



UNITED IN TRUST.

ANNUAL REPORT 2007

07

	Austria
	Bosnia and Herzegovina
	Croatia
	CZECH REPUBLIC
	Hungary
	Romania
	Serbia
	Slovakia
	Slovenia
	Ukraine

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ANNUAL REPORT 2007

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Ukraine



FOREWORD FROM THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,
Dear Clients, Business Partners and Shareholders,

We are delighted to inform you that the year 2007 was exceptionally prosperous for Volksbank CZ. The business results achieved by the Bank more than successfully continued the course set in previous years and thus reaffirmed Volksbank's stable performance.

The Bank also continued the long trend of improving its results, and enormous increases were achieved in all key business indicators. Profit on ordinary activities before tax reached CZK 440 million, which represents a 73% increase year-on-year. Another reason for the past year's success is seen especially in the gain of more than 43% in the total assets, which ended the year at CZK 36.45 billion. The outstanding success achieved in the lending area was supported above all by the dynamic acquisition activities, which likewise were marked by 43% growth. The volume of client deposits rose by more than 40%, while the volume of securities managed by the Bank grew by nearly 38%.

In real estate financing, Volksbank CZ extended the good results of the previous two years. The segment of residential projects construction contributed substantially to the 90% year-on-year growth in the overall volume of loan originations. The Bank managed in the past year also to establish itself on the real estate market beyond the country's capital city.

The excellent result achieved by the International Desk – an increase in profit on ordinary activities of 41% – can be credited especially to more active operations in reaching out to SMEs and to expanding the offering for private clientele. The number of Italian, French and Spanish clients who chose Volksbank as their main partner grew by 10% compared to 2006.

For the corporate clients division, as for the entire Bank, the year 2007 was the most successful in its history as measured by the business results achieved. The main indicator, gross profit before risk provisions, ended the year at 126% of its planned target. Business volumes increased by CZK 4.58 billion and incomes by CZK 122.6 million compared to the end of the previous year.



from left:
Václav Vitha, Johann Lurf, Tomáš Kořínek

In retail banking, too, Volksbank CZ significantly surpassed in 2007 the excellent results of the previous year. By continuing to expand the sales network, the Bank managed to increase its business volume by 45% and, at the same time, to acquire many new retail clients. In mortgage financing, the growth in new transactions exceeded 300% and was driven especially by the expanding private residential projects sector in the local market.

The Bank's product offering was expanded for both retail and corporate clientele. Clients were presented with new types of mortgage loans, the payment cards range was enhanced with a new credit card, and the Bank also opened a second direct banking channel (Phone banking). In the corporate loans area, the product line was expanded with a turnover-based overdraft loan and efficient tools were created for evaluating the creditworthiness of clients in cases of smaller loans. The VolksbankShops product offering was also expanded, and Volksbank successfully continued the cooperation with its partner companies. In addition to the aforementioned innovations, the Bank also focused during the past year on improving its processes and procedures. By automating and simplifying these, Volksbank CZ was able to offer clients its services and products with even greater quality and speed while avoiding unnecessary administrative delays.

Volksbank CZ increased its number of points of sale from 32 to 54 during 2007. The Bank reached out to a wider circle of clients through the targeted acquisition activities of its highly educated bank advisors and by initiating cooperation with external networks.

To our valued clients, business partners and shareholders, we would like to thank you for the patronage and support you have shown us. We wish you great success in your work through the next year.

Václav Vitha

Johann Lurf

Tomáš Kořínek

KEY FIGURES IN SUMMARY

CZK million	2007	2006
Total assets	36,448	25,414
Liabilities to clients, including deposit certificates	23,685	16,842
Receivables from clients	30,161	21,020
Income on financial transactions before general and specific provisions	1,342	907
Operating expenses	725	580
Profit on ordinary activities before tax	440	255
Number of employees*	635	497
Number of points of sale	54	32

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* including employees on maternity leave

INTERNATIONAL NETWORK

Volksbank CZ has prospered on the Czech market since 1993. The Bank's main shareholder is Volksbank International AG.

Volksbank AG (VBAG) was founded in 1922 by commercial lending cooperatives and is majority owned by more than 60 independent Austrian "Volksbanken" (cooperative banks). The Bank is the central institute of one of the most important banking groups in Austria and is an international commercial bank. Already in 1991, VBAG was one of the first banks to begin its expansion into the challenging markets of Central and Eastern Europe.

Volksbank International AG (VBI) is located in Vienna, Austria, and the majority of its equity is held by VBAG (51%), while the remaining stakes of 24.50% each are held by the German DZ BANK / WGZ-Bank and the French Banque Fédérale des Banques Populaires. VBI directs a successful and expanding network of some 500 branches in nine Central and Eastern European (CEE) countries: Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Ukraine. The total assets amount to more than EUR 9.5 billion in 2007. More than 5,000 employees offer private and corporate clients a wide range of modern banking products and services.

In 2007, Volksbank International AG intensified cooperation with its Austrian, German, French and Italian partners through the "CEE UNLIMITED" programme. With the goal of supporting the referral business, this service broadens the offer for clients of individual partner banks and provides bankers with the know-how needed to initiate and develop business activities in Central and Eastern European countries. The clients – mostly small and medium enterprises – continue to be served by the parent bank. In addition, they can access banking services across the entire CEE network. The cooperation is efficient, professional and – very importantly – conducted in the client's mother tongue.

INTERNATIONAL NETWORK

One of the many services offered within the CEE UNLIMITED programme is the establishment of a “CEE account”. A bilingual CEE CONTRACT (in German, English, French or Italian and in the client’s mother tongue) allows for easily establishing the account. Moreover, the client has immediate access to the account without superfluous formalities and delays. This highly specialised cooperation provides clients with straightforward access to investment and real estate financing services, as well as to those relating to insurance and leasing.

Because size isn’t everything, we strive for more than just creating an extensive network of banks. Our priority is personal contact with clients, mutual trust and reliability. The most important measures for us are in the professional quality of our services and the long-term relationships that we build with our clients in order to ensure their business success. Thus, our international clients are provided with unrivalled care in their mother tongues at each of our associated international banks through the CEE UNLIMITED programme. That means the clients can feel “at home” even when they are doing business abroad.

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Shareholders	Share in %
Volksbank International AG, Vienna	97.78
Banca Popolare di Vicenza S.C.P.A., Vicenza	1.11
EM.RO Popolare S.P.A., Modena	1.11

Shareholders structure by proportion of total share capital as at 31 December 2007.

GOVERNING BODIES

SUPERVISORY BOARD

CHAIRMAN

Friedhelm BOSCHERT

Chairman of the Supervisory Board

Appointed on: 6 December 2004

Experience: 20 years of banking experience,
13 years of management experience

Membership on other companies' bodies:

Volksbank International AG, Austria: Chairman of the Board of Directors; Volksbank BH d.d., Bosnia and Herzegovina: Chairman of the Supervisory Board; VB-Holding AG, Austria: Member of the Supervisory Board, Volksbank-Invest GmbH, Austria: Member of the Supervisory Board; IK Investmentbank AG, Austria: Member of the Supervisory Board

VICE-CHAIRMAN

Engelbert BRAMERDORFER

Vice-Chairman of the Supervisory Board

Appointed on: 30 May 2005

Experience: 10 years of banking experience,
7 years of management experience

Membership on other companies' bodies:

Magyarországi Volksbank Zrt., Hungary: Vice-Chairman of the Supervisory Board; Volksbank BH d.d., Bosnia and Herzegovina: Vice-Chairman of the Supervisory Board; Electron Bank, Ukraine: Member of the Board of Directors

GOVERNING BODIES

SUPERVISORY BOARD MEMBERS

Gabriele UGOLINI

Member of the Supervisory Board

Appointed on: 25 May 2004

Experience: 34 years of banking experience,
22 years of management experience

Membership on other companies' bodies:
Volksbank BH d.d., Bosnia and Herzegovina:
Member of the Supervisory Board

Thorsten PAUL

Member of the Supervisory Board

Appointed on: 6 December 2004

Experience: 15 years of banking experience,
9 years of management experience

Membership on other companies' bodies:
GEF Beteiligungs AG, Austria: Chairman of the
Supervisory Board; Venture for Business
Beteiligungs AG, Austria: Member of the
Supervisory Board; VB Partner-Kapital Beteiligungs
AG, Austria: Member of the Supervisory Board;
IK Investmentbank AG, Austria: Chairman of the
Supervisory Board; Invest Equity Beteiligungs AG,
Austria: Chairman of the Supervisory Board;
Mezzanine Management, Austria: Chairman of the
Advisory Board; Athena Wien Beteiligungen AG,
Austria: Vice-Chairman of the Supervisory Board;
Lead Equities Mittelstandsfinanzierung AG, Austria:
Member of the Supervisory Board; IKIB
Mittelstandsfinanzierungs AG, Austria: Chairman
of the Supervisory Board

Jindřich HORNÍČEK

Member of the Supervisory Board

Appointed on: 18 August 2005

Experience: 7 years of banking experience,
1 year of management experience

No membership on other companies' bodies.

Luboš VLČEK

Member of the Supervisory Board

Appointed on: 18 August 2005

Experience: 10 years of banking experience,
15 years of management experience

No membership on other companies' bodies.

BOARD OF DIRECTORS

CHAIRMAN

Johann LURF

Appointed on: 10 December 1996

Experience: 32 years of banking experience,
21 years of management experience

No membership on other companies' bodies.

MEMBERS OF THE BOARD OF DIRECTORS

Václav VITHA

Appointed on: 1 March 2002

Experience: 16 years of banking experience,
10 years of management experience

No membership on other companies' bodies.

Tomáš KOŘÍNEK

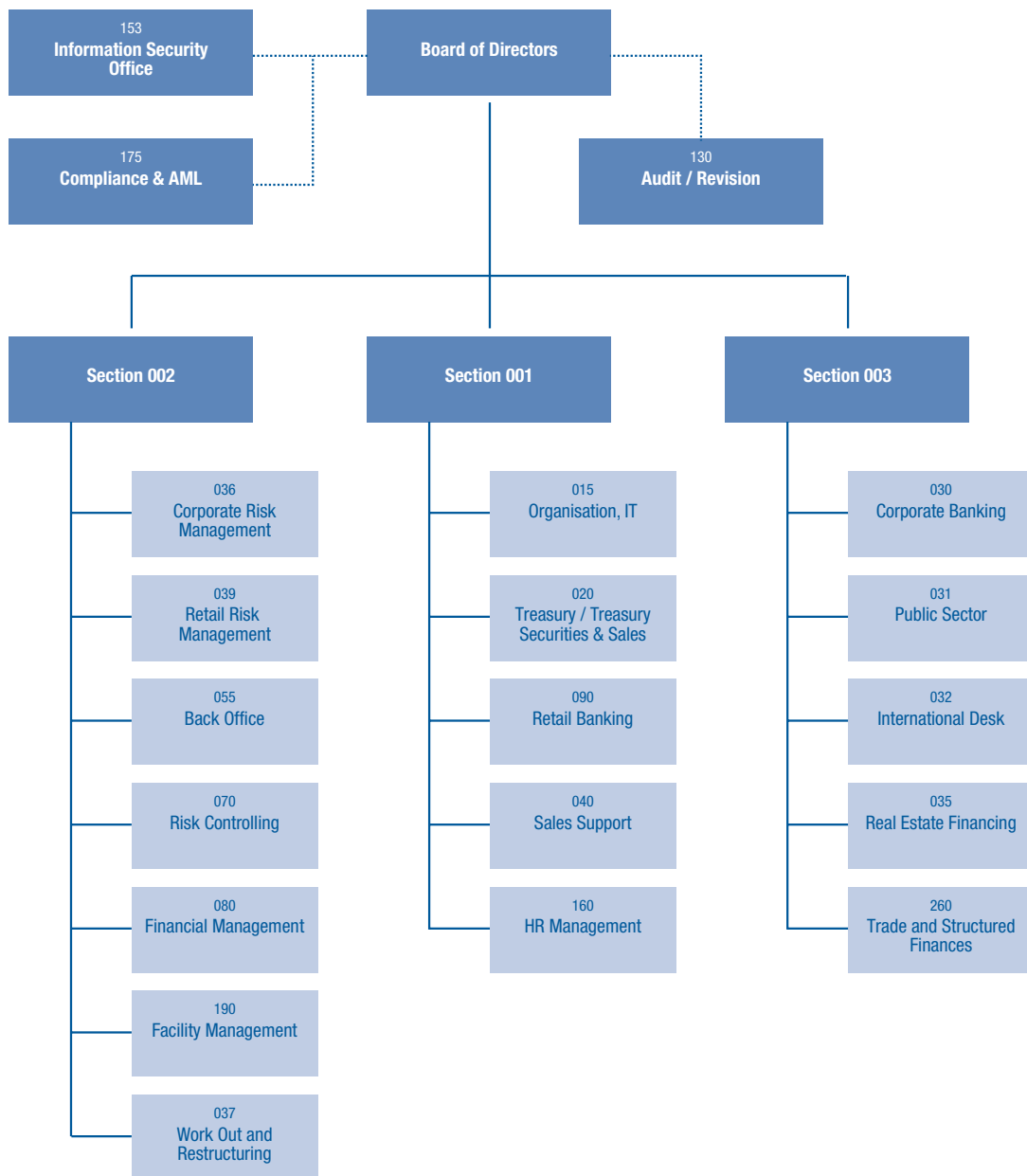
Appointed on: 30 November 2005

Experience: 15 years of banking experience,
11 years of management experience

No membership on other companies' bodies.

ORGANISATION CHART

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GENERAL ECONOMIC BACKGROUND

ECONOMIC DEVELOPMENT IN THE CZECH REPUBLIC IN 2007

Again in 2007, the Czech economy maintained the strong dynamic of previous years. The Czech economy achieved its highest growth rate in 2007 since establishment of the independent Czech Republic, as gross domestic product rose by 6.5% year-on-year. In addition to one-off factors, GDP growth was greatly influenced by gains in fixed investments, household consumption, net exports, and government consumption.

The level of inflation in the Czech economy also rose in 2007 in comparison to previous years, reaching an average of 2.8% for the full year. Rising prices for food, transport, food service and housing especially contributed to the inflation. The Czech National Bank (CNB) responded to the increasing prices by raising its key interest rate. The CNB boosted its 2 week repo rate a total of four times during 2007, from the 2.50% rate at the start of the year to 3.50% by the end of 2007. Due to further price shocks at the start of 2008, the CNB proceeded to boost the reference rate once again, to 3.75%.

The positive trend in labour market development continued again in 2007. Unemployment had fallen to 6.0% by the end of the year, as the ranks of the unemployed decreased by more than 93,000 during 2007 and the number of open job positions exceeded 141,000. The improving situation on the labour market is especially due to the strong economic growth in recent years that is generating new jobs. Unemployment can be expected to continue decreasing over the long term, albeit at an ever slower pace.

Favourable economic conditions and the stability of the Czech Republic were also reflected in the development of the Czech crown's exchange rate. The crown strengthened against the euro by more than another 3.5% during 2007. The exchange rate at the end of 2007 stood at 26.62 CZK/EUR. Businesses managed to cope with the crown's brisk rise especially through rapid productivity gains.

OUTLOOK FOR 2008

The year's first data already show that the Czech economy's expansion can be expected to decelerate during 2008 in comparison to previous years. The reasons for the slowing GDP growth will be seen especially in slowing household consumption growth, higher inflation, restrictive fiscal reforms and decelerating growth in the euro zone. In addition to domestic factors, uncertainty regarding the external environment, which markedly affects the Czech economy, will also have a significant influence.

BUSINESS ACTIVITIES

CORPORATE CLIENTS

For Corporate Banking, as for the entire Bank, the year 2007 was the most successful in that division's history as measured by the business results achieved. The main indicator, gross profit before risk provisions, ended the year at 126% of its planned target. Business volumes increased by CZK 4.58 billion compared to the previous year's end, and incomes rose by CZK 122.6 million.

These successful results are a consequence of the division's steadily pursuing its long-term sales strategy, which focuses on companies with turnover of CZK 30 million to CZK 1.5 billion as its target client segment. Companies with turnover of CZK 30–150 million receive individual attention. For these clients, we were able to significantly accelerate and simplify the loan process, not only in the areas of working capital financing and investment needs but also, for example, in the area of discounting accounts receivable.

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In 2007, a new media campaign was undertaken with the aim of promoting sales. Early in 2007, a direct mailing campaign got underway with the theme "Minimising exchange and interest rate risks". At the end of the year, then, an advertising campaign commenced with the theme "Comprehensive solutions for financing working capital needs, obtaining bank guarantees, and hedging currency risks". Positive references from satisfied existing clients were an important means of obtaining new clients.

By expanding cooperation with the Treasury Sales department, considerable growth was achieved in sales of treasury products. This was particularly true in the area of hedging exchange rate risks, which was influenced by the changing attitude of clients toward those products in relation to market developments. This also had a significant impact on the results achieved.

Changes in ownership of companies were frequently seen on the market during 2007. Volksbank CZ, too, participated in a number of acquisition finance transactions. This trend is expected to continue into the future.

The aforementioned results could not have been achieved, of course, without corresponding growth in the number of qualified and experienced employees. Most of the new staff went to strengthening the dynamically growing departments in Prague and Northern Moravia. All regions that heretofore have had only a single employee will now be fortified with an additional salesperson. Particularly in order to improve sales management, the large departments in Prague and Brno were divided into several teams and each team is led by the most experienced salesperson. A significant change in the method of remuneration also contributed to the results for the entire division, as it had a substantial impact in motivating successful sales personnel.

The results to be achieved in 2008 present a big challenge. Our ambitious plan calls for further accelerating growth and thereby further boosting Volksbank CZ's share of the overall corporate clients market in the Czech Republic.

RETAIL BANKING 2007

During 2007, Volksbank CZ managed not only to replicate the excellent business results achieved in the previous year, but even to surpass them by a large margin. The Bank continued in building new points of sale, and, by the end of 2007, retail clients had 54 points of sale at their disposal. This expansion of the branch network not only helped to increase the sales volume by 45%, it also contributed to boosting the number of new clients by more than 28%.

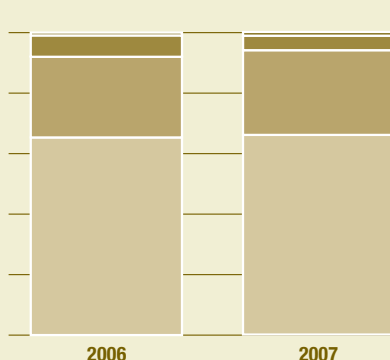
The private residential building sector proved to be a driving factor in 2007. Thanks to our client-oriented approach and individual processing, new mortgage financing transactions rose by more than 300%.

Through personal consultations with our highly qualified specialists, we are able competently and quickly to execute transactions with conditions that optimally correspond to the individual needs and demands of private clients, businesspeople, and small and medium enterprises (SMEs).

In the interest of continuing to achieve such good results, Volksbank CZ relies on a wide spectrum of retail banking services. In addition to individual financial solutions, secure investment

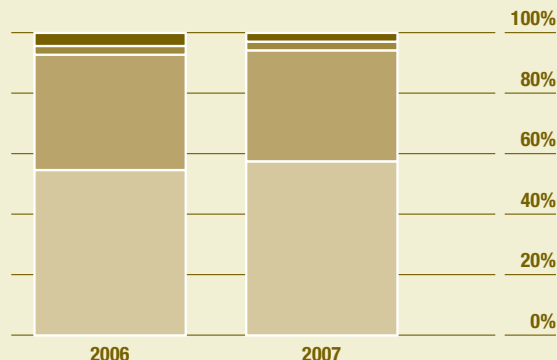
STRUCTURE OF DEPOSITS IN CZK

(2006: CZK 10.503 bil.; 2007: CZK 17.489 bil.)



STRUCTURE OF DEPOSITS IN FOREIGN CURRENCIES

(2006: CZK 2.968 bil.; 2007: CZK 3.519 bil.)



■ Current accounts ■ Term deposits ■ Bill of exchange ■ Saving accounts

BUSINESS ACTIVITIES

products, creative product packages, and secure and convenient execution of financial transactions, we also offer daily opening hours from 8 a.m. until 8 p.m. through our VolksbankShops and a personal approach at all our points of sale.

INTERNATIONAL DESK

The year 2007 was very successful for the International Desk in terms of both the number of clients served and the results achieved. Compared with 2006, the number of Italian, French and Spanish clients who chose Volksbank as their main partner grew by more than 1,500, which represented an increase of approximately 10% and contributed to the 41% growth in operating profit.

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A reorganisation of the department was completed during the year, and the employee ranks were strengthened. This brought the present number of multilingual specialists up to 13. The Bank will continue this trend by making further improvements in the quality of services in the coming years.

It is worth noting that during 2007, more so than in previous years, the activity of the International Desk was concentrated on SMEs in various market segments, as well as on private clients. Cooperation with the Bank's partners also was very positive, resulting in a series of advantageous mergers (integrations) with subsidiary companies of the Volksbank Group.

REAL ESTATE FINANCING

The Real Estate Financing department extended the good results of the previous two years, increasing the volume of loan originations by 90% year-on-year. Once again, a significant part of this increase was attributable to residential building projects. Whereas in the past the majority of financing has been directed to investors working on the Prague real estate market, in 2007 the department succeeded in closing new transactions in the amount of CZK 2.2 billion for purchasing or developing real estate outside the capital city. Thus, for the first time, the department achieved a major push into other regions.

PUBLIC SECTOR

In 2007, Volksbank CZ set as a target to further increase its loan exposure to housing cooperatives and apartment owners associations. In comparison with the situation at the end of 2006, the volume of loans that the Bank had provided to clients grew by almost 80%. These loans were directed particularly at the repair and reconstruction of prefabricated housing. The close of 2007 was marked by the state's suspending its acceptance of applications for loan-interest grants under the PANEL programme, and that somewhat slowed further growth in this segment.

In the municipalities segment, by contrast, Volksbank CZ's lending activities were decreased as a consequence of the Bank's deliberate decision to limit its participation in public tenders for financing municipal projects.

The volume of public sector funds deposited at the Bank in current accounts or allocated to various forms of term deposits increased by one-third in comparison to the same period of 2006.

TRADE AND STRUCTURED FINANCE

During 2007, the department focused on structured transactions, and particularly in the area of acquisition financing. In the SME and small corporate clients segment, several acquisition finance transactions were successfully structured.

In the syndicated loans area, the Bank participated successfully in preparing and underwriting several syndicated credits and club loans. Volksbank CZ's good name also allows for potential collaboration on this secondary market. Although the Bank does not currently have the capacity to arrange syndicated loans by itself, it has found opportunities to act as a credible partner in the SME segment.

Discounting of accounts receivable is traditionally a successful acquisition instrument in the Bank's portfolio. Based on the volume of purchased receivables and the number of executed transactions, the Bank is a market player in league with the smaller factoring companies.

For reasons of capacity, a transaction application was created for processing receivables for discounting. The result is a larger number of transactions from the same personnel and an improved ability to monitor the portfolio. The application should provide clients and debtors greater convenience in communicating with Volksbank CZ on the status of receivables in the Bank's portfolio.

TREASURY / SECURITIES

Volksbank CZ took advantage of macroeconomic conditions and the Czech market environment to further strengthen its position in trading on financial and capital markets during 2007. In addition to trading, the department's principal activity was in managing the Bank's liquidity and its portfolio of money market, foreign currency, and capital markets instruments. Volksbank CZ's trading activity on the financial and capital markets contributed significantly to the its overall profit.

BUSINESS ACTIVITIES

In 2007, Volksbank CZ continued its successfully established trend in selling financial market products. Through its Treasury experts, the Bank offered products and consulting to corporate, retail and institutional investors. By constantly innovating its offered products and enhancing the quality and comprehensiveness of its services, the Bank significantly increased the volume of financing and hedging transactions with clients. Especially in the currency hedging area, Volksbank CZ achieved significant growth in the number and volume of executed transactions.

The Bank focused in 2007 on improving the quality of its services and expanding the offering of investment products for clients. The demand for investment services and products offering higher rates of return grew throughout the year in all client segments. Volksbank CZ reacted to this demand by introducing new products, and especially in cooperation with other companies from the Volksbank Group.

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Among the significant successes of 2007 were the introduction of four new issues of guaranteed certificates and a new bond mutual fund from the investment company Volksbank Invest. In addition to mutual funds, guaranteed certificates now comprise the basis of Volksbank CZ's investment products offering for new and existing clients. With a well-chosen strategy for the investments area and favourable market development, the Bank significantly increased its volume of assets under management and the number of clients using its investment services during 2007.

Volksbank CZ's position on the market for primary bond issues is also a substantial success story for 2007. The Bank successfully placed two issues of mortgage-backed securities with a total volume of CZK 1.50 billion. These securities, which were subscribed by both institutional investors and private clients, mature in 2012 and 2017.

RISK MANAGEMENT

In the area of risk management and credit transactions settlement, a change in the Bank's internal structure and processes was completed in 2007 that was necessary to support the significant growth in loan transactions. Regarding risk management, Volksbank CZ satisfied all the requirements of new banking regulations applicable for both the Bank itself and for the entire group. At the same time, Volksbank CZ managed smoothly to reduce processing times and increase the efficiency of its credit processes. This enabled the Bank to significantly increase the volume of loan transactions while continuing to decrease the cost-income ratio.

New processes for retail banking transactions, in particular, were put through a loading test. A very marked rise in the volume and number of transactions occurred in this segment, consequently increasing demands on the speed and quality of processing.

In the corporate clients segment, too, it was necessary to process more transactions while at the same time satisfying clients' demands for shorter processing times. In this spirit, the processing procedures for transactions relating to small and medium enterprises also were modified in order to maximise efficiency.

The year 2007 confirmed that the Bank had started out in the right direction in this area, and it will continue along this course in 2008.

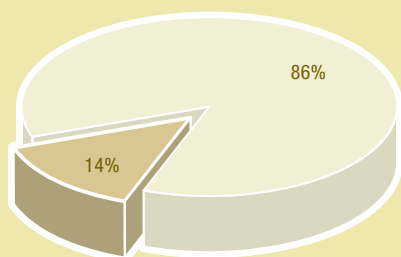
PAYMENT SYSTEM

Just as in previous years, the number of cashless payments executed in 2007 again showed an increasing trend. In the domestic payments area, the number of incoming payments rose by 16% and the number of outgoing payments by 14% in comparison with the previous year. Among foreign payments, the number of incoming payments rose by 29% and that of outgoing payments grew by 26% compared to 2006.

Direct banking services were provided to clients by means of the applications: Internet banking, Homebanking and Multicash. In mid-2007, the Bank introduced another direct banking product, Phone banking, to the market which clients can use for entering payment orders by telephone.

ELECTRONIC BANKING

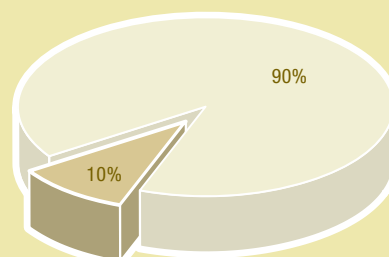
in %



internet banking	86%
homebanking	14%

DOMESTIC AND INTERNATIONAL PAYMENTS

in %



electronic	90%
other	10%

BUSINESS ACTIVITIES

Internet banking continues to be the most used product from Volksbank CZ's entire offering. As at the year's end, clients were using 13,750 stations, an 86% increase over the previous year. In comparison with the other applications, this product has an 85% overall share.

The strong usage of the lower cost services offered through electronic banking is also evidenced by the fact that 90% of total domestic and 84% of all foreign payments executed are sent by clients using direct banking applications.

IT / ORGANISATION

The IT/Organisation division was fully focused during 2007 on supporting the Bank's rapid growth. The basic hardware infrastructure was completely renewed to enable trouble-free and swift processing of the ever-increasing volume of data. From an IT standpoint, this growth was implemented very successfully. Volksbank CZ is now able to serve clients more reliably, without information system failures, and it stands ready for further growth in the number of clients, transactions and products.

In addition, the division participated in a project to quickly expand the branch network through small branches, known as VolksbankShops.

During 2007, the Bank began preparations for implementing the group-wide CRM system solution, which will fully support the sales function and will simplify and accelerate serving clients. This system should begin its test operation in 2008.

The IT/Organisation division underwent a regulatory audit focused on operational risk and information systems security. The Bank came through this audit with no serious findings. Rather, the inspection found there to be a very good level of architecture, processes, and knowledge among the Bank's employees.

SALES SUPPORT

Product Development

In 2007, the activities of the Product Development department contributed to further expansion of the Bank's product offering, both for retail and corporate clients. Moreover, the department's activities were directed to improving processes and procedures. Through automation and simplification, the Volksbank CZ was able to offer clients higher-quality services and products, more quickly, and without unnecessary administrative delays.

Such products as mortgage loans for refinancing, a mortgage loan and an American mortgage that do not require confirmation of income, as well as pre-mortgage loans all became parts of the range of loan products serving especially for housing finance. Volksbank CZ received a positive evaluation from the Consumers Defence Association with regard to providing pre-contractual information about mortgages in accordance with the Czech Banking Association's Standard No. 18/2005. The Bank enhanced its offering of credit payment cards with the introduction of credit cards for individuals, and this new product was promoted through a direct mailing initiative.

With the aim of eliminating more risk, at the end of 2007, the Bank became a member of the Non-Banking Client Information Register. Volksbank CZ already had joined the Banking Client Information Register in 2006.

As in previous years, the Bank's offering was expanded with an additional services package – the PROFIT account, which is intended especially for small and medium enterprises. Volksbank CZ's clients, whether they are enterprises or individuals, can also arrange a so-called fees rate (establishing a fixed number of select transactions for any account at a favourable price) for their package or account. The Bank enhanced its range of direct banking products with Phone banking, a new telephone banking system.

In the corporate (business) loans area, the product line was improved with an overdraft loan that is based upon turnover, and efficient instruments were created for evaluating client creditworthiness for smaller credit cases. The year 2007 was also significant for its special offers to existing and potential clients in the business area (for example, the "Comprehensive Credit Programme for Companies").

The VolksbankShops' offering was augmented with a savings account that is a part of the Aktiv konto Plus services package, as well as with the Household Loan and Small Mortgage housing finance products.

In the past year, the Bank also successfully developed cooperation with its partner companies. These include Českomoravská stavební spořitelna, a.s., with which Volksbank collaborates in providing building society products; ČSOB Penzijní fond Stabilita, a.s. and ČSOB Penzijní fond Progres, a.s., in providing supplemental pension insurance in the VolksbankShops network; VICTORIA VOLKSBANKEN pojišťovna, a.s., which in 2007 prepared a new single-pension insurance, RAKETA, for the Bank's clients; AXA penzijní fond, a.s. (pension insurance); and VB Leasing CZ, spol. s r.o. Moreover, the Bank also collaborates with the European Investment Bank on refinancing of projects for small and medium enterprises.

BUSINESS ACTIVITIES

External sales network

For Volksbank CZ, the year 2007 was one of continuing to develop cooperation with external sales channels. The Bank endeavoured not only to expand its portfolio of collaborating partners but also to focus on improving the quality of that cooperation. The number of external partners grew in 2007, and so too especially did the volumes and number of transactions.

External sales personnel offered products from the Retail department, and particularly the standard and American mortgages, a pre-mortgage loan, a mortgage combined with investment life insurance, and an investment loan for small companies and entrepreneurs. A residential refinancing loan was included for the first time into the external network's product offering, and it attracted considerable interest already in the year of its release. The Bank considers the distribution of selected products for housing cooperatives and apartment owners associations to be another area with great potential.

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Payment cards

The total number of payment cards in issue grew by 56% during 2007 and thus exceeded the 25,000 cards mark. Along with growth in the number of issued cards, the volume of processed transactions increased year on year by 52%.

During the second quarter of 2007, the Bank's product range was expanded with a credit card. Transition to chip technology for payment cards was an ongoing process throughout the year, and by the fourth quarter all VISA products were issued with this technology. Chip technology provides a higher degree of data protection for cardholders because of its higher level of encryption and the direct storage of information on the chip. Embossed MasterCard payment cards will also be provided with this technology during the second quarter of 2008.

The ATM network was extended in 2007 from 36 up to 57 machines. There was expansion, too, in the number of clients who are merchants accepting Volksbank payment cards at their points of sale. The volume of processed transactions executed by Volksbank clients at ATMs and points of sale grew by 67%. All ATMs are outfitted with technology for accepting chip cards. Through the cooperation with ČSOB, that bank's network of 650 ATMs is also available to Volksbank clients under very favourable conditions.

Throughout 2007 a maximum effort was devoted to several improvements in the IT systems for payment cards. These brought greater flexibility and transparency, thus enabling Volksbank CZ to better meet the demand of clients.

Marketing & Communication

From a marketing standpoint, 2007 was a year marked by improving the Bank's conception of its client-oriented approach, and this was promoted especially by two major communication campaigns.

In May 2007, Volksbank CZ introduced the new "Mortgage Loans Refinancing" service. This service enabled clients of all banks to change the method and conditions of repaying their existing mortgage loans. Advantageous parameters for obtaining this product and a preferential interest rate for a newly refinanced mortgage were prepared as part of the offer. Volksbank CZ thus broadened the available options on the Czech banking market for financing housing needs and, at the same time, it confirmed its position on the mortgage loans market.

During autumn 2007, the Bank presented a new service for small and medium enterprises. The "Comprehensive Credit Programme for Companies", which offered firms an integrated solution for short- and medium-term financing needs, brought new credit services for these firms. In addition to bank guarantees and solutions for currency and interest rate risks, this integrated solution included in particular a special instrument for working capital financing. Named the "Kontoúvěr" (short for overdraft loan), it provided a range of interested firms with a very favourable programme of services based on an overdraft loan. Volksbank CZ regards the SME segment as a key area which it will continue to support.

Other marketing activities were directed at preparing and supporting innovative solutions, particularly in the areas of investing, securities, and support of external business partners.

Marketing also pursued an active communication strategy to promote the VolksbankShop network's dynamic development. Throughout 2007, expansion of the product range was emphasised through support in the form of four special product-oriented schemes. Special emphasis was given to consumer and deposit products for individuals. In addition to these initiatives, the Bank also developed its cooperation with partner companies in using sales and information tools, which, among other things, led to the launch of its own website, www.volksbankshop.cz.

During the first half of the year, support was provided for launching the new internal Volksbank Call Centre, which is now fully implemented within both the Bank's passive and active processes.

RISK MANAGEMENT

Volksbank CZ maintains a conservative approach to risk management. This approach results from the applicable legal regulations and risk strategy of the Group. The Bank uses a system of regulatory and internal limits. The limits are set, and adherence to them is regularly monitored.

The overriding general principles in the process of risk management are a sufficient volume of capital for covering risks, optimisation of the relationship between risk and expected return, an effective internal control system, the proper segregation of duties, identification and analysis of risks, portfolio diversification, and accuracy and completeness of the data in the Bank's system. The management of the Bank is regularly informed with regard to the level of risk undertaken, and the risk management system is monitored and evaluated.

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The Bank's Board of Directors plays a key role in risk management's organisational structure. The Board determines the risk management strategy; approves the Bank's control documentation, including limits and authorised guidelines; and decides upon the most important risk positions. The Asset and Liability Management Committee (ALCO) monitors the balance sheet structure and authorises the relevant risk positions or limits. Departments directly subordinate to the board member responsible for risk management analyse the Bank's risk positions, monitor compliance with established limits, report on the results of their findings, and, as appropriate, approve their own risk positions within the scope of their assigned authorities.

As from the middle of 2007, the new Czech National Bank Decree No.123/2007 Coll., Stipulating the Prudential Rules for Banks, Credit Unions, and Securities Dealers became valid. This decree formulates regulatory requirements for risk management and implements the rules proposed by the Basel II international accord and established by a European directive. In those aspects of risk management defined by the Decree, the Bank during 2007 made use of the transitional period to prepare for full application of new regulatory rules starting from 2008.

In light of Volksbank CZ's results, the risk management system is considered to be efficient and effective.

CREDIT RISK MANAGEMENT

The provision of loan products is one of the Bank's most important business activities, and the emphasis given to managing credit risk reflects that fact. This process is defined by regulatory requirements as well as by rules reflecting the strategy of the parent company.

At the level of individual loan exposures, in assessing a credit application the Bank places particular emphasis, among other aspects, on analysing the client's financial situation, his or her ability to repay the provided loan from cash flow, the purpose for executing the transaction, the experience with the client to date, and the quality of the collateral. The assessment and approval of credit proposals is independent from the selling units. Authorisation powers are delegated by the parent company or the Board of Directors and are segmented by value into several layers.

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For existing exposures, the Bank carries out regular monitoring of individual clients as well as for broader, economically similar groups. This process increases the probability for timely recognition of future client defaults. It includes assessing the client's current financial situation, along with monitoring the collateral's value and fulfilment of the contractual conditions. For cases of debtor defaults, the Bank has established a system to address problematic loans in a timely manner. This reduces the probability of incurring losses from providing loans.

At the loan portfolio level, moreover, the Bank maintains a system of measuring and monitoring its quality. An analysis is conducted of the portfolio's condition and development, including taking into account the accepted collateral. The observance of regulatory and internal limits is monitored, including limits of concentrating risk in individual economic sectors. Volksbank CZ is in compliance with all regulatory limits for its investment portfolio exposure. The process also includes quantifying the credit risk level in the form of estimated losses from degradation at the portfolio level.

Volksbank CZ is preparing its transition to calculating the capital adequacy for credit risk of the investment portfolio based on the internal ratings-based (IRB) approach. The credit quality of each client is assessed using an internal rating system. In total, seven rating systems are available for various types of clients. Within each rating system, a client is classified at one of 20 points on the internal rating scale (another five points correspond to the default status of a client). Each point corresponds to a fixed one-year probability of the client's default. This probability is used as one of the parameters in the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probabilities of default are continuously made more precise.

RISK MANAGEMENT

MARKET RISK MANAGEMENT

The main instrument for managing market risk is a system of limits for individual types of market risks. Compliance with these limits is regularly monitored and the findings are reported to the Board of Directors, the ALCO, and the appropriate business units. The limits are established internally in cooperation with the parent company or are based on the relevant CNB regulations. Stress testing of the market risks is carried out regularly.

An important principle of the market risk management system is the timely, accurate and complete recording of all transactions, as well as their proper valuation. For these purposes, the Bank uses the support of the Reuters Kondor+ software.

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With regard to currency risk, the Bank manages its risk position by trading on the currency market. The risk position is defined as the difference between the assets and liabilities in the respective currency. It also includes currency derivatives traded with clients. The risk position is monitored daily and compared with the applicable limits.

The Bank's exposure to interest rate risk is defined as the difference between the values of interest-bearing assets and of interest-bearing liabilities. Nevertheless, the key parameter is the remaining time before the possibility to adjust the interest rates of individual interest exposures in response to changes in market interest rates. The total interest rate exposure is monitored daily using gap analysis. This is done separately for each currency but also on an aggregated basis for all currencies. The sensitivity to changes in market interest rates is measured using the PVBP indicator. Management of the interest rate exposure includes the use of interest rate swaps and other fixed-interest instruments such as mortgage-backed securities or loans taken. As the result of a project across the Volksbank Group, a new application is being implemented that will enable more detailed simulations and stress testing.

Exposure to securities market volatility occurs especially in relation to bond portfolios held. Bond purchases are subject to applicable limits, and these especially emphasise the credit rating of the issuer. Volksbank CZ is not exposed to share price risk, because it primarily offers services related to equity trades to clients who are trading for their own accounts.

LIQUIDITY RISK

Management of liquidity risk begins with daily analysis of the actual residual maturities of assets and liabilities, which are examined both in the main individual currencies and on an aggregate basis for all currencies. Based on this analysis, the Bank monitors on a daily basis the compliance with liquidity limits that are established internally. The structure of limits is based upon a ratio of assets to liabilities with a given period of residual maturity.

In managing the short-term liquidity position, the Bank includes planned and expected cash flows for five business days in advance. For the purpose of long-term forecasting, a scenario for liquidity risk management is regularly prepared that includes data on the existing as well as planned structure of the balance sheet. This scenario is submitted to the ALCO.

A contingency liquidity plan is prepared for the possibility that extraordinary circumstances would threaten the Bank's liquidity position.

OPERATIONAL RISK

As part of its internal regulations, Volksbank CZ has an internal database of the requisite regulations for operational risk management, including those for the areas of information security, continuity of operations, and anti-money laundering. The Bank has also established a system of control mechanisms for those individual processes that are basic elements of operational risk management.

An Operational Risk Office has been established within the Bank's organisational structure. This unit is responsible for methodical operational risk management and provides support to the specialised units in this area.

The operational risk management process includes identification and recording, evaluation and valuation of risks, designing measures for their minimisation, along with controlling implementation of the designed measures and their effectiveness. The Bank applies the operational risk management process at the levels of both actual events and hypothetical risks.

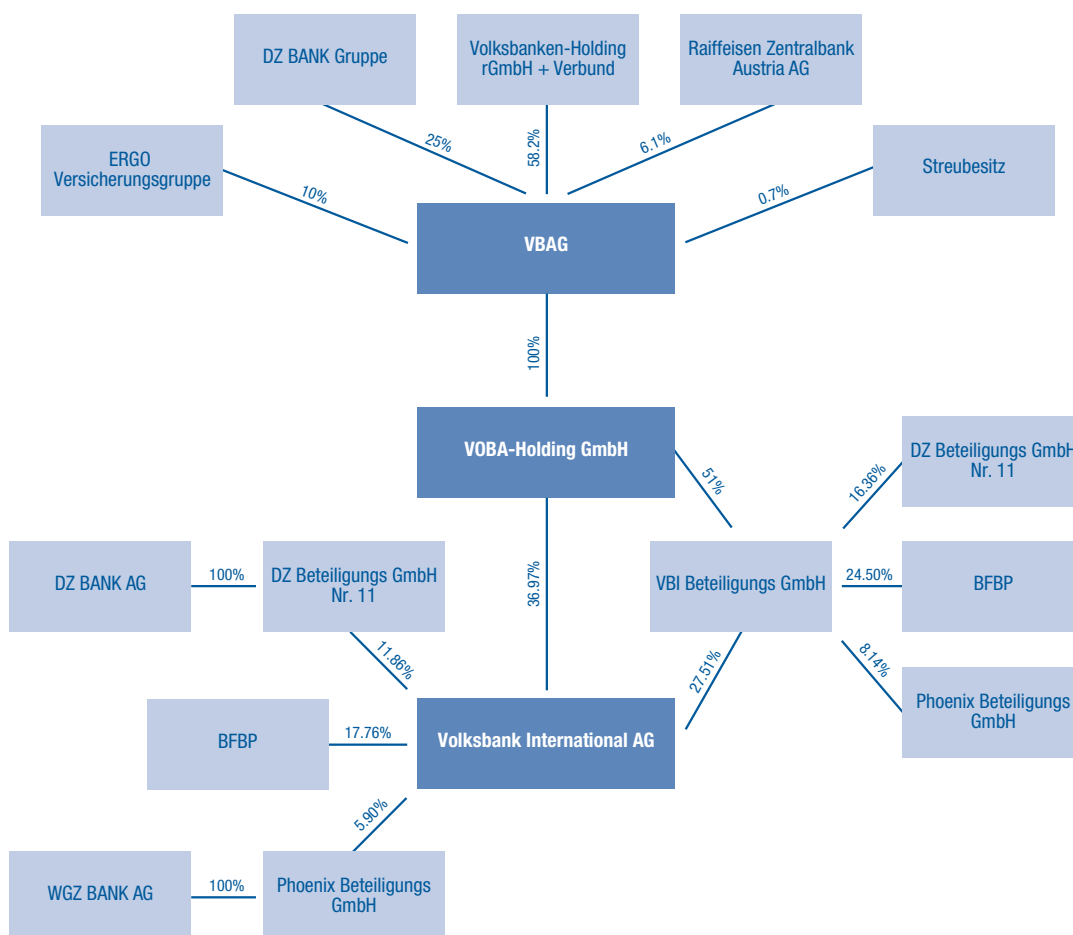
Every identified event is assessed and considered individually, and the measures to be taken are designed in accordance not only with the frequency of the event's occurrence and the amount of the realised or anticipated loss or profit, but also its seriousness and original cause of origin. The objective is to ensure that the measures taken will effectively minimise or eliminate occurrences of similar events in future.

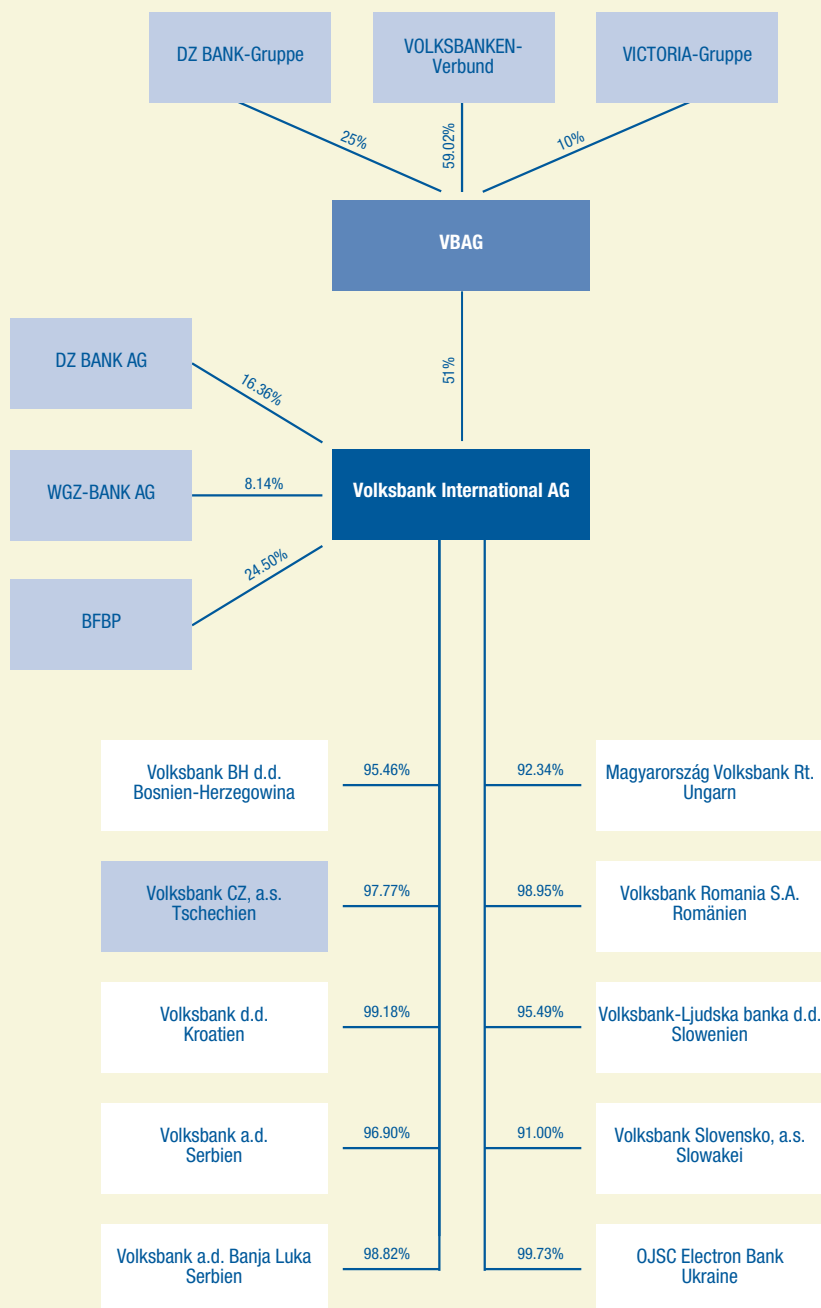
The Bank is involved in a Group-wide project for managing and monitoring operational risk. Starting in 2008, Volksbank CZ will apply the standard approach in calculating the capital requirements for operational risk.

OTHER INFORMATIONS

INFORMATION ON RELATIONS

Volksbank International AG (VBI) is the controlling entity of Volksbank CZ, a.s. and is part of the group Volksbank AG. The group's structure is laid out in the following diagram:





OTHER INFORMATIONS

Measures that should ensure that the controlling entity does not abuse its powers stem from the Commercial Code. The measures concern, in particular, the prohibition against abusing the majority of votes in the company (Section 56a, paragraph 1 of the Commercial Code); the prohibition against abusing the controlling entity's influence in order to force the adoption of a measure or the conclusion of a contract from which financial damage may arise to a controlled entity, unless the controlling entity compensates for the damage so arising no later than by the end of the accounting period within which the damage occurred, or unless within the same time limit an agreement is concluded establishing a reasonable period and method for the damage's reimbursement by the controlling entity (Section 66a, paragraph 8 of the Commercial Code); the company's obligation to prepare a report on relationships between related parties in accordance with Section 66a, paragraph 9 nn of the Commercial Code (see page 110 of the Annual Report – Report on Relations); the obligation of the controlling entity to compensate damage incurred by the controlled entity in accordance with Section 66a, paragraph 14 of the Commercial Code; and the liability of members of the controlling entity's and controlled entity's statutory bodies in accordance with Section 66a, paragraph 15 of the Commercial Code.

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Contracts concluded between VBI AG and Volksbank CZ, a.s.:

	Title of the contract	Concluded with	Subject of the contract
1	Rahmendiensteleistungsvertrag	VBI	Provision of advisory services
2	Triangular International Assignment Agreement	VBI, VBI employee	Delegating an employee to work in VB CZ
3	Vereinbarung	ALB EDV-Service GmbH	Provision of IT services
4	Stand-by Liquidity Commitment	VBI	Liquidity Commitment
5	Vereinbarung	VB IT-Services GmbH	Provision of IT services
6	Nutzungsvertrag	VB Managementberatung GmbH	Right to use Riskwarehouse and rating systems

INFORMATION ON ACQUISITION OF TREASURY SHARES

During 2007, Volksbank CZ, a.s. did not trade or hold any of its own shares, nor did it own any shares of the controlling entity, VBI AG.

DATA ON ISSUED SECURITIES

Shares of Volksbank CZ, a.s.

Kind: ordinary and preference shares

Sort: 258,927 registered ordinary shares, 77,633 registered preference shares

Form: dematerialised

Quantity: 336,560 shares in total

Total volume in issue: CZK 1,682,800,000

Nominal value per share: CZK 5,000

Marketability of shares: The shares are not traded on any public market.

Issues of mortgage-backed securities (HZL) of Volksbank CZ, a.s.

HZL VB CZ 3.70% payable in 2010

Identification code (ISIN): CZ0002000599

Date, sort and form of issue: 18 October 2005, bearer shares, dematerialised

Total volume of issue: CZK 0.5 billion

Nominal value, quantity: CZK 10,000, 50,000

Coupons: fixed annual interest rate of 3.70% paid each year in arrears

The securities has not been traded on any public market.

Maturity: The securities will be paid up in their nominal value on 18 October 2010.

HZL VB CZ 4.60% payable in 2011

Identification code (ISIN): CZ0002000813

Date, sort and form of issue: 27 June 2006, bearer shares, dematerialised

Total volume of issue: CZK 0.5 billion

Nominal value, quantity: CZK 10,000, 50,000

Coupons: fixed annual interest rate of 4.60% paid each year in arrears

The securities has not been traded on any public market.

Maturity: The securities will be paid up in their nominal value on 27 June 2011.

OTHER INFORMATIONS

HZL VB CZ 5.40% payable in 2012

Identification code (ISIN): CZ0002001159

Date, sort and form of issue: 25 September 2007, bearer shares, dematerialised

Total volume of issue: CZK 0.7 billion

Nominal value, quantity: CZK 10,000, 70,000

Coupons: fixed annual interest rate of 5.40% paid each year in arrears

Traded on: Prague Stock Exchange, official open market

Maturity: The securities will be paid up in their nominal value on 25 September 2012.

HZL VB CZ 5.30% payable in 2017

Identification code (ISIN): CZ0002001688

Date, sort and form of issue: 18 December 2007, bearer shares, dematerialised

Total volume of issue: CZK 0.8 billion

Nominal value, quantity: CZK 10,000, 80,000

Coupons: fixed annual interest rate of 5.30% paid each year in arrears

The securities has not been traded on any public market.

Maturity: The securities will be paid up in their nominal value on 18 December 2017.

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REMUNERATION PAID TO AUDITING COMPANY PRICEWATERHOUSE COOPERS AUDIT, S.R.O. FOR 2007

Auditing services	CZK 1.40 million
Tax services	CZK 0.45 million
Others	CZK 1.64 million
Total	CZK 3.49 million

PRINCIPLES OF REMUNERATING MANAGERS AND SUPERVISORY BOARD MEMBERS

Managing Entities of the Issuer

The managing entity of the issuer Volksbank CZ, a.s. comprises the Chairman of the Board of Directors, who is also the general director; the members of the Board of Directors; and company secretaries.

By law, the Board of Directors is the statutory body directing the company's operations and acting on its behalf. Members of the Volksbank CZ Board of Directors perform their functions with a proper manager's care and act in good faith, with appropriate diligence and care, and in the best interest of the company and its shareholders. They are experts in managing large corporations and have international experience and ability to work as a team. Their office requires ongoing development both in their fields of expertise and in the general operation and management of companies; an active approach to fulfilling their obligations and the ability to contribute to the company's strategy development; and, last but not least, loyalty to the company. Members of the Board of Directors adhere to high ethical standards and are responsible for the company's observance of the applicable laws. They are personally liable for any damage that they may cause by violating their legal obligations, and they also are functionally responsible vis-à-vis the company represented by the shareholders.

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The Chairman of the Board of Directors is remunerated on the basis of an employment contract concluded with VBAG and a contract on delegation to Volksbank CZ, a.s.

Members of the Board of Directors are remunerated on the basis of a "Contract on Discharging the Office of a Member of the Board of Directors" concluded in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The Contract on Discharging the Office of a Member of the Board of Directors was approved by the company's Supervisory Board.

The company pays fixed monthly remuneration to the Chairman and members of the Board of Directors for their management activity, attendance at the body's meetings, due preparation for those meetings, and for other activities associated with discharging the office of a member of the Board of Directors. The remuneration for the Chairman of the Board of Directors is paid through VBAG and is transferred by Volksbank CZ, a.s.

OTHER INFORMATIONS

Moreover, the Chairman and members of the Board of Directors are remunerated in consideration of a performance evaluation regarding their activity, which is measured on the basis of their fulfilling established performance criteria. The performance criteria are drawn up each calendar year and are derived from the financial goals (profit before taxes of VBI AG, profit before taxes of Volksbank CZ, and profit of the controlled organisational unit) and the fulfilment of structural duties. The variable component of the remuneration may be as much as 35% of the fixed component.

The general director and company secretaries are not additionally remunerated due to their positions. Thus, only the employment salaries of company secretaries are listed for other managers. Based on their managerial and professional knowledge and experience and their contribution to the company, the Chairman of the Board of Directors, members of the Board of Directors and company secretaries receive:

- all monetary and in-kind earnings pertaining to members of the Board of Directors in the total amount of CZK 11.96 million;
- all monetary and in-kind earnings pertaining to other managers in the total amount of CZK 3.64 million.

These earnings were paid on the basis of fulfilling financial, qualitative and development criteria, as well as on the basis of efficiency criteria. Neither the Chairman of the Board of Directors, members of the Board of Directors, company secretaries nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

Supervisory Board

The Supervisory Board is the company's controlling body and oversees the performance of the Board of Directors in carrying out the company's business operations. The Supervisory Board in particular monitors whether the Board of Directors is performing its duties in accordance with legal regulations and the company's statutes and whether members of the Board of Directors are acting in accordance with the company's interests while exercising a proper manager's care. Members of the Supervisory Board perform their functions with a proper manager's care. To perform the duties of a member of the Supervisory Board, members must be expertly qualified and maintain loyalty to the company and discretion regarding confidential information and facts.

Members of the Supervisory Board are liable for any damage that they may cause by violating their legal obligations. Moreover, members of the Supervisory Board are functionally responsible vis-à-vis the company represented by the shareholders. Members of the Supervisory Board are remunerated in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The amount of the relevant remuneration for members of the Supervisory Board is approved by the general meeting. No monthly remuneration is paid for activities in the Supervisory Board of Volksbank CZ.

Neither members of the Supervisory Board nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

No remuneration due to membership in the Supervisory Board, including those of an in-kind nature, were paid in 2007 to members of the Supervisory Board of Volksbank CZ for their activities in that body.

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MARKET SITUATION FOR PRINCIPAL ACTIVITIES

Volksbank CZ has successfully operated on the Czech market since 1993. In 2007, the Bank held a 0.99% share in the total assets of all 37 banks operating in the Czech Republic. Volksbank CZ had a 43.42% share in the total year-on-year growth rate of all banks, making it very successful. It also achieved a 0.69% share in the overall banking sector's profit. The Bank's year-on-year profit growth amounted to 45.61%, while the year-on-year profit growth of the overall banking sector came to 24.33%. The share of Volksbank CZ's client loans in the banking sector amounted to 1.69%, and the share of client deposits amounted to 1% of total client deposits in the banking sector.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Volksbank CZ, a.s.

Residence: Lazarská 8, 120 00 Praha 2
Identification number: 25083325
Legal form: joint-stock company
Primary business: banking
Date of preparation: 25 February 2008

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	2007	2006
Interest and similar income		1,476	944
Interest expense and similar charges		(507)	(299)
Net interest income	3	969	645
Fee and commission income		399	314
Fee and commission expense		(82)	(71)
Net fee and commission income	4	317	243
Net trading income	5	56	19
Impairment charge for credit losses	13	(164)	(63)
Provisions	25	-	(3)
Administrative expenses	6	(725)	(580)
Other operating income	7	7	9
Other operating expenses	8	(20)	(15)
Operating profit		440	255
Profit before income tax		440	255
Income tax expense	9	(120)	(78)
Profit for the year		320	177

BALANCE SHEET AS AT 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	2007	2006
ASSETS			
Cash and balances with central banks	10	809	1,266
Loans and advances to banks	11	3,707	2,414
Loans and advances to customers	12,13	30,161	21,020
Derivative financial instruments	14	160	22
Financial assets at fair value through profit or loss	15	260	320
Investment securities:			
– Available for sale	16	167	29
– Held to maturity	16	759	-
Intangible assets	17	81	58
Property and equipment	18	266	217
Deferred income tax assets	19	31	5
Other assets	20	47	63
Total assets		36,448	25,414

in CZK million	Note	2007	2006
LIABILITIES			
Deposits from banks	21	7,416	5,163
Due to customers	22	20,538	14,832
Derivative financial instruments	14	154	24
Debt securities in issue	23	3,147	2,010
Other liabilities	24	699	737
Provisions	25	8	8
Current income tax liabilities		77	47
Subordinated debt	26	270	278
Total liabilities		32,309	23,099
EQUITY			
Share capital	27	1,683	1,145
Share premium account		2,017	887
Statutory reserve		37	26
Cumulative gains not recognised in the income statement	27	4	5
Retained earnings		398	252
Total equity		4,139	2,315
Total equity and liabilities		36,448	25,414

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

	Share capital	Share premium account	Statutory reserve	Cumulative gains not recognised in the income Statement	Retained earnings	Total Equity
As at 1 January 2006	819	216	20	3	198	1,256
Net change in available-for-sale investments, net of tax	-	-	-	2	-	2
Net income recognised directly in equity	-	-	-	2	-	2
Net profit	-	-	-	-	177	177
Total recognised income for 2006	-	-	-	2	177	179
Transfer to statutory reserve	-	-	6	-	(6)	-
Dividend relating to 2005	-	-	-	-	(117)	(117)
Equity issue	326	671	-	-	-	997
As at 31 December 2006	1,145	887	26	5	252	2,315
As at 1 January 2007	1,145	887	26	5	252	2,315
Net change in available-for-sale investments, net of tax	-	-	-	(1)	-	(1)
Net income recognised directly in equity	-	-	-	(1)	-	(1)
Net profit	-	-	-	-	320	320
Total recognised income for 2007	-	-	-	(1)	320	319
Transfer to statutory reserve	-	-	11	-	(11)	-
Dividend relating to 2006	-	-	-	-	(163)	(163)
Equity issue	538	1,130	-	-	-	1,668
As at 31 December 2007	1,683	2,017	37	4	398	4,139

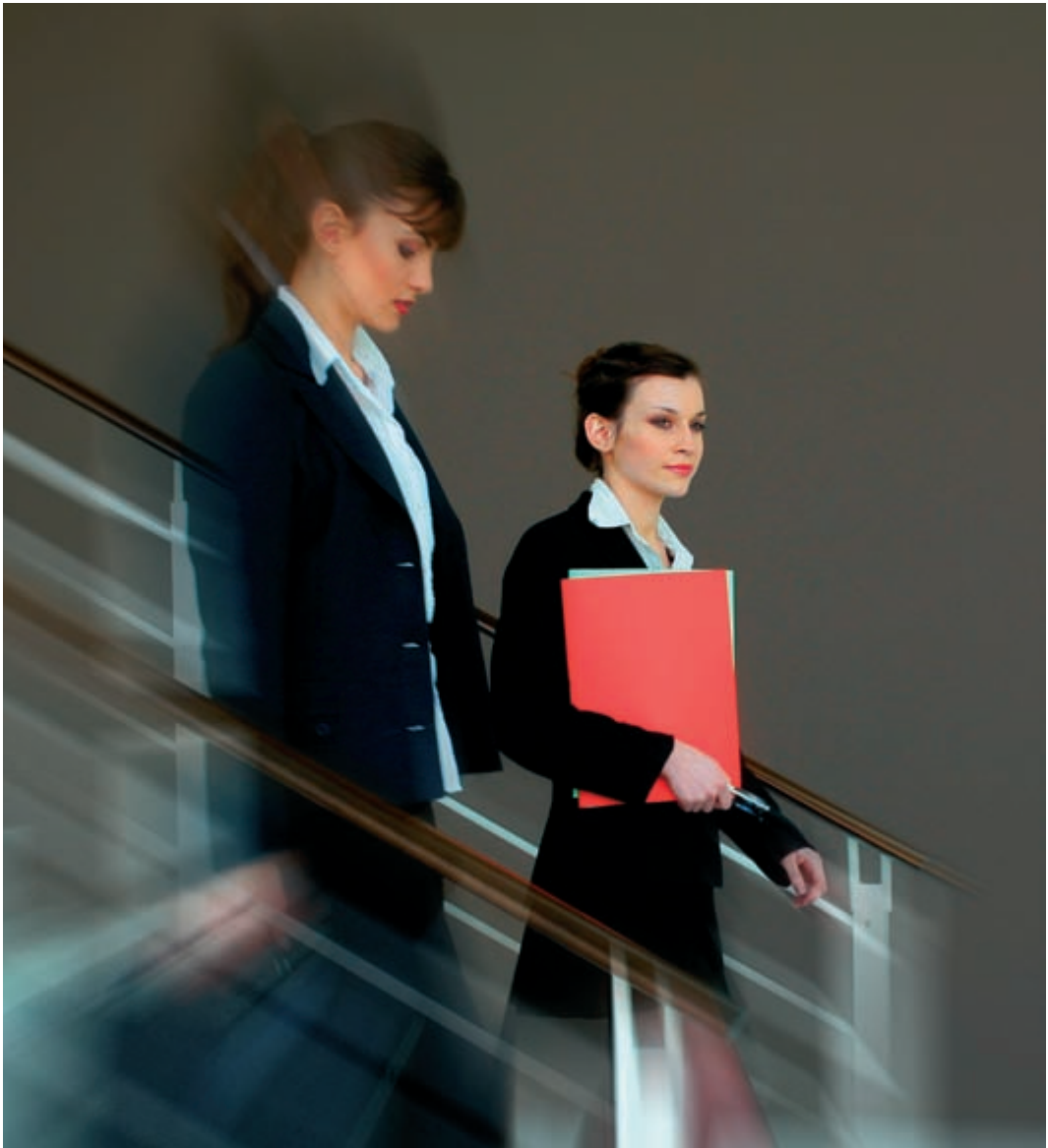
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	2007	2006
Cash flow from / (used in) operating activities			
Profit before income tax		440	255
Adjustment for:			
Impairment losses on loans and advances		149	(2)
Provisions		-	3
Depreciation of property and equipment		6	695
Change in cumulative gains not recognised in the income statement		(1)	2
(Increase)/ decrease in operating assets:			
Due from banks, non-demand		(1,969)	55
Financial assets at fair value through profit or loss		(78)	(109)
Loans and advances		(9,290)	(4,486)
Other assets		(1)	2
Prepayments and accrued income		17	7
Increase / (decrease) in operating liabilities			
Due to banks, term		2,699	842
Financial liabilities at fair value through profit and loss		130	16
Due to customers		5,706	2,528
Promissory notes and certificates of deposits		46	(159)
Other liabilities		(40)	(42)
Accruals and deferred income		2	22
Net cash flow used in operating activities before income tax		(2,121)	(1,007)
Net income tax paid		(115)	(49)
Net cash flow used in operating activities		(2,236)	(1,056)

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2007

in CZK million	Note	2007	2006
Cash flow from / (used in) investing activities			
Purchase of investment securities	16	(898)	-
Purchase of property and equipment		(142)	(70)
Disposal of property and equipment		1	1
Net cash flow used in investing activities		(1,039)	(69)
Cash flow from / (used in) financing activities			
Issue of bonds		1,091	502
Issue of shares		1,668	997
Decrease in borrowings		(8)	(14)
Dividends paid	34	(163)	(117)
Net cash flow from financing activities		2,588	1,368
Net increase / (decrease) in cash and cash equivalents		(687)	243
Cash and cash equivalents at the beginning of the year	30	1,478	1,235
Net increase / (decrease) in cash and cash equivalents		(687)	243
Cash and cash equivalents at the end of the year	30	791	1,478



NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 GENERAL INFORMATION

VOLKSBANK CZ, a.s. (hereinafter referred to as “the Bank”) was incorporated on 31 October 1996. The Bank had 55 domestic regional branches in the Czech Republic as at 31 December 2007 (as at 31 December 2006: 33 branches) and employed on average 540 people (as at 31 December 2006: 423 people).

The ultimate holding company is Österreichische Volksbanken AG, which is incorporated in Austria.

The Bank’s operations primarily consist of the following:

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

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2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity, statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”). The policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (aa).

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

(c) Foreign currencies translation

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

The financial statements are presented in CZK, which is the Bank's functional and presentation currency.

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Transactions and balances

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

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(d) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. They are classified based on management's intention at inception.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss;
- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss; and

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Gains and losses arising from changes in the fair value of trading derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in “net trading income”.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are measured at amortised cost.

Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at the amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(f) Derivative financial instruments and hedge accounting

Derivatives including foreign exchange contracts, currency and interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Bank chooses to designate the hybrid contracts at fair value through profit and loss.

The Bank does not apply hedge accounting.

(g) Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique the variables of which include only data from observable markets.

(h) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(i) Fee and commission income and fee expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

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(j) Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

(k) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(I) Impairment of financial assets

Assets carried at amortised costs

The Bank assesses as at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. These procedures mainly include cession of a loan, filing a lawsuit in order to recover the loan through demand for payment and filing a distraint or bankruptcy petition.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Assets classified as available for sale

The Bank assesses as at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the income statement on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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Renegotiated loans and advances

Since the moment of renegotiation, such loans are treated as impaired for the period of six months. If a loan performs according to the renegotiated schedule, it becomes treated as watched during the subsequent 18 months, and as standard starting the third year since the renegotiation.

(m) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised on the basis of the expected useful lives (three to four years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding three years).

(n) Property, premises and equipment

Land and buildings comprise mainly branches and offices. All property, premises and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and constructions	30
Administrative buildings	30
Hardware and equipment	4
Fixtures and fittings	6
Safes	12
Motor vehicles	4

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The leasehold improvements are depreciated over the term of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other operating expenses in the income statement.

(o) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(p) Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks (including Mandatory Minimum Reserves), trading assets, debt securities, amounts due from banks repayable on demand and due to banks repayable on demand.

(r) Provisions

Provisions for legal claims or financial guarantee contracts are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Financial guarantee contracts

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 payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as at the balance sheet date. These estimates are determined based on experience similar transactions and history of past losses, supplemented by the judgment of management.

(t) Staff costs, pensions and social fund

Staff costs

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

Pensions

The Bank currently executes a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Social fund

The Bank creates a social fund to finance the social needs of its employees and employee benefit programmes. The allocation to the social fund is recognised in the income statement.

(u) Taxation and deferred income tax

Income tax

Income tax payable on profits, based on Czech tax law, is recognised as an expense in the period in which profits arise.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax losses carried forward. The rates enacted or substantively enacted as at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

(v) Value added tax

The Bank is registered for value added tax ("VAT"). Intangible and tangible fixed assets are stated at acquisition cost including the appropriate VAT. The Bank does not claim input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT.

(w) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(x) Share capital and reserves

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on shares

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Statutory reserve

In accordance with the Commercial Code, the Bank is required to set aside a statutory reserve in equity.

The statutory reserve represents accumulated transfers from retained earnings. Five percent of net profit shall be allocated to the statutory reserve until the value of 20 % of share capital is achieved. This reserve is not distributable and can be used exclusively to cover losses.

(y) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

(z) IFRS / IAS accounting and reporting developments

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

IAS 32 and IAS 1 Amendment – Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009).

The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Bank is currently assessing the impact of the amendment on its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).

The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

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The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. Any investment retained in the former subsidiary will have to be measured at its fair value at the date when control is lost. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The Bank is currently assessing the impact of the amended standard on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than

included in goodwill. An acquirer will have to recognise at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).

The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank is currently assessing the impact of the amendment on its financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008).

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Bank is currently assessing the impact of the Interpretation on its financial statements.

Other new standards or interpretations

The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(aa) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

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This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated CZK 16 million lower or CZK 26 million higher.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Deferred tax

Significant estimates are required in determining deferred income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of temporary differences is different from the amounts that were initially recorded, such differences will impact the current income tax provision and deferred tax in the period in which such determination is made.

(ab) Reclassifications of comparative figures

The Bank changed classification or presentation of the following comparative amounts in order to ensure their comparability with current year:

- Net interest income from FVPL securities of CZK 10 million in 2006 was reclassified from Net interest income to Net trading income (Notes 3 and 5);
- Repo loan of CZK 600 million as at 31 December 2006 with CNB was reclassified from Loans and advances to banks to Cash and balances with central banks (Notes 10 and 11);
- Amortisation/depreciation charge in the statement of cash flow was presented on gross basis (before accumulated amortisation/depreciation on disposals), which led to increase of Depreciation of property and equipment from CZK 54 million to CZK 59 million and decrease of Disposal of property and equipment from CZK 6 million to CZK 1 million in 2006;
- In segment reporting disclosure (Note 31) the Bank split Impairment charge to credit losses of CZK 72 million in 2006 to its Retail and Corporate segments;
- Fair values of financial assets and liabilities as at 31 December 2006 (Note 33) were restated, as current market rates used for discounting their future cash flows were adjusted for appropriate risk premium.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

3 NET INTEREST INCOME

Interest and similar income

(CZKm)	2007	2006
Loans and advances to customers	1,339	828
Due from banks	97	110
Mandatory minimum reserves with central banks	10	6
Loans and advances to banks	107	116
Investment securities held to maturity	30	-
	1,476	944

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Interest income from loans and advances to customers

(CZKm)	2007	2006
Receivables from companies and individuals including consumer loans	1,265	772
Receivables from municipalities	29	42
Receivables from governmental bodies	1	2
Other receivables from customers	44	12
	1,339	828

Interest income from investment securities held to maturity

(CZKm)	2007	2006
Receivables from companies	30	-
	30	-

Management estimates that approximately CZK 53 million of interest income was recognised on impaired receivables in 2007 (2006: CZK 35 million).

Interest and similar expense

(CZKm)	2007	2006
Due to customers	216	127
Due to banks	224	124
Debt securities in issue	67	48
	507	299

4 NET FEE AND COMMISSION INCOME

(CZKm)	2007	2006
Fee and commission income	399	314
Fee and commission expense	(82)	(71)
	317	243

Fee and commission income

(CZKm)	2007	2006
International payment transactions	194	165
Domestic payment transactions	93	76
Lending business	47	22
Foreign exchange, foreign notes and coins transactions	34	31
Securities and custody business	24	16
Other	7	4
	399	314

Fee and commission income from securities and custody business includes CZK 1 million of fee income from custody activities (2006: CZK 1 million).

5 NET TRADING INCOME

(CZKm)	2007	2006
Net interest income – FVPL securities	13	10
Net trading income – FVPL securities and trading derivatives	43	9
	56	19
Fixed-income securities and money market	12	10
Net foreign exchange gains	41	9
Interest rate contracts	3	-
	56	19

Net foreign exchange gains include results arising from both customer and proprietary activities in foreign exchange cash, spot, forward, swap and option operations. Included in Net trading income of CZK 56 million (2006: CZK 19 million) is change in fair value of CZK 16 million (2006: CZK 9 million) estimated using a valuation technique.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

6 ADMINISTRATIVE EXPENSE

(CZKm)	2007	2006
Personnel expenses	388	300
Depreciation of property and equipment and amortisation of intangible assets	69	59
Other general administrative expenses	268	221
	725	580

Personnel expenses

(CZKm)	2007	2006
Salaries and bonuses of Board of Directors members	12	10
Salaries and bonuses of senior management	24	19
Salaries and bonuses of Supervisory Board members	2	3
Salaries and bonuses of the employees	246	186
Social security costs	94	70
Other personnel costs	10	12
	388	300

Social security costs also include the contribution to the state pension scheme.

Management bonus scheme

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval of the Supervisory Board. The key performance indicator of the Annual performance bonus is based on the growth of the net profit before taxes.

Retirement benefits

The Bank provides its employees with a voluntary defined contribution retirement scheme. Participating employees can contribute some percentage of their salaries to a pension fund. The Bank contributes up to CZK 2,000 a month per person according to the level of the employee contribution. Total Bank expense for the retirement scheme in 2007 was CZK 0.7 million (2006: CZK 0.5 million).

Other general administrative expenses

(CZKm)	2007	2006
Rent and leasing	76	56
Information technology	57	48
Marketing and public relations	27	35
Material consumption	24	19
Audit, tax, legal consultancy	21	7
Tax and fees	3	2
Other	60	54
	268	221

7 OTHER OPERATING INCOME

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(CZKm)	2007	2006
Rental income	1	1
Other	6	8
	7	9

8 OTHER OPERATING EXPENSES

(CZKm)	2007	2006
Deposit insurance	18	14
Other	2	1
	20	15

9 INCOME TAX EXPENSE

(CZKm)	2007	2006
Current tax expense	145	81
Deferred tax income relating to the origination and reversal of temporary differences (Note 19)	(25)	(3)
	120	78

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following table shows the tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate:

(CZKm)	2007	2006
Profit before taxation	440	255
Applicable rates	24%	24%
Taxation at applicable tax rates	106	61
Tax effect of non-taxable income	-	(13)
Tax effect of non-deductible expenses	8	26
Other	6	4
	120	78

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The effective tax rate was 27.27% (2006: 30.59%).

10 CASH AND BALANCES WITH CENTRAL BANKS

The Bank classifies its cash and balances with central banks, except for cash in hand, in the category of financial assets "loans and receivables".

(CZKm)	31.12.2007	31.12.2006
Loans to central bank	300	600
Mandatory minimum reserves with central banks	124	396
Cash in hand	351	262
Balances with central banks	34	8
	809	1,266

Mandatory minimum reserves with the Czech National Bank ("CNB") are generally not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 3.5% as at 31 December 2007 (31 December 2006: 2.5%).

Cash and balances with central bank include CZK 300 million (31 December 2006: CZK 600 million) recognised as a result of the cash collateral placements in respect of securities purchased under reverse repos. The fair value of the securities collateral held amounted to CZK 293 million (31 December 2006: CZK 601 million).

11 LOANS AND ADVANCES TO BANKS

The Bank classifies its loans and advances to banks in the category of financial assets “loans and receivables”.

(CZKm)	31.12.2007	31.12.2006
Analysed by product and bank domicile		
Current accounts		
Domestic	37	6
Foreign	13	28
Term deposits		
Domestic	2,839	1,332
Foreign	818	1,048
	3,707	2,414
Allowances for credit losses	-	-
Net due from banks	3,707	2,414

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12 LOANS AND ADVANCES TO CUSTOMERS

Bank classifies its loans and advances to customers in the category of financial assets “loans and receivables”.

(CZKm)	31.12.2007	31.12.2006
Analysed by product		
Investment loans	18,408	12,636
Working capital financing	7,542	6,729
Mortgages	3,737	1,346
Consumer loans	880	566
Gross loans and advances	30,567	21,277
Allowance for impairment (Note 13)	(406)	(257)
Net loans and advances	30,161	21,020
Quality of receivables portfolio		
Neither past due nor impaired	28,719	19,725
Past due but not impaired	1,081	907
Impaired: - substandard	395	362
- doubtful	160	72
- loss	212	211
	30,567	21,277

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

For the definitions of individual categories of loans and advances to customers according to their credit quality see Note 32 (b).

13 IMPAIRMENT CHARGE FOR CREDIT LOSSES

The movement in allowance for impairment of loans and advances to customers can be analysed as follows:

(CZKm)	Retail	Corporate	Total
As at 1 January 2006	186	73	259
Net addition to provision for loan impairment	(33)	104	71
Loans written off during the year as uncollectible	(7)	(58)	(65)
Unwind of discount of allowance	-	-	-
Exchange differences	-	(8)	(8)
As at 31 December 2006	146	111	257
Net addition to provision for loan impairment	34	131	165
Loans written off during the year as uncollectible	(16)	(1)	(17)
Unwind of discount of allowance	2	-	2
Exchange differences	-	(1)	(1)
As at 31 December 2007	166	240	406

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14 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's trading activities primarily involve providing various derivative products to its customers and managing positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage interest rate position and which do not meet the criteria of hedge accounting.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2007 and 31 December 2006 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

Derivative financial instruments

Trading derivatives

(CZKm)	31.12.2007			31.12.2006		
	Contract/ notional	Fair value positive	Fair value negative	Contract/ notional	Fair value positive	Fair value negative
Interest rate derivatives						
Swaps	277	3	1	39	-	3
	277	3	1	39	-	3
Foreign exchange derivatives						
Swaps	731	3	9	490	-	3
Forwards	6,523	138	128	1,242	22	18
Options	1,284	16	16	-	-	-
	8,538	157	153	1,732	22	21
Total	8,815	160	154	1,771	22	24

Fair value gains less losses of trading derivatives are recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income statement.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities held for trading

(CZKm)	31.12.2007	31.12.2006
Debt securities	260	320

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

16 INVESTMENT SECURITIES

The Bank classifies its investment securities in the categories of financial assets “available for sale” and “held to maturity”.

(CZKm)	31.12.2007	31.12.2006
Securities available for sale		
Debt securities thereof:		
– Unlisted	140	-
Equity securities thereof:		
– Unlisted	27	29
	167	29
Securities held to maturity		
Debt securities thereof:		
– Listed	255	-
– Unlisted	504	-
	759	-

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The Bank held a 9.72% share of Victoria pojišťovna a.s. at a value of CZK 27 million (31 December 2006: CZK 29 million). The Bank does not exert significant influence in Victoria pojišťovna a.s.

(CZKm)	Securities available for sale	Securities held to maturity	Total
As at 1 January 2006	26	-	26
Gains from changes in fair value	3	-	3
As at 31 December 2006	29	-	29
Additions	139	759	898
Losses from changes in fair value	(1)	-	(1)
As at 31 December 2007	167	759	926

17 INTANGIBLE ASSETS

(CZKm)	Software	Development in progress	Other	Total
Costs				
As at 1 January 2006	147	12	6	165
Additions	12	6	-	18
Transfer	12	(12)	-	-
Disposal	(7)	-	(5)	(12)
As at 31 December 2006	164	6	1	171
Additions	29	19	-	48
Transfer	6	(6)	-	-
Disposal	-	-	-	-
As at 31 December 2007	199	19	1	219
Accumulated amortisation				
As at 1 January 2006	(101)	-	(5)	(106)
Amortisation charge	(18)	-	-	(18)
Disposals (accumulated amortisation)	7	-	4	11
As at 31 December 2006	(112)	-	(1)	(113)
Amortisation charge	(25)	-	-	(25)
Disposals (accumulated amortisation)	-	-	-	-
As at 31 December 2007	(137)	-	(1)	(138)
Net book value				
As at 1 January 2006	46	12	1	59
As at 31 December 2006	52	6	-	58
As at 31 December 2007	62	19	-	81

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

18 PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvement	Equipment	Other	Construction in progress	Total
Costs						
As at 1 January 2006	166	56	223	131	3	579
Additions -	13	21	14	4	52	
Transfer -	-	-	3	(3)	-	
Disposal -	(7)	(21)	(8)	-	(36)	
As at 31 December 2006	166	62	223	140	4	595
Additions 2	5	68	15	4	94	
Transfer -	1	1	2	(4)	-	
Disposal -	-	(6)	(8)	-	(14)	
As at 31 December 2007	168	68	286	149	4	675
Accumulated depreciation						
As at 1 January 2006	(64)	(17)	(178)	(114)	-	(373)
Depreciation charge	(4)	(8)	(17)	(9)	-	(38)
Disposals (accumulated depreciation)	-	6	19	8	-	33
As at 31 December 2006	(68)	(19)	(176)	(115)	-	(378)
Depreciation charge	(4)	(6)	(23)	(11)	-	(44)
Disposals (accumulated depreciation)	-	-	5	8	-	13
As at 31 December 2007	(72)	(25)	(194)	(118)	-	(409)
Net book value						
As at 1 January 2006	102	39	45	17	3	206
As at 31 December 2006	98	43	47	25	4	217
As at 31 December 2007	96	43	92	31	4	266

In 2007 there was not any depreciation charge related to low value fixed assets (2006: CZK 3 million).

19 DEFERRED INCOME TAX ASSETS

Deferred income taxes in 2007 are calculated on all temporary differences under the liability method using the 21% income tax rate enacted for 2008 (24% for 2006).

The movement on the deferred income tax account is as follows:

(CZKm)	2007	2006
As at 1 January	5	3
Income statement (debit) / credit (Note 9)	25	3
Available-for-sale securities		
Fair value re-measurement	1	(1)
As at 31 December	31	5

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Deferred income tax asset and liability are attributable to the following items:

(CZKm)	31.12.2007	31.12.2006
Allowance for impairment	41	13
Available-for-sale securities	(1)	(1)
Depreciation of the fixed assets	(12)	(10)
Other temporary differences	3	3
	31	5

The deferred tax (debit) / credit in the statement of income comprise the following temporary differences:

(CZKm)	2007	2006
Allowance for impairment	27	5
Depreciation of fixed assets	(2)	(3)
Other temporary differences	-	1
Total (Note 9)	25	3

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

20 OTHER ASSETS

(CZKm)	31.12.2007	31.12.2006
Prepayments and accrued income	25	42
Other debtors, net of provisions	15	16
Items in the course of collection	-	3
Anticipated receivables	3	2
Other	4	-
	47	63

21 DEPOSITS FROM BANKS

The Bank classifies its deposits from banks in the category of financial liabilities "measured at amortised cost".

(CZKm)	31.12.2007	31.12.2006
Analysed by product and bank domicile		
Current accounts		
domestic	25	9
foreign	79	139
Term deposits		
domestic	769	1,657
foreign	98	88
Borrowings		
domestic	2,271	602
foreign	4,155	2,656
Other		
foreign	19	12
	7,416	5,163

22 DUE TO CUSTOMERS

The Bank classifies its due to customers in the category of financial liabilities “measured at amortised cost”.

(CZKm)	31.12.2007	31.12.2006
Analysed by product		
Current accounts	14,199	10,205
Term deposits	6,190	4,453
Savings accounts with notice period	146	161
Savings accounts	3	13
	20,538	14,832
Analysed by customer type		
Private companies	11,063	7,536
Individual - households	5,512	4,283
Individual - entrepreneurs	1,701	1,508
Government bodies	1,792	1,179
Non-profit institutions	301	245
Insurance companies and pension funds	32	51
Other financial institutions	137	30
	20,538	14,832

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The Bank has not given any collateral for its liabilities.

23 DEBT SECURITIES IN ISSUE

The Bank classifies its debt securities in issue in the category of financial liabilities “measured at amortised cost”.

	Issue date	Currency	Maturity date	31.12.2007 CZKm	31.12.2006 CZKm
Issued mortgage bonds					
Mortgage bond emission 3.70/10	18.10.2005	CZK	18.10.2010	516	514
Mortgage bond emission 4.60/11	27.6.2006	CZK	27.6.2011	528	506
Mortgage bond emission 5.40/12	25.9.2007	CZK	25.9.2012	746	-
Mortgage bond emission 5.30/17	18.12.2007	CZK	18.12.2017	321	-
				2,111	1,020

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Promissory notes and certificates of deposits

(CZKm)	31.12.2007	31.12.2006
Promissory notes and certificates of deposits short-term	900	942
Promissory notes and certificates of deposits long-term	136	48
	1,036	990
Debt securities in issue	3,147	2,010

The Bank issued two mortgage bonds in the nominal amount of CZK 700 million and CZK 300 million respectively in 2007. These bonds were issued at 105.51% and 106.68% of nominal amount.

Issued mortgage bonds are collateralised by the Bank's receivables arising from the granted mortgages in line with Czech regulatory requirements.

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24 OTHER LIABILITIES

(CZKm)	31.12.2007	31.12.2006
Payments in transit	237	384
Other clearing accounts	201	151
Other creditors	145	109
Accruals and deferred income	68	66
Payables to Deposit insurance fund	18	14
Anticipated payables	16	8
VAT and other tax payables	2	4
Other	4	1
Auxiliary credit accounts	8	-
	699	737

25 PROVISIONS

(CZKm)	Provisions for guarantees	Other operating provisions	Total provisions
As at 1 January 2006	3	2	5
Additions	-	3	3
As at 31 December 2006	3	5	8
Additions	-	-	-
As at 31 December 2007	3	5	8

Other operating provisions cover also possible losses regarding legal proceedings. The provision of CZK 3 million as at 31 December 2007 (31 December 2006: CZK 3 million) for litigation is not discounted to its net present value, as the timing of its utilisation could not be predicted with sufficient certainty.

26 SUBORDINATED DEBT

The Bank classifies its subordinated debt in the category of financial liabilities “measured at amortised cost”.

The Bank received a subordinated liability of EUR 10 million from the European Bank for Reconstruction and Development on 24 December 2004, which is payable in one instalment on 26 January 2015. This debt bears 6M EURIBOR interest of 4.725% plus a margin of 0.8% p.a. until the fifth year from the date of the agreement and 1.50% p.a. in the subsequent years which is payable semi-annually. This liability of CZK 270 million, including accrued interest, (31 December 2006: CZK 278 million) is subordinated to all other liabilities of the Bank and forms a part of the tier 2 capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy (Note 32 (g)).

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27 EQUITY

The extraordinary general meeting held on 19 February 2007 decided on an increase of share capital by CZK 181 million to CZK 1,326 million. Increase of the share capital was performed by subscription of the 27,804 ordinary shares and 8,336 non-voting shares; both of nominal value CZK 5,000. Share capital was subscribed with share premium of 310% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholders on 9 March 2007. Registration by the Regional Court in Brno regarding share capital came into force on 16 March 2007.

The extraordinary general meeting held on 29 October 2007 decided on an increase of share capital by CZK 357 million to CZK 1,683 million. Increase of the share capital was performed by subscription of the 54,992 ordinary shares and 16,488 non-voting shares; both of nominal value CZK 5,000. Share capital was subscribed with share premium of 310% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholder on 30 October 2007. Registration by the Regional Court in Brno regarding share capital came into force on 20 November 2007.

Share capital

(CZKm)	31.12.2007	31.12.2006
Voting shares	1,295	881
Non-voting shares	388	264
Issued, paid and registered by the Commercial register	1,683	1,145

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Issues of shares

ISIN	Date of issue	Nominal value of share CZK	Number of shares	Nominal value CZK m
770980001406	23.10.1998	5,000	30,000	150
770980001414	23.10.1998	5,000	100,000	500
770980001406	7.8.2002	5,000	4,600	23
770980001414	7.8.2002	5,000	15,400	77
770980001406	23.11.2005	5,000	3,165	16
770980001414	23.11.2005	5,000	10,555	53
770980001406	31.7.2006	5,000	6,565	33
770980001414	31.7.2006	5,000	21,895	109
770980001406	20.12.2006	5,000	8,479	42
770980001414	20.12.2006	5,000	28,281	142
770980001406	16.5.2007	5,000	8,336	42
770980001414	16.5.2007	5,000	27,804	139
770980001406	21.12.2007	5,000	16,488	82
770980001414	21.12.2007	5,000	54,992	275
			336,560	1,683

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Non-voting shares are not allowed to vote and bear a 1% higher dividend payment than voting shares.

Cumulative gains not recognised in the income statement may be analysed as follows:

(CZKm)	2007	2006
As at 1 January	5	3
Net gains/(losses) from changes in fair value	(2)	3
Change in deferred income taxes	1	(1)
As at 31 December	4	5

28 CONTINGENT LIABILITIES AND COMMITMENTS

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

Contingent liabilities include:

(CZKm)	31.12.2007 Contract amount	31.12.2006 Contract amount
Documentary credits	355	138
Financial guarantees	1,044	765
Provision for guarantees (Note 25)	(3)	(3)
Net financial guarantees	1,041	762
Un-drawn formal standby facilities, credit lines	9,034	6,721
Total	10,433	7,624

Un-drawn credit lines are irrevocable.

29 OTHER CONTINGENT LIABILITIES

(a) Litigation

Apart from litigation for which provisions have already been raised (Note 25), the Bank is not involved in any other litigation with material impact on its position.

(b) Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Czech tax authorities are authorised to perform tax inspection for three years retrospectively. The last tax inspection was for year 2003.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(c) Assets under management and custody

(CZKm)	31.12.2007	31.12.2006
Assets held under custody	938	859

Asset held under custody are shown at their nominal value.

(CZKm)	31.12.2007	31.12.2006
Assets held under management	6,644	4,641

Assets held under management are shown at their fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2007 and 31 December 2006.

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(d) Operating lease commitments

Future minimum lease payments under land, building and equipment operating leases are as follows:

(CZKm)	31.12.2007	31.12.2006
Not later than 1 year	56	47
Later than 1 year and not later than 5 years	190	159
Later than 5 years	102	78
	348	284

30 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalents as shown in the balance sheets:

(CZKm)	31.12.2007	31.12.2006	1.1.2006
Cash and balances with central banks	809	1,266	396
Due from banks due up to 3 months	1,362	2,038	1,957
Due to banks due up to 3 months	(1,380)	(1,826)	(1,118)
	791	1,478	1,235

31 SEGMENT REPORTING

The Bank's primary segment reporting is by customer segment.

Segment reporting information by customer segments for 2007

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	295	548	126	-	969
Non-interest income	144	226	3	-	373
Segment expenses	(316)	(126)	(25)	(271)	(738)
Segment result	123	648	104	(271)	604
Impairment charge to credit losses	(52)	(112)	-	-	(164)
Operating profit	71	536	104	(271)	440
Income tax (expense) / benefit	(17)	(129)	(25)	51	(120)
Profit for the year	54	407	79	(220)	320
Assets	7,638	23,155	5,413	242	36,448
Liabilities	10,814	10,001	13,635	1,998	36,448
Capital expenditure	44	4	2	92	142
Depreciation	23	3	2	41	69

Segment reporting information by customer segments for 2006

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	220	372	53	-	645
Non-interest income	120	170	(28)	-	262
Segment expenses	(245)	(103)	(17)	(221)	(586)
Segment result	95	439	8	(221)	321
Impairment charge to credit losses	3	(66)	-	-	(63)
Provisions	-	-	-	(3)	(3)
Operating profit	98	373	8	(224)	255
Income tax (expense)/ benefit	(23)	(90)	(2)	37	(78)
Profit for the year	75	283	6	(187)	177
Assets	3,890	16,686	4,752	86	25,414
Liabilities	8,747	6,988	8,633	1,046	25,414
Capital expenditure	33	3	1	33	70
Depreciation	23	3	1	32	59

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Definitions of customer segments:

- **Retail:** Private individuals and entrepreneurs and companies with a turnover less than CZK 30 million.
- **Corporate:** Companies with turnover greater than CZK 30 million and non-banking institutions in the financial sector.
- **Treasury:** Asset and liability management, Dealing.
- **Other:** Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank operates only in the Czech Republic; therefore, there is no secondary segment reporting.

32 FINANCIAL RISKS

(a) Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments including derivatives to take advantage of short-term market movements in the debt securities markets, in currency and interest rate. The Board of Directors places trading limits on the level of exposure that can be taken in relation to relevant market positions.

(b) Credit risk

The Bank defines credit risk as the risk that a counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation.

Credit risk management is performed in a close co-operation with the Bank's parent company, thus reflecting the risk strategy and risk-appetite of shareholders, as well as the entire Volksbank Group.

Overall, the credit-risk policy is conservative. Considered within the general context of the overall business relations existing with the respective customer, each transaction for which the Bank knowingly undertakes risk should yield a contribution margin that is commensurate with the specific risk incurred.

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to the decrease of the accepted level of credit risk. This process is performed on the level of each individual borrower and the whole loan portfolio. When deciding about acceptance of a new exposure, an analysis of customer's cash flow and overall financial situation is a key factor, as well as the existing experience with the customer together with the quality of received collateral. The decision-making is performed independently from sales units.

In 2008, the Bank will fully apply Basel II regulatory framework. The capital requirement for credit risk in banking portfolio will be calculated using the standardised approach as the Bank continues its preparation for gaining regulatory approval for the transition to internal rating based approach.

The table below summarises maximum exposure to credit risk before collateral held or other credit enhancements. Included in the table are the Bank's assets and liabilities at carrying amounts.

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Maximum exposure to credit risk before collateral held or other credit enhancements

(CZKm)	31.12.2007	31.12.2006
Credit risk exposures relating to on-balance sheet assets		
Loans and advances to banks	3,707	2,414
Loans and advances to customers:		
– Corporate loans		
Investment loans	13,182	8,541
Working capital financing	5,246	4,888
Mortgages	141	34
Consumer loans	186	151
– Retail loans		
Investment loans	5,044	3,959
Working capital financing	2,110	1,730
Mortgages	3,573	1,309
Consumer loans	679	408
Derivative financial instruments	160	22
Trading assets		
Debt securities	260	320
Investment securities		
Debt securities	899	-
Other assets	47	59

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(CZKm)	31.12.2007	31.12.2006
Credit risk exposures relating to off-balance sheet items (nominal amount)		
Financial guarantees	1,044	765
Loan commitments and other credit related liabilities	9,389	6,859
	45,667	31,459

Corporate loans include loans and advances to customers with the total exposure above EUR 1 million or with annual turnover of at least EUR 50 million. Segments Corporate/Retail are determined in accordance with Basel II standardised approach as opposed to Note 31, where the segments are defined based on the Bank's organisational structure.

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Collateral held and other credit enhancements

Collateral held and other credit enhancements may be summarised by collateral type as follows:

(CZKm)	Fair value
As at 31 December 2007	
Bank and similar guarantees	3,951
Mortgage right on real estate	16,378
Financial collateral	4,811
Other	597
Total	25,737
As at 31 December 2006	
Bank and similar guarantees	4,807
Mortgage right on real estate	10,851
Financial collateral	5,515
Other	338
Total	21,511

Loans and advances

The Bank's exposure to credit risk from loans and advances is summarised as follows:

(CZKm)	31.12.2007		31.12.2006	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to bank
Neither past due nor impaired	28,719	3,707	19,725	2,414
Past due but not impaired	1,081	-	907	-
Impaired	767	-	645	-
Loans and advances – gross	30,567	3,707	21,277	2,414
Allowances for impairment (Note 13)	(406)	-	(257)	-
Loans and advances – net	30,161	3,707	21,020	2,414

From the total loans and advances to customers which are neither past due nor impaired represent CZK 17,867 million (31 December 2006: CZK 12,810 million) Corporate loans and advances and CZK 10,852 million (31 December 2006: CZK 6,915 million) belong to Retail loans and advances.

The total impairment provision for loans and advances as at 31 December 2007 is CZK 406 million (31 December 2006: CZK 257 million) of which CZK 244 million (31 December 2006: CZK 226 million) represents the individually impaired loans and the remaining amount of CZK 162 million (31 December 2006: CZK 31 million) represents the portfolio provision.

Loans and advances neither past due nor impaired

The Bank is collecting statistical data necessary for the allocation of loans and advances neither past due nor impaired into individual credit quality grades. This process is continuing in close cooperation with the Bank's parent company towards establishing an internal rating system which complies with the regulatory requirements for application of internal rating based approach (IRB) for the calculation of capital requirement for credit risk in the Bank's banking portfolio (Note 32 (g)).

Loans and advances past due but not impaired

Loans and advances from 31 up to 90 days overdue are generally not considered to be impaired. They correspond to the category of watch loans and receivables in accordance with regulatory classification.

The table below summarises the gross amount of loans and advances to customers past due but not impaired by business segment along with the fair value of related collateral held by the Bank as security.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

As at 31 December 2007

(CZKm)	Retail	Corporate	Total loans and advances to customers
Loans and advances past due but not impaired	426	655	1,081
Fair value of collateral	253	276	529

From the total loans and advances past due but not impaired as at 31 December 2007 more than 99% were overdue up to 1 month.

As at 31 December 2006

(CZKm)	Retail	Corporate	Total loans and advances to customers
Loans and advances past due but not impaired	289	618	907
Fair value of collateral	191	366	557

From the total loans and advances past due but not impaired as at 31 December 2006 more than 98% were overdue up to 1 month.

Individually impaired loans and advances

The Bank performs assessment for individual impairment for loans and advances that are above materiality threshold and more than 90 days overdue. These include exposures corresponding to the categories of substandard, doubtful and loss loans and receivables in accordance with regulatory classification. Remaining loans and advances are considered within collective evaluation of impairment and for calculation of portfolio provision.

The table below summarises gross amount of individually impaired loans and advances to customers by business segment along with the fair value of related collateral held by the Bank as security.

As at 31 December 2007

(CZKm)	Retail	Corporate	Total loans and advances to customers
Individually impaired loans and advances	357	410	767
Fair value of collateral	114	160	274

As at 31 December 2006

(CZKm)	Retail	Corporate	Total loans and advances to customers
Individually impaired loans and advances	359	286	645
Fair value of collateral	159	93	252

Classification of individually impaired loans and advances

Loans and advances are classified as follows:

- substandard when their full repayment is uncertain or they are overdue for 91 to 180 days,
- doubtful, when their full repayment is highly improbable or they are overdue for 181 to 360 days,
- loss, when the full repayment is impossible or the receivable is overdue for more than 360 days or under bankruptcy proceedings.

Loans and advances renegotiated

Restructuring of loans and advances occurs when the Bank provides relief to the customer due to its adverse financial or legal situation since otherwise it would probably suffer a financial loss. Restructuring mainly includes modification of repayment schedule, reduction of interest, forgiveness of overdue interest and deferral of principal, interest and fees repayment. The Bank renegotiated CZK 26 million of its receivables in 2007 (2006: CZK 85 million).

Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2007, based on Moodys external ratings.

(CZKm)	Trading assets	Investment securities	Total
Aaa to A3	30	-	30
Unrated	230	899	1,129
Total	260	899	1,159

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Concentration of risks of financial assets with credit risk exposure

Diversification is one of key principles in managing credit risk. The Bank fully adheres to regulatory limits for an exposure to single economically-linked groups of customers. Additionally, the Bank places and monitors limits on the amount of risk accepted in relation to both geographical and industry sectors.

Geographical sectors

As at 31 December 2007

(CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	2,876	789	40	2	3,707
Loans and advances to customers	29,658	462	8	33	30,161
Financial assets at fair value through profit and loss	260	-	-	-	260
Investment securities	606	293	-	-	899
Other assets	204	2	-	1	207
Total assets	33,604	1,546	48	36	35,234

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As at 31 December 2006

(CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	1,338	1,033	41	2	2,414
Loans and advances to customers	20,732	274	6	8	21,020
Financial assets at fair value through profit and loss	320	-	-	-	320
Investment securities	-	-	-	-	-
Other assets	78	-	-	3	81
Total assets	22,468	1,307	47	13	23,835

Concentration of risks of financial assets with credit risk exposure

Industry sectors

As at 31 December 2007

(CZKm)	Real estate	Trade and services	Manufacturing	House	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	3,707	-	-	3,707
Loans and advances to customers	11,670	4,193	4,242	4,659	1,545	705	3,147	30,161
Financial assets at fair value through profit and loss	-	58	-	-	171	31	-	260
Investment securities	153	-	-	-	746	-	-	899
Other assets	-	-	-	-	198	-	9	207
Total assets	11,823	4,251	4,242	4,659	6,367	736	3,156	35,234

As at 31 December 2006

(CZKm)	Real estate	Trade and services	Manufacturing	House	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	2,414	-	-	2,414
Loans and advances to customers	8,655	3,179	3,032	1,825	1,975	873	1,481	21,020
Financial assets at fair value through profit and loss	-	60	40	-	165	55	-	320
Investment securities	-	-	-	-	-	-	-	-
Other assets	-	-	-	3	67	-	11	81
Total assets	8,655	3,239	3,072	1,828	4,621	928	1,492	23,835

Derivatives

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty so as to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Currency risk

The Bank defines currency risk as a risk of financial loss because of changes in foreign exchange rates.

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank is managing its open foreign exchange position using foreign exchange deals (forwards and swaps). Foreign exchange derivatives made on behalf of clients are included in trading portfolio. The Board of Directors sets limits on the level of currency position by currency and in total for all currencies, which are monitored daily.

Sensitivity analysis

The tables below summarise the Bank's exposure to currency risk. It is expressed by the sensitivity analysis showing effect of change in EUR and USD foreign exchange rates by 10% (appreciation of CZK) and -10% (depreciation of CZK) on the Bank's annual net profit and other movements in equity. In the Bank's management judgment such an annual change in foreign exchange rates may be reasonably possible based on historical development. Included in the table is the respective change in the Bank's annual net profit and other movements in equity from assets and liabilities sensitive to currency risk.

As at 31 December 2007	10%	-10%
(CZKm)	Annual net profit	
Assets		
Cash and balances with central banks	(4)	4
Loans and advances to banks	(61)	61
Loans and advances to customers	(458)	458
Other assets	(60)	60
	(583)	583
Liabilities		
Deposits from banks	147	(147)
Due to customers	372	(372)
Debt securities in issue	9	(9)
Subordinated debt	27	(27)
Other liabilities	25	(25)
	580	(580)
Total	(3)	3

Change in EUR and USD foreign exchange rates does not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2006	10%	-10%
(CZKm)	Annual net profit	
Assets		
Cash and balances with central banks	(5)	5
Loans and advances to banks	(80)	80
Loans and advances to customers	(412)	412
Other assets	(30)	30
	(527)	527
Liabilities		
Deposits from banks	165	(165)
Due to customers	283	(283)
Debt securities in issue	9	(9)
Subordinated debt	28	(28)
Other liabilities	38	(38)
	523	(523)
Total	(4)	4

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Change in EUR and USD foreign exchange rates does not have any effect on the Bank's movements in equity other than annual net profit.

Currency position

The tables below summarise the Bank's exposure to currency risk expressed by open currency position. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

As at 31 December 2007

(CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	747	36	8	6	12	809
Loans and advances to banks	3,042	357	251	32	25	3,707
Loans and advances to customers	25,473	4,371	213	2	102	30,161
Financial assets at fair value through profit or loss	260	-	-	-	-	260
Investment securities	926	-	-	-	-	926
Other assets	576	9	-	-	-	585
	31,024	4,773	472	40	139	36,448
Liabilities and equity						
Deposits from banks	5,844	1,333	140	-	99	7,416
Due to customers	16,749	3,288	435	31	35	20,538
Debt securities in issue	3,058	18	71	-	-	3,147
Provisions	8	-	-	-	-	8
Subordinated debt	-	270	-	-	-	270
Other liabilities	679	203	43	2	3	930
Equity	4,139	-	-	-	-	4,139
	30,477	5,112	689	33	137	36,448
Net assets/(liabilities and equity)	547	(339)	(217)	7	2	-
Net assets/(liabilities) from unsettled transactions with currency instruments	(519)	371	220	-	2	74
Net open currency position	28	32	3	7	4	74

As at 31 December 2007

(CZKm)	CZK	EUR	USD	SKK	Other	Total
Off-balance sheet items						
Financial guarantees	(478)	413	62	3	-	-
Loan commitments and other credit related liabilities	(794)	746	33	-	15	-
Net open currency position from off-balance sheet items	(1,272)	1,159	95	3	15	-

As at 31 December 2006

(CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	1,204	36	9	6	11	1,266
Loans and advances to banks	1,573	462	334	8	37	2,414
Loans and advances to customers	16,811	3 824	298	-	87	21,020
Financial assets at fair value through profit or loss	320	-	-	-	-	320
Investment securities	29	-	-	-	-	29
Other assets	349	16	-	-	-	365
	20,286	4,338	641	14	135	25,414
Liabilities and equity						
Deposits from banks	3,430	1,470	176	-	87	5,163
Due to customers	11,949	2,380	450	15	38	14,832
Debt securities in issue	1,917	11	82	-	-	2,010
Provisions	8	-	-	-	-	8
Subordinated debt	-	278	-	-	-	278
Other liabilities	419	373	8	-	8	808
Equity	2,315	-	-	-	-	2,315
	20,038	4,512	716	15	133	25,414
Net assets/(liabilities and equity)	248	(174)	(75)	(1)	2	-
Net assets/(liabilities) from unsettled transactions with currency instruments						
	(283)	207	75	-	1	-
Net open currency position	(35)	33	-	(1)	3	-

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

As at 31 December 2006

(CZKm)	CZK	EUR	USD	SKK	Other	Total
Off-balance sheet items						
Financial guarantees	(390)	366	22	1	1	-
Loan commitments and other credit related liabilities	(443)	292	151	-	-	-
Net open currency position from off-balance sheet items	(833)	658	173	1	1	-

(d) Interest rate risk

The Bank defines interest rate risk as a risk of financial loss because of changes in market interest rates.

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to the change in the market interest rate is measured via change of the present value of the interest cash flows from individual interest instruments in case of interest rate increase, as expected by the Bank's management. Interest rate swaps are used to manage interest rate positions.

Sensitivity analysis

The table below summarises the Bank's exposure to interest rate risks. It is expressed by the sensitivity analysis showing effect of change in market interest rates by 50 basis points (b.p.) on the Bank's annual net profit and other movements in equity. Two week repo rate as a key interest rate of the Czech National Bank's ("CNB") monetary policy is usually changed by a step of 25 b.p. Having observed this rate's average annual change over the last 5 years, in the Bank's management judgment a change in annual market interest rates by 50 b.p. may reasonably be possible. Included in the table is respective change in the Bank's annual net profit and other movements in equity from:

- interest-bearing financial assets and liabilities at fair value through profit or loss and interest-bearing available-for-sale financial assets and
- loans and receivables, interest-bearing financial liabilities and held-to-maturity investments carried at amortised cost with contractual, re-pricing or maturity dates not exceeding one year.

As at 31 December 2007	50 b.p.	-50 b.p.
(CZKm)	Annual net profit	
Assets		
Cash and balances with central banks	4	(4)
Loans and advances to banks	16	(16)
Loans and advances to customers	111	(111)
Financial assets at fair value through profit and loss	(2)	2
Investment securities	3	(3)
	132	(132)
Liabilities		
Deposits from banks	(23)	23
Due to customers	(88)	88
Debt securities in issue	(5)	5
Subordinated debt	(1)	1
	(117)	117
Derivative financial instruments	(1)	1
Total	14	(14)

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

As at 31 December 2006	50 b.p.	-50 b.p.
(CZKm)	Annual net profit	
Assets		
Cash and balances with central banks	6	(6)
Loans and advances to banks	11	(11)
Loans and advances to customers	77	(77)
Financial assets at fair value through profit and loss	(2)	2
Investment securities	-	-
	92	(92)
Liabilities		
Deposits from banks	(20)	20
Due to customers	(64)	64
Debt securities in issue	(4)	4
Subordinated debt	(1)	1
	(89)	89
Derivative financial instruments	-	-
Total	3	(3)

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

(e) Liquidity risk

The Bank defines liquidity risk as a risk that it will encounter difficulty in meeting obligations associated with financial liabilities or the risk of loss of ability to finance its assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. Liquidity risk management is based on the planning of the cash inflows and cash outflows based on the remaining maturity of the assets and liabilities and on the experience from progress analysis from the previous years. The Bank prepares a liquidity plan, which is approved by the Board of Directors together with the business plan and both these plans are closely interconnected.

Cash flows from balance sheet financial instruments

The table below presents the contractual undiscounted cash flows from the Bank's financial liabilities based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2007

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Financial liabilities						
Deposits from banks	1,824	560	4,885	1,248	8,517	7,416
Due to customers	19,902	416	96	147	20,561	20,538
Debt securities in issue	959	178	2,110	405	3,652	3,147
Subordinated debt	-	15	288	-	303	270
Total financial liabilities (remaining contractual maturities)	22,685	1,169	7,379	1,800	33,033	31,371
Total financial assets (remaining contractual maturities)	9,131	6,679	13,312	22,436	51,558	35,863
Net financial assets/(liabilities)	(13,554)	5,510	5,933	20,636	18,525	4,492

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Financial liabilities						
Deposits from banks	2,555	371	1,649	1,200	5,775	5,163
Due to customers	14,355	262	71	178	14,866	14,832
Debt securities in issue	942	69	1,187	-	2,198	2,010
Subordinated debt	-	15	305	-	320	278
Total financial liabilities (remaining contractual maturities)	17,852	717	3,212	1,378	23,159	22,283
Total financial assets (remaining contractual maturities)	6,050	3,981	8,740	10,562	29,333	25,049
Net financial assets/(liabilities)	(11,802)	3,264	5,528	9,184	6,174	2,766

Although Due to customers is strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the „Within 3 months“ column), statistical evidence shows it is unlikely a majority of those customers will actually withdraw their deposits from the Bank on maturity.

Negative net financial liability with remaining maturity within three months is covered by received commitments from the parent company, Oesterreichische Volksbanken AG (Note 36).

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Cash flows from derivative financial instruments

Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial liabilities settled on a net basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2007

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Trading derivatives						
- Interest rate derivatives	-	-	1	1	2	36
Total financial liabilities	-	-	1	1	2	36
Total financial assets	-	1	-	-	1	241
Net financial assets/(liabilities)	-	1	(1)	(1)	(1)	

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Trading derivatives						
- Interest rate derivatives	-	1	3	2	6	39
Total financial liabilities	-	1	3	2	6	39
Total financial assets	-	-	-	-	-	-
Net financial assets/(liabilities)	-	(1)	(3)	(2)	(6)	

Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and foreign exchange options. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial instruments settled on a gross basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2007

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Trading derivatives						
- Foreign exchange derivatives						
Outflow	2,142	3,426	2,965	-	8,533	8,533
Inflow	2,142	3,426	2,970	-	8,538	8,538

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	
					Undis- counted cash flows	Nominal value
Trading derivatives						
- Foreign exchange derivatives						
Outflow	791	872	69	-	1,732	1,732
Inflow	789	873	70	-	1,732	1,732

Off-balance sheet items

The table below analyses off-balance sheet items of the Bank exposed to liquidity risk into relevant maturity buckets based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2007

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	243	298	452	51	1,044
Loan commitments and other credit related liabilities	7,246	335	1,212	596	9,389
Capital commitments	67	155	-	-	222
Total	7,556	788	1,664	647	10,655

As at 31 December 2006

(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	427	223	81	34	765
Loan commitments and other credit related liabilities	3,457	403	2,405	594	6,859
Capital commitments	58	122	-	-	180
Total	3,942	748	2,486	628	7,804

Future minimum lease payments under operating lease commitments are analysed in Note 29 (d).

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(f) Operational risk

The Bank defines operational risk as the risk of a financial loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks. In case of breakdown of business processes it also includes reputation risk.

In accordance with CNB measures, the Bank has an internal database of all requisite regulations for operational risk management, including those for the areas of information security, continuity of operations and anti-money laundering. The Bank has also established a system of control mechanisms for those individual processes that are basic elements of operational risk management.

An Operational Risk Office has been established within the Bank's organisational structure for the area of operational risk management. This unit is responsible for setting up the methodology or framework conditions for operational risk management, as well as for providing support to the specialised units within the operational risk management process. Both Internal audit and Compliance departments participate on this process also in a significant way.

The operational risk management process includes identification and recording, evaluation and valuation, measures and risks minimisation, along with controlling implementation of the designed measures and their effectiveness. The Bank applies the operational risk management process at the levels of both actual events and hypothetical risks.

Every identified event is assessed and considered individually, and the measures to be taken are designed in accordance with the frequency of the event's occurrence, amount of the realised or anticipated loss or profit, as well as its seriousness and cause. The objective is to ensure that the measures taken will effectively minimise or eliminate occurrences of similar events in future.

The Bank is involved in a Group-wide project for a comprehensive solution to managing and monitoring operational risk in accordance with the regulatory rules. The aim is to implement the standardised method for calculating the capital requirement for operational risk since 2008.

(g) Capital management

The capital management process is coordinated within Volksbank Group in close communication with the Bank's shareholders. It is aimed at:

- Ensuring of the Bank's long-term stability in relation to existing risks,
- Compliance with the supervisory capital requirements (capital adequacy) and
- Maintaining a strong capital base to support the development of the business expansion

The Bank fulfils the requirement of CNB Decree No. 123/2007 ("the Decree") for ongoing compliance with the capital adequacy limit by daily monitoring of risk-weighted assets. Required regulatory capital adequacy reports are filed with the CNB on a monthly basis. The Bank also informs the parent company on compliance with the regulatory capital requirements with the same frequency.

The methodology for calculation of capital is defined by the Decree. The Bank ensures that the capital level exceeds regulatory capital requirements in coordination with the parent company.

In 2007, the Bank estimated capital requirements for coverage of individual risks in compliance with the valid regulatory legislation according to current rules (Basel I).

The table below summarises the composition of the Bank's capital and risk-weighted assets. During both years, the Bank complied with the regulatory capital adequacy limit of 8%.

(CZKm)	31.12. 2007	31.12. 2006
Tier 1		
Share capital (net of treasury shares)	1,683	1,145
Share premium account	2,017	887
Obligatory reserve funds	37	26
Retained earnings from previous period	78	32
Less: Intangible assets other than goodwill	(81)	(58)
Other deductible items	-	(47)
Tier 1 capital	3,734	1,985
Tier 2		
Subordinated debt A	266	275
Tier 2 capital	266	275
Total capital	4,000	2,260
Risk-weighted assets		
Credit risk in banking portfolio	31,397	19,964
Credit risk in trading portfolio	336	277
General interest rate risk	100	54
Currency risk	-	14
Total risk-weighted assets	31,833	20,309
Capital adequacy	12.57%	11.13%

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The significant increase of the capital in the year of 2007 is mainly due to the increase of the Bank's share capital by shareholders (Note 27). The considerable increase of the risk-weighted assets reflects the continuing expansion of the loan portfolio.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Fair value of financial assets and liabilities

(CZKm)	31.12.2007		31.12.2006 restated	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	3,707	3,705	2,414	2,413
Loans and advances to customers thereof:	30,161	28,584	21,020	20,694
Retail	11,406	10,509	13,614	13,630
Corporate	18,755	18,075	7,406	7,064
Financial liabilities				
Deposits from banks	7,416	7,313	5,163	5,127
Due to customers thereof:	20,538	20,291	14,832	14,704
Retail	16,000	15,874	12,536	12,411
Corporate	4,538	4,417	2,296	2,293
Debt securities in issue thereof:	3,147	3,130	2,010	2,007
Retail	414	412	271	269
Corporate	2,733	2,718	1,739	1,738

The following methods and assumptions were used in estimating fair values of the Bank's financial assets and liabilities:

Loans and advances to banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current inter-bank market rates. A majority of the loans and advances re-price within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

Loans and advances to customers

A substantial majority of the loans and advances to customers re-price within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates adjusted for appropriate risk premium. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses as at the balance sheet date.

Deposits from banks

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current inter-bank market rates.

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Due to customers

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Mortgage bonds issued are not publicly traded and their fair values are based upon quoted market prices of the debt securities with similar characteristics. The carrying values of promissory notes and certificates of deposit approximate their fair values.

34 DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 25 April 2007, a dividend of CZK 700 per ordinary share and CZK 750 per non-voting share was approved in respect of 2006 net profit. This dividend represented a total amount of CZK 163 million (2005: CZK 117 million). The dividend for the year 2007 has not been declared yet.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

35 SHAREHOLDERS

The shareholder structure of Volksbank CZ as at 31 December 2007 was as follows:

Voting shareholders

Name and registered office	Share in %
Volksbank International AG, Vienna	98.22
Banca Popolare di Vicenza, Vicenza	0.89
EM.RO.Popolare S.p.a., Modena	0.89
	100.00

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36 RELATED PARTIES

Amounts of the income, expense and assets and liabilities balances regarding related parties were as follows:

As at 31 December 2007 and year then ended

(CZKm)	Note	Parent Company	Management	Other related Parties	Total
Interest income	3	8	1	90	99
Commission and fee income	4	3	-	7	10
Other operating income	7	-	-	1	1
Interest expense	3	79	-	4	83
Commission and fee expense	4	14	-	31	45
Administrative expenses	6	-	-	34	34
Due from banks	11	61	-	72	133
Loans and advances	12	-	22	1,834	1,856
Investment securities (available for sale)	16	-	-	167	167
Other assets	20	-	-	1	1
Due to banks	21	1,644	-	13	1,657
Due to customers	22	-	12	262	274
Other liabilities	24	-	-	25	25
Guarantees granted and commitments given	28	15	8	507	530
Guarantees granted and commitments received		8,076	27	219	8,322
Assets under custody		1,136	11	1,265	2,412

Other related parties represent companies within Volksbank Group with exception of parent company.

As at 31 December 2006 and year then ended

(CZKm)	Note	Parent Company	Manage- ment	Other related Parties	Total
Interest income	3	12	-	81	93
Commission and fee income	4	-	-	4	4
Other operating income	7	-	-	1	1
Interest expense	3	74	-	1	75
Commission and fee expense	4	14	-	32	46
Administrative expenses	6	-	-	39	39
Due from banks	11	152	-	380	532
Loans and advances	12	-	13	1,986	1,999
Investment securities (available for sale)	16	-	-	29	29
Other assets	20	-	-	1	1
Due to banks	21	1,943	-	8	1,951
Due to customers	22	-	8	231	239
Other liabilities	24	-	-	5	5
Guarantees granted and commitments given	28	-	2	345	347
Guarantees granted and commitments received		18,344	5	209	18,558
Assets under custody		-	12	689	701

Loans and advances to customers and individuals include the following receivables from related parties: (Note 12).

Receivables from related parties

(CZKm)	31.12.2007	31.12.2006
VB Leasing, s.r.o.	299	400
Management of the Bank	16	11
Members of Supervisory Board and Board of Directors	6	2
Other related parties (companies in the group)	1,535	1,586
Total receivables from related parties	1,856	1,999

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Due to customers include the following position with related parties:

Deposits from related parties

(CZKm)	31.12.2007	31.12.2006
Management of the Bank	11	7
Members of Supervisory Board and Board of Directors	1	1
Other related parties (companies in the group)	262	231
Deposits from related parties	274	239

In the opinion of management, deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal interest rate and liquidity risk or present other unfavourable features (Note 22).

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37 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end until the date of preparation of the financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2007.

These financial statements have been approved for submission to the general meeting of shareholders by the Board of Directors.

Date of preparation of the Financial Statements: 25 February 2008

Signature of the statutory representative	Person responsible for accounting	Person responsible for the financial statements preparation
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Johann Lurf	Tomáš Kořínek	Alena Sládková	Libor Holub
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QUANTITATIVE INDICES

CZK thousand	2007	2006	2005	2004
Return on average assets (ROAA)	1.06%	0.97%	0.60%	0.31%
Return on own average equity (ROAE)	12.18%	16.23%	12.10%	7.22%
Assets per employee	57,399	51,134	43,878	41,793
Administrative costs per employee	1,033	1,048	1,041	1,230
Net profit per employee	504	442	261	135
CAPITAL STRUCTURE				
Tier 1	3,734,200	1,984,846	1,037,315	868,640
Paid-up share capital	1,682,800	1,144,700	818,600	750,000
Paid up share premium	2,017,210	887,200	216,620	100,000
Legal reserve funds	36,867	25,882	21,456	18,618
Retained earnings from previous years	78,144	32,318	40,760	37,957
Tier 2	266,200	274,950	290,050	315,988
Provisions for general risks	0	0	0	11,338
Deductible items	(80,822)	(105,254)	(58,636)	(36,208)
Intangible assets	(80,822)	(58,189)	(58,636)	(36,208)
Capital	4,000,400	2,259,796	1,327,365	1,184,629
CAPITAL REQUIREMENTS				
Capital requirement	2,546,597	1,624,666	1,069,982	824,819
Capital requirement relating to credit risk of trading portfolio	26,842	22,121	10,315	10,473
CAPITAL ADEQUACY	12.57%	11.13%	9.92%	11.49%

REPORT ON RELATIONS

THE RELATIONSHIP BETWEEN THE CONTROLLED AND CONTROLLING ENTITY

The company Volksbank CZ is a part of the international financial group Österreichische Volksbanken-AG (VBAG). Volksbank CZ operates in the Czech market as a bank as defined by Act No. 21/1992 Coll., the Banking Act, and it is a controlled entity as defined by the Commercial Code. The controlling entity is VBAG, which controls Volksbank CZ indirectly through Volksbank International AG (VBI AG), which is a directly controlling entity in relation to Volksbank CZ.

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VBAG, as the indirectly controlling entity of Volksbank CZ, provided bank guarantees in 2006 for loans granted by Volksbank CZ. Volksbank CZ pays fees for those guarantees in amounts that are common within the VBAG Group. In 2003, Volksbank CZ concluded the ISMA Global Master Repurchase Agreement with VBAG, on the basis of which individual repo transactions are concluded with VBAG according to standard terms and conditions. With respect to individual repo and reverse repo transactions, Volksbank CZ paid or received the usual interest within the VBAG Group.

In October 2004, Volksbank CZ concluded an agreement with the European Bank for Reconstruction and Development (EBRD) and VBAG regarding the granting of a subordinated debt to Volksbank CZ. Furthermore, Volksbank CZ concluded the following types of agreements (with VBAG): agreements on inter-bank deposits, for which Volksbank CZ receives/pays usual market interest; current account agreements based on standard terms and conditions duly reflecting the related party-relationship with VBAG, on the basis of which Volksbank CZ pays fees and receives/pays interest; as well as agreements concerning spot and derivative deals concluded under standard terms and conditions. Volksbank CZ also concludes deposit security agreements on behalf of Volksbank CZ (with VBAG). These agreements were concluded under standard terms and conditions.

In 2005, Volksbank CZ concluded a framework co-operation agreement with the directly controlling entity VBI AG, on the basis of which VBI AG, supported by VBAG, provides to Volksbank CZ professional services of an advisory character according to the needs of Volksbank CZ. For the provision of these services, Volksbank CZ pays fees at market amount. In 2005, Volksbank CZ furthermore concluded a Standby Liquidity Agreement with VBI AG to ensure necessary liquidity for Volksbank CZ.

No detriment or loss has resulted for Volksbank CZ from the business relationships between Volksbank CZ and its controlling entities.

RELATIONSHIP WITH OTHER CONTROLLED ENTITIES

Volksbank CZ also has business relationships with several commercial or financial entities that are likewise controlled indirectly by VBAG or directly by VBI AG. These include in particular banks in Slovakia, Hungary, Croatia, Slovenia, Romania, Bosnia and Herzegovina as well as Serbia that are members of the VBAG Group. Volksbank CZ maintains standard banking connections and concludes routine banking deals with the aforementioned banks. No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

Volksbank CZ also has business relationships with VB Leasing CZ, spol. s r. o., Niederösterreichische Landesbank – Hypothekbank AG, Volksbanken Kapitalanlagegesellschaft m. b.H., Immoconsult Leasinggesellschaft m.b.H. Group, VB ManagementBeratung GmbH and DZ Bank AG. These involve normal banking and credit services. Interest rates on loans provided to the aforementioned companies include the financing costs of such loans and a certain margin. No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

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Neither VBAG nor VBI AG required Volksbank CZ to adopt any measure or to enter into any contract that would be to the latter's detriment, as defined by § 66a(14) of the Commercial Code.

AFFIDAVIT

Volksbank CZ, a.s., having its registered office at Lazarská 8, Prague 2, Nové Město, Postal Code 120 00, is responsible for the data in its 2007 Annual Report.

The undersigned hereby declare that, in exercising all due care, the data contained in the Annual Report of Volksbank CZ, a.s., for 2007 is accurate and that no substantial facts that could change the meaningfulness of the Annual Report of Volksbank CZ, a.s., were concealed.

Prague, 27 February 2008



Tomáš Kořínek



Johann Lurf



Václav Vitha

REPORT OF INDEPENDENT AUDITORS



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ENGLISH TRANSLATION

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF VOLKSBANK CZ, A.S.

Report on the Annual Report

We have audited the annual report of VOLKSBANK CZ, a.s. (the "Bank") for consistency with the financial statements for the year ended 31 December 2007 which are included in this Annual Report on pages 38 - 108. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2007 is consistent, in all material respects, with the financial statements referred to above.

The maintenance and integrity of the Company's website is the responsibility of its Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2007 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

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Shareholders of Volksbank CZ, a.s.
Independent auditor's report

Report on review of the Report on Relations (continued)

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

22 April 2008

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Eva Loulová
Auditor, Licence No. 1981

Translation note

This version of our report is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

REPORT OF THE SUPERVISORY BOARD

In its two meetings held during the 2007 business year, on 25 April and 28 November 2007, the Supervisory Board reviewed the correctness, appropriateness and economic efficiency of the management of Volksbank CZ. The Supervisory Board further acknowledged the ongoing reports of the Board of Directors and issued resolutions as necessary for the 2007 business year.

At its 23rd meeting, held in April 2008, the Supervisory Board approved a resolution acknowledging the report presented by the Board of Directors and approved the financial statements for 2007. These included the balance sheet as at 31 December 2007, as well as the income statement for the year ended 31 December 2007. The Board also reviewed the Report on Relations in accordance with section 66a, paragraph 9 of the Commercial Code.

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The closing financial statements for the year ended 31 December 2007 were examined by the audit company PricewaterhouseCoopers Audit, s.r.o. The auditor issued an unqualified opinion.

On the basis of the report of the Board of Directors, the Supervisory Board states its affirmative appraisal to the general shareholders' meeting and recommends that appropriate resolutions be approved.

The Supervisory Board would like to thank the Board of Directors and all of the Bank's employees for their excellent cooperation and the efforts that they made throughout 2007.

Dr. Friedhelm Boschert
Chairman of the Supervisory Board

Prague, 24 April 2008





SERVICE

Austria

Bosnia and Herzegovina

Croatia

CZECH REPUBLIC

Hungary

Romania

Serbia

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