0	0	0	259 454
Changes in fair value of provided loans	0	0	0	0	0	0	2 959 053	2 959 053
Accruals and deferrals	0	0	0	0	0	0	344 726	344 726
Total	**23 660 289**	**1 732 629**	**3 148 272**	**568 691**	**167 820**	**581 766**	**3 534 458**	**33 393 926**

The most significant part of the Bank's exposure to credit risk is formed by loans provided to state authorities classified in risk category 4,5. The decrease of the total exposure is driven by repayments of these loans

AB) QUALITY OF GUARANTEES PORTFOLIO

31 December 2007

CZK '000	Risk classification								
Programmes	5	6	7	8	X9	9	10	No risk category*	Total
Guarantees for businessmen provided until 2006	308 100	990 529	2 290 006	744 008	535 860	77 627	689 096	0	5 635 226
PANEL small portfolio guarantees	0	0	8 167	0	0	0	0	35 378	43 545
PANEL investment guarantees	42 728	1 356 498	2 717 755	329 280	3 984	0	1 400	0	4 451 646
Other previously provided guarantees	11 508	8 708	33 997	21 636	1 832	0	82 052	0	159 734
Vadium	0	3 000	20 701	0	0	0	0	0	23 701
Small portfolio guarantees for businessmen since 2007	0	11 999	60 584	11 802	700	5 600	0	319 414	410 099
Investment and operating guarantees for small and medium sized businessmen since 2007	169 100	342 418	750 023	10 400	0	0	0	0	1 271 941
Total	**531 436**	**2 713 153**	**5 881 232**	**1 117 125**	**542 377**	**83 227**	**772 548**	**354 793**	**11 995 892**

* Portfolio approach

31 December 2006

CZK '000	Risk classification								
Programmes	5	6	7	8	X9	9	10	No risk category*	Total
Guarantees for businessmen provided until 2006	564 893	1 838 839	3 837 075	599 599	240 143	87 920	777 920	0	7 946 390
PANEL investment guarantees	175 379	992 172	2 088 691	120 198	0	0	1 320	0	3 377 759
Other previously provided guarantees	31 104	21 425	54 087	40 510	2 893	0	85 925	0	235 945
Vadium	0	21 303	1 965	5 000	4 200	0	0	34 330	66 798
Total	**771 376**	**2 873 739**	**5 981 818**	**765 307**	**247 237**	**87 920**	**865 165**	**34 330**	**11 626 892**

AC) QUALITY OF SECURITIES PORTFOLIO

The securities portfolio of the Group as of 31 December 2007 comprises the following, broken down by classification:

31 December 2007

	AAA CZK '000	AA- to AA+ CZK '000	A- to A+ CZK '000	Lower than A CZK '000	No rating CZK '000
Securities at fair value through profit or loss	52 122	0	147 550	0	0
Securities available for sale	66 727	1 073 064	4 038 330	330 890	6 117 662
Securities held to maturity	0	0	1 138 209	2 121 040	526 565
TOTAL at 31 Dec 2007	**118 849**	**1 073 064**	**5 324 090**	**2 451 931**	**6 644 227**

31 December 2006

	AAA CZK '000	AA- to AA+ CZK '000	A- to A+ CZK '000	Lower than A CZK '000	No rating CZK '000
Securities at fair value through profit or loss	0	0	0	0	131 621
Securities available for sale	0	684 621	3 752 376	138 212	5 298 739
Securities held to maturity	208 240	0	1 846 110	180 701	227 566
TOTAL at 31 Dec 2006	**208 240**	**684 621**	**5 598 486**	**318 913**	**5 657 927**

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

B) ANALYSIS BY TERRITORIAL SEGMENT

31 December 2007

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	189 686	0	0	0	189 686
Amounts due from banks	10 403 246	1 494 860	0	0	11 898 106
Trading securities	147 550	52 122	0	0	199 672
Positive fair values of financial derivative transactions	171 675	0	0	0	171 675
Loans to customers, net	30 095 059	0	0	-1 404 762	28 690 297
Available for sale securities	8 414 819	2 329 719	882 135	0	11 626 673
Investments held to maturity	3 785 814	0	0	0	3 785 814
Prepayments, accrued income and other assets	165 377	21 243	0	-1 293	185 327
Deferred tax asset	77 897	0	0	0	77 897
Investments in associates	54 212	0	0	0	54 212
Tangible and intangible fixed assets	737 134	0	0	-507 739	229 395
Total	**54 158 370**	**3 897 944**	**882 135**	**-1 745 596**	**57 108 754**

31 December 2006

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	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	33 393 926	0	0	-1 362 322	32 031 604
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	**49 778 585**	**3 111 213**	**605 899**	**-1 657 206**	**51 749 392**

C) THE GROUP'S MAXIMUM CREDIT EXPOSURE AS OF 31 DECEMBER 2007:

	Total exposure		Applied collateral	
	On-balance sheet CZKm	Total credit exposure CZKm	On-balance sheet CZKm	Total collateral CZKm
Cash and current balances with banks	189 686	189 686	0	0
Amounts due from banks	11 898 106	11 898 106	0	0
Trading securities	199 672	199 672	0	0
Positive fair values of financial derivative transactions	171 675	171 675	0	0
Loans to customers, net	28 690 297	28 690 297	2 564 325	2 564 325
Available for sale securities	11 626 673	11 626 673	0	0
Investments held to maturity	3 785 814	3 785 814	0	0
Prepayments, accrued income and other assets	546 831	546 831	0	0
Guarantees, commitments	0	15 344 327	0	0
Total	57 108 754	72 453 081	2 564 325	2 564 325

Note: /*Undrawn amounts, commitments, guarantees, etc.

The maximum credit exposure is presented in net values without the impact of any provisions.

5.2. MARKET RISK

5.2.1. MANAGEMENT OF THE MARKET RISK

Characteristics of Market Risks

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

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

Description of Transactions Carrying Market Risks

The Bank is exposed to market risks associated with losses arising from fluctuations in prices, exchange rates and financial market rates.

The Bank is exposed to market risks in acquiring, holding and selling investment instruments defined in the Investment Strategy of ČMZRB. This risk arises from open positions in interest rates and currencies.

Market Risk Measurement

The Bank measures interest rate risk using basic techniques (interest rate GAP analysis, duration, and elasticity of interest rates) and techniques to calculate capital adequacy as set out in CNB Regulation 123/2007 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 on a quarterly basis in accordance with the requirements of the Czech National Bank.

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 123/2007 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.

The Bank uses hedging derivatives to manage market risk. The Bank has secured loans from EIB, KFW bank as well as bonds. The ORR department calculates hedge effectiveness.

5.2.2. DERIVATIVES

Trading Derivatives

	2007		2006	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest rate derivatives				
Swaps	1 150 289	1 150 289	1 771 800	1 771 800
Currency derivatives				
Forwards	2 631 968	2 626 596	1 255 344	1 249 699
Swaps	745 612	759 890	1 157 621	1 127 875
Total	**4 527 869**	**4 536 775**	**4 184 765**	**4 149 374**

	2007		2006	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest rate derivatives				
Swaps	190	13 469	9 504	9 260
Currency derivatives				
Forwards	102 935	97 853	39 528	34 258
Swaps	40 463	64 349	99 307	83 276
Total	**143 588**	**175 671**	**148 339**	**126 794**

Set out below is the maturity analysis of trading derivatives as of 31 December 2007:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
Interest rate swaps	0	0	1 050 289	100 000	1 150 289
Forwards	1 662 013	504 840	465 115	0	2 631 967
Currency swaps	0	143 722	601 890	0	745 612
Total	**1 662 013**	**648 562**	**2 117 294**	**100 000**	**4 527 869**

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
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	0	234 125	923 496	0	1 157 621
Total	**138 531**	**1 573 287**	**2 302 963**	**169 984**	**4 184 765**

Hedging Derivatives

	2007		2006	
	Notional value Asset CZK '000	Notional value Liability CZK '000	Notional value Asset CZK '000	Notional value Liability CZK '000
Interest rate swaps	0	0	800 000	800 000
Cross currency swaps	6 257 795	7 273 571	6 909 662	7 903 912
Total	**6 257 795**	**7 273 571**	**7 709 662**	**8 703 912**

	2007		2006	
	Positive fair value CZK '000	Negative fair value CZK '000	Positive fair value CZK '000	Negative fair value CZK '000
Interest rate swaps	0	0	6 593	684
Cross currency swaps	28 087	1 867 003	31 077	2 194 786
Total	**28 087**	**1 867 003**	**37 670**	**2 195 470**

Set out below is the maturity analysis of hedging derivatives as of 31 December 2007:

	Up to 3 months CZK '000	3 months to 1 year CZK '000	1 year to 5 years CZK '000	Over 5 years CZK '000	Total CZK '000
Interest rate swaps	0	0	0	0	0
Cross currency swaps	0	65 617	4 973 853	1 218 325	6 257 795
Total	**0**	**65 617**	**4 973 853**	**1 218 325**	**6 257 795**

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

Notes to the Cosolidated Financial Statements for the Year Ended 31 December 2007

5.3. 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 2007

	CZK CZK '000	SKK CZK '000	EUR CZK '000	USD CZK '000	HUF CZK '000	GBP CZK '000	Total CZK '000
Cash and current balances with banks	189 680	1	5	0	0	0	189 686
Amounts due from banks	11 742 139	0	28 742	127 221	4	0	11 898 106
Trading securities	147 550	0	52 122	0	0	0	199 672
Positive fair value of financial derivative transactions	171 675	0	0	0	0	0	171 675
Loans to customers, net	22 649 505	0	5 982 708	58 084	0	0	28 690 297
Securities available for sale	11 009 520	0	368 283	0	248 870	0	11 626 673
Investments held to maturity	3 785 814	0	0	0	0	0	3 785 814
Prepayments, accrued income and other assets	96 188	0	1 178	0	0	0	188 327
Deferred tax asset	77 897	0	0	0	0	0	77 897
Investments in associates	54 212	0	0	0	0	0	54 212
Tangible and intangible fixed assets, net	226 395	0	0	0	0	0	226 395
Total	**50 241 536**	**1**	**6 433 038**	**185 305**	**248 874**	**0**	**57 108 754**
Amounts due to banks	13 406 724	0	12 308 741	185 202	0	0	25 900 667
Amounts due to customers	20 267 525	0	82 470	2	0	0	20 349 997
Negative fair value of financial derivative transactions	2 042 674	0	0	0	0	0	2 042 674
Accruals, provisions and other liabilities	1 700 791	0	0	14	0	100	1 700 875
Provisions for operating records exposures	2 198 701	0	0	0	0	0	2 198 701
Equity	4 915 840	0	0	0	0	0	4 915 840
Total	**44 532 255**	**0**	**12 391 211**	**185 218**	**0**	**100**	**57 108 754**
On balance sheet position, net	5 709 281	1	-5 958 173	87	248 874	-100	
Operating records position, net	0	0	5 941 530	0	-230 692	0	
Net position	**5 709 281**	**1**	**-16 643**	**87**	**18 182**	**-100**	

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	25 794 641	6 209 293	27 670	0	32 031 604
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	**44 084 409**	**7 013 508**	**332 163**	**319 312**	**51 749 392**
Amounts due to banks	14 882 528	13 276 403	157 513	0	28 316 444
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 operating records exposures	2 272 474	0	0	0	2 272 474
Equity	4 852 698	0	0	0	4 852 698
Total	**38 260 109**	**13 331 354**	**157 929**	**0**	**51 749 392**
On balance sheet position, net	5 824 300	-6 317 846	174 234	319 312	
Operating records position, net	0	6 512 738	-167 008	-294 840	
Net position	**5 824 300**	**194 892**	**7 226**	**24 472**	

FX Sensitivity analysis

Set out below is a sensitivity analysis to foreign currency risk. The balance sheet items in foreign currencies were tested to the movement of a foreign exchange rate to 10 %. The table below summarises the differences in absolute terms in CZK in comparison to the foreign exchange rates valid as of 31 December 2007 or 2006 as appropriate. The opening balance sheet exposure in EUR and HUF is hedged using derivatives. The hedging instruments set off the P&L impact of movements in FX rates almost fully. Please refer to Note 5.2.2. for additional details.

	2007	2006
Sensitivity to changes in EUR rates		
Expected rate fluctuation, %	10%	10%
Open position	-5 955 835	-11 082 904
Effect on profit and loss	632 412	1 156 573
Effect on equity	-36 829	-48 283
Sensitivity to changes in USD rates		
Expected rate fluctuation, %	10%	10%
Open position	-773 380	169 664
Effect on profit and loss	77	-1
Effect on equity	0	-17 400
Sensitivity to changes in HUF rates		
Expected rate fluctuation, %	10%	10%
Open position	248 914	319 311
Effect on profit and loss	0	0
Effect on equity	-24 891	-31 931

5.4. 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 4.19). 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.

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

31 December 2007

	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	179 229	0	0	0	10 457	189 686
Amounts due from banks	7 874 132	3 645 979	205 736	0	172 259	11 898 106
Trading securities	0	460	147 358	51 854	0	199 672
Positive fair value of derivatives	0	0	0	0	171 675	171 675
Loans to customers, net	1 200 818	1 527 722	8 923 037	11 282 746	5 755 974	28 690 297
Available for sale securities	1 264 948	2 432 612	6 119 337	1 809 776	0	11 626 673
Investments held to maturity	115 969	2 323 427	519 437	826 981	0	3 785 814
Prepayments, accrued income and other assets	0	0	0	0	188 327	188 327
Deferred tax asset	0	0	0	0	77 897	77 897
Investments in associates	0	0	0	0	54 212	54 212
Tangible and intangible fixed assets	0	0	0	0	226 395	226 395
Total	**10 635 096**	**9 930 200**	**15 914 905**	**13 961 357**	**6 657 196**	**57 108 754**
Amounts due to banks	3 721 527	2 016 803	7 218 561	11 313 486	1 630 290	25 900 667
Amounts due to customers	10 078 731	5 254 539	0	0	5 016 727	20 349 997
Negative fair value of financial derivative transactions	0	0	0	0	2 042 674	2 042 674
Accruals, provisions and other liabilities	0	0	0	0	1 700 875	1 700 875
Provisions for off balance exposure	0	0	0	0	2 198 701	2 198 701
Equity	0	0	0	0	4 915 840	4 915 840
Total	**13 800 258**	**7 271 342**	**7 218 561**	**11 313 486**	**17 505 107**	**57 108 754**
Net interest position	**-3 165 162**	**2 658 858**	**8 696 344**	**2 657 871**	**-10 847 911**	**0**

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	14 146 383	5 598 277	32 031 604
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**	**15 321 912**	**6 526 388**	**51 749 392**
Amounts due to banks	2 843 225	2 606 475	7 572 662	12 993 112	2 300 970	28 316 444
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**	**18 867 946**	**51 749 392**
Net interest position	**1 999 017**	**1 657 888**	**6 355 853**	**2 328 800**	**-12 341 558**	**0**

Interest rate stress analysis

Balance sheet items sensitive to interest rates were analysed under the 2 % expected movement of interest rates. The Bank modelled 8 scenarios for possible movements of interest rates as the benchmark; the most probable alternative was selected for reporting purposes.

Balance sheet item	Sensitivity/Impact	Comment
Assets		
Loans to customers	0	Fixed interest rates
Loans to state authorities	-330 855	
HTM securities	0	Fixed bonds in the portfolio
AFS securities	-793 096	
Other assets - derivatives	2 897 372	
Liabilities		
Loans from EIB	255 307	
Other liabilities - derivatives	3 331 846	

Average interest rates

The table below provides average interest rates of significant items of assets and liabilities as of 31 December 2007 and 31 December 2006.

	31 December 2007	31 December 2006
Selected assets		
Deposits with central bank	2.82 %	2.19 %
Amounts due from banks	3.06 %	2.24 %
Loans to customers	7.50 %	5.90 %
Securities available for sale	2.62 %	3.23 %
Securities at fair value through profit or loss	4.02 %	3.18 %
Investments held to maturity	3.60 %	3.09 %
Selected liabilities		
Amounts due to banks	6.03 %	4.83 %
Amounts due to customers	2.66 %	1.94 %

5.5. LIQUIDITY RISK

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees, margins and settlement of derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based upon the remaining maturity period as of the balance sheet date.

As the main depositors of the Bank are state institutions (Ministry of Finance, Ministry for Regional Development etc.) The current accounts of the Bank are presented as being repayable on demand because these funds can be withdrawn upon demand. However these deposits represent specific financing granted as funding for state approved programmes and therefore their withdrawal is not likely in large volume upon demand. These deposits bear low interest rates.

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 4.19). These liabilities are presented as liabilities with undefined maturity.

31 December 2007

	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	179 229	0	0	0	10 457	189 686
Amounts due from banks	7 893 672	3 671 489	205 735	0	127 210	11 898 106
Trading securities	0	460	147 358	51 854	0	199 672
Positive fair value of financial derivative transactions	0	0	0	0	171 675	171 675
Loans to customers, net	4 614 607	1 523 950	8 840 799	13 710 941	0	28 690 297
Securities available for sale	1 264 948	2 432 612	6 175 618	1 753 495	0	11 626 673
Investments held to maturity	115 969	2 323 427	519 437	826 981	0	3 785 814
Prepayments, accrued income and other assets	0	0	0	0	188 327	188 327
Deferred tax asset	0	0	0	0	77 897	77 897
Investments in associates	0	0	0	0	54 212	54 212
Tangible and intangible fixed assets	0	0	0	0	226 395	226 395
Total	**14 068 425**	**9 951 938**	**15 888 947**	**16 343 271**	**856 173**	**57 108 754**
Amounts due to banks	3 502 501	2 030 212	7 277 716	13 090 238	0	25 900 667
Amounts due to customers	12 710 023	5 325 089	17 681	2 297 204	0	20 349 997
Negative fair value of derivative financial transactions	0	0	0	0	2 042 674	2 042 674
Accruals, provisions and other liabilities	0	0	0	0	1 700 875	1 700 875
Provisions for off balance exposures	78 661	272 367	633 846	706 393	507 434	2 198 701
Equity	0	0	0	0	4 915 840	4 915 840
Total	**16 291 185**	**7 627 668**	**7 929 243**	**16 093 835**	**9 166 741**	**57 108 754**
Net liquidity exposure	**-2 222 760**	**2 324 270**	**7 959 704**	**249 436**	**-8 310 568**	**0**

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	4 639 325	1 562 122	9 112 590	16 717 567	0	32 031 604
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	**11 982 044**	**6 116 128**	**14 864 432**	**17 878 415**	**908 373**	**51 749 392**
Amounts due to banks	3 151 414	2 496 970	6 524 026	16 144 034	0	28 316 444
Amounts due to customers	7 165 772	2 556 551	18 911	2 273 899	0	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
Provisions for off balance exposures	77 218	223 727	721 695	478 319	771 515	2 272 474
Equity	0	0	0	0	4 852 698	4 852 698
Total	**10 394 404**	**5 277 248**	**7 264 632**	**18 896 252**	**9 916 855**	**51 749 392**
Net liquidity exposure	**1 587 640**	**838 880**	**7 599 800**	**-1 017 837**	**-9 008 482**	**0**

Contractual liquidity of the main financial liabilities - undiscounted basis

	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
Amounts due to banks	923 127	1 620 408	11 137 575	10 927 383	0	24 608 493
Loans to customers	825 484	1 444 159	10 197 168	9 534 580	0	22 001 391

Amounts due to banks represent contractual liability from loans received from European banks for financing the infrastructure projects.

Loans to customers represent contractual receivable from title of loans provided to Ministry of Finance for direct distribution European funds.

5.6. 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. 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.

5.7. CAPITAL MANAGEMENT

The Group has identified the following risks which should be covered entirely or partially by capital: market risks, interest rate risk of the banking book, credit risk and concentration risk, liquidity risk, operational risk.

The principal objectives of the Group in managing capital risks are as follows:

- Quantification of risks in the form of economic capital which is needed to cover potential losses arising from these risks;

- Comparison of capital requirements with capital resources;
- Management of capital resources with respect to current and future risks;
- Determination of the maximum acceptable degree of risks with respect to available capital resources;
- Monitoring and management of the performance of business activities with respect to the risk or the capital requirements; and
- Strategic planning with respect to the risk, allocated capital resources and capital efficiency of individual business activities of the Bank and the financial group.

The Bank has established an internal limit for capital adequacy at 11% of the Bank's capital. The Bank has implemented the standard approach for capital management which is in compliance with Basel II requirements.

6/ ESTIMATED FAIR VALUES OF ASSETS AND LIABILITIES

The 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 2007		31 December 2006	
	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	189 686	189 686	218 188	218 188
Amounts due from banks	11 898 106	11 740 684	6 263 603	6 223 794
Loans to customers	28 690 297	27 153 619	23 233 598	21 673 163
Investments held to maturity	3 785 814	3 684 474	2 462 617	2 443 748
Financial liabilities				
Amounts due to banks	25 900 667	25 883 518	19 518 438	19 499 637
Amounts due to customers	20 349 997	20 165 635	12 015 134	11 844 597

7/ SUBSEQUENT EVENTS

No significant events having a material impact on the financial statements of the Bank for the year ended 31 December 2007 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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Support and Strategy Division secretariat (incl. Marketing and Legal departments)	tel.: 255 721 252
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