

CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2005



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INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE GENERAL MANAGER

Ladies and Gentlemen,

Allow me to submit the Annual Report of Česká konsolidační agentura for 2005. For its management and for its entire staff this was a year full of hard work which was primarily focused on testing in practice and implementing the objectives set by Project 2007. If the year 2004 may be characterised as the time of ČKA's transformation to the company with the maximum efficiency of its operations, 2005 had to be the main business period suggesting the significance of the impact of the process of the termination of ČKA's activities already in 2007 in terms of the public finances.

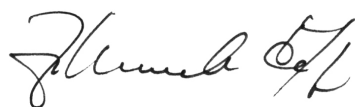
With pleasure and a little pride I may note that the results to date confirm the correctness of the course taken by the Agency. First of all, we managed to enhance considerably our business operations in comparison with prior years. Thanks to the newly set business model, employee commitment and professional marketing, ČKA registers the enormous interest of investors which is directly reflected in the volume of the collections received. Through individual business methods we have thus managed to reduce ČKA's total assets and liabilities by almost 50 per cent in the course of 2005. The so-called block transactions played an important part in these developments, since we managed to increase the utilisation percentage of these assets almost three times in comparison with prior periods. The utilisation percentage of receivables ceded on an individual basis also grew significantly. Thus, for the first time in ČKA's history, the Agency reported a profit of CZK 1.42 billion. This historic success could have been even more marked, if ČKA were not appointed by the Government at the end of the year as an entity obliged to assume part of the burden of health insurance companies. Between October and December thus ČKA assumed more than 4,000 receivables, for which it paid CZK 3.8 billion from nine health insurance companies. Important transactions, on the other hand, included for instance sales of ownership interests in the company Autoklub Bohemia Assistance, Spolana, Jihočeské papírny Větrník, Válcovny trub, the company Brno Inn, or limited partnership interests in companies Arta Real and CZ Credit Real. Under the government restructuring programmes EXIT and ROZVAHA, ČKA successfully offered receivables from the companies of the ZETOR Group, companies Plynostav Pardubice or Slezský kámen to investors, based on the Czech Government Resolution. Extraordinarily high proceeds from ČKA's bankruptcy proceedings were obtained in the case of the company Tchemalt and hundred per cent repayment of loans then, inter alia, in the case of the company Osinek.

An active, open and transparent business policy continues to be our priority even in 2006. Project 2007 will enter the pre-final phase when at the turn of the half-year the principal

business operations will be terminated. The scaling down of individual activities, which will also be accompanied by significant reductions of HR capacities, will thus gradually become the focal point of our efforts. Special attention will be paid to the preparation and announcement of a tender for the sale of the so-called residual block, worth about tens of billions of CZK and the completion of some significant privatization processes in the second half of the year. The year 2007 will be reserved in particular for technical issues associated with the planned termination of operations of this institution and issues directly associated with the transfer of agendas to the Ministry of Finance.

Ladies and Gentlemen thank you for your effort and results of Česká konsolidační agentura and I am looking forward to more co-operation in 2006.

Prague, 2 May 2006



Zdeněk Čáp, Ph.D.

PROFILE

Mission and activities of the company

Česká konsolidační agentura (hereinafter “the Agency” or “ČKA”) has been established as a centralised institution to administer the taken-over low-quality assets with a mission to proactively, transparently and quickly reduce most of the above assets, and minimise the losses ensuing from their low rate of return.

The Agency is not a bank as defined by special legal regulation; it does not accept deposits from the public or extend loans. However, it is liable to complete all the activities and transactions it has taken over from Konsolidační banka Praha, s.p.ú., a state financial institution (hereinafter “the Bank”), and it is authorised to use any rights, possibilities and tools previously available to the Bank to achieve the aforementioned purpose. The liabilities of the Agency are guaranteed by the Government.

Important historical data

ČKA was established on the basis of a transformation as at 1 September 2001, as the legal successor of the Bank on the basis of Act No 239/2001 Coll. on the Czech Consolidation Agency and on the amendment of certain Acts.

The purpose of the Agency has been to assume the mission of the Bank, its legal predecessor. Due to the fact that the Bank used to concentrate low-quality assets from the period of transformation of the banking sector under its centralised administration, the Agency has been settling the residual portfolio of the Bank, securing the financial recovery of the selected health and transportation sector infrastructure companies, and also dealing with the negative consequences ensuing to the Agency from the subsequent developments in banking privatisation, namely in relation to the following facts:

In compliance with the Restructuring Plan Agreement, entered into by the Bank as the legal predecessor of the Agency, ČSOB and the Czech Ministry of Finance (hereinafter “MoF”) (the ČSOB Agreement), the Agency is liable, at the request of ČSOB, to accept the selected assets acquired by ČSOB as part of the takeover of Investiční a poštovní banka, a.s. (IPB).

The Bank has entered into an Agreement on Restructuring and Guarantees related to the takeover of loan risks ensuing from low-quality balance sheet and off-balance sheet assets of Česká spořitelna, a.s., and of the companies CORFINA, a.s., CORFINA TRADE s.r.o., and CF Danube Leasing s.r.o. (ČS Group).

The Bank, as the provider of the guarantee, has entered into a Guarantee Agreement with Komerční banka as the beneficiary in relation to the selected risk (substandard, doubtful and loss) assets of the beneficiary.

According to the above agreements on restructuring and guarantees, entered into with ČSOB, and according to the relevant provisions of the Czech Government to secure financial recovery of the entities in difficult financial situations but which are strategically important for the Government, the Bank and the Agency have taken over, in the above mentioned period 2001 – 2005, non-viable assets at the book value of CZK 198.1 billion from the governmental organisation Správa železniční dopravní cesty, health insurance companies, ČS, a.s. ČSOB, a.s. and KB a.s.

After the nine-year period of massive losses incurred by both the Bank and the Agency, the Agency in 2005 secured a strong increase in performance and achieved a profit of CZK 1.4 billion; it decreased its 2005 balance sheet sum by 47.4% of the balance as at the end of the year 2004; it collected installments, payments and sales prices from the assignment of non-viable assets to new acquirers amounting to CZK 35.9 billion, and the yield from the individual assignment of the Agency's receivables reached 33.6% of their book value.

In accordance with the Resolution of the Czech Government No. 45 as at 14 January 2004 on the termination of the Agency's activities by 2007, which meant a significant reduction of the originally stipulated period preceding the termination of the activities, the Agency has re-assessed all the hitherto methods of receivable exaction and, in order to maximise their yield in the above period, it adopted "Project 2007".

Envisaged termination of the Agency's activities

In accordance with the Resolution of the Czech Government No. 45 as at 14 January 2004 on the acceleration of the termination of the activities of the Czech Consolidation Agency and the company Česká inkasní, s.r.o., and in compliance with the relevant provision of Article 20 of Act No 239/2001 Coll. on the Czech Consolidation Agency and on the amendment of certain Acts, as amended, the Agency shall cease to exist on 31 December 2007 without liquidation. The legal successor of the Agency shall be the Government, represented by MoF, upon which the rights and liabilities of the Agency shall be vested as at the date when it ceases to exist.

In relation to the above, based on Act No. 239/2001 Coll. on the Czech Consolidation Agency and on the amendment of certain Acts., the Agency assumes that, as at the date of termination of its activities, the so-called residual assets of ČKA shall be transferred to MoF as well as the assets of so-called strategic interest of the Government; the former shall include namely receivables with significant legal defects and, potentially, also the securities and shares in other than joint-stock companies which are difficult to transfer to a third person because of ČKA's responsibility risks ensuing from the Provision of Article 527 of the Civil Code.

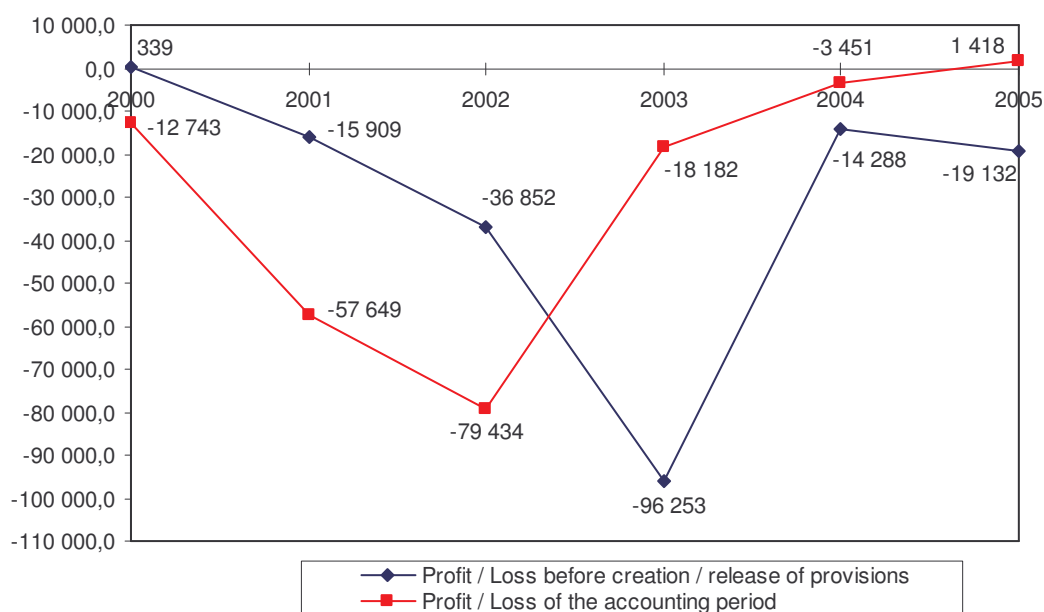
It is assumed that the subsidiaries Konpo, s.r.o. and Česká finanční s.r.o., in which a similar system of standards was applied for the settlement of assets as in the parent company, and the final strategy which forms a homogeneous part of the strategy of termination of the Agency's activities, shall be wound down by a transfer of their assets to the Agency as the sole shareholder in compliance with the Provisions of Articles 69b and 153c of the Commercial Code, prior to the termination of the Agency's activities.

SELECTED INDICATORS

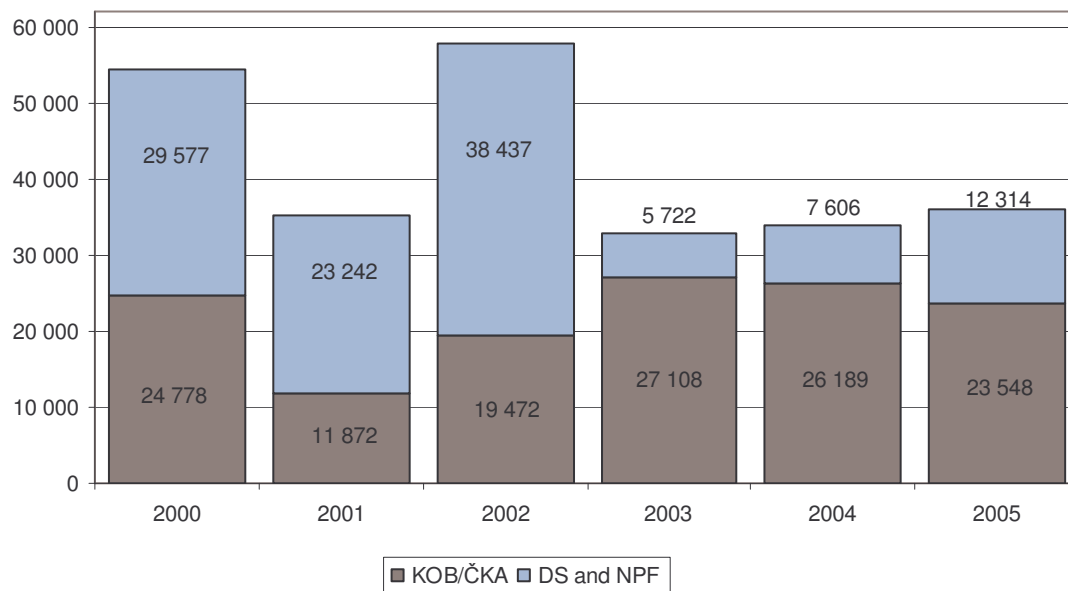
Key performance indicators

	2003	2004	2005
Receipt collection (in CZK bln)	32.8	33.8	35.9
Profit/(loss) for the year (in CZK bln)	(18.2)	(3.5)	1.4
Wages and social expenses (in CZK mil)	417	416	416
Balance sheet sum (in CZK bln)	174.5	121.0	63.6
Equity (in CZK bln)	17.0	14.9	17.6
Reserve funds (in CZK bln)	23.0	10.8	8.8
Loans to clients (net book value in CZK bln)	62.2	41.0	16.4
Number of employees (individuals as at year end)	521	374	333

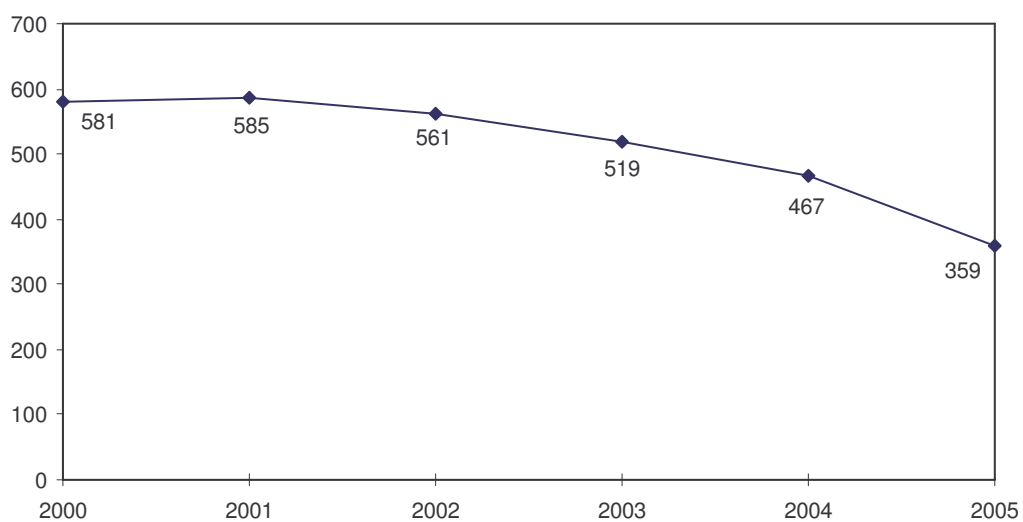
Profit / Loss 2000 – 2005 (CZK million)



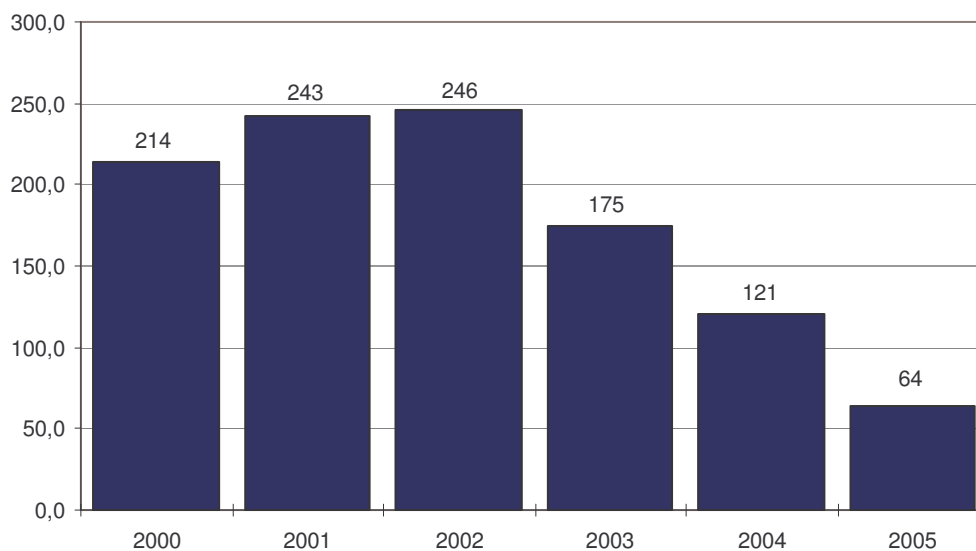
Receipt collection 2000 – 2005 (CZK million)



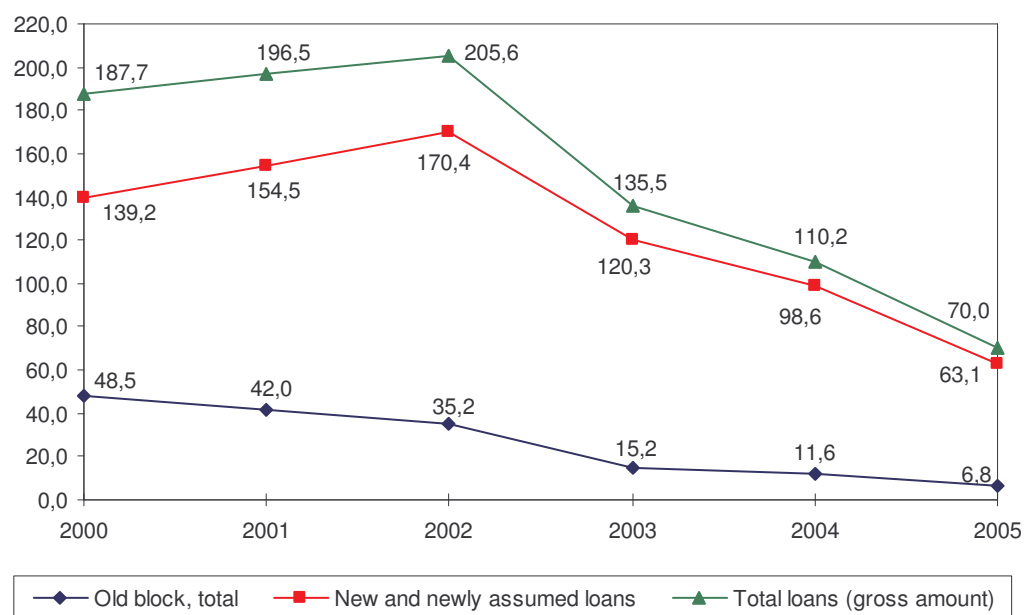
Average number of employees 2000 – 2005



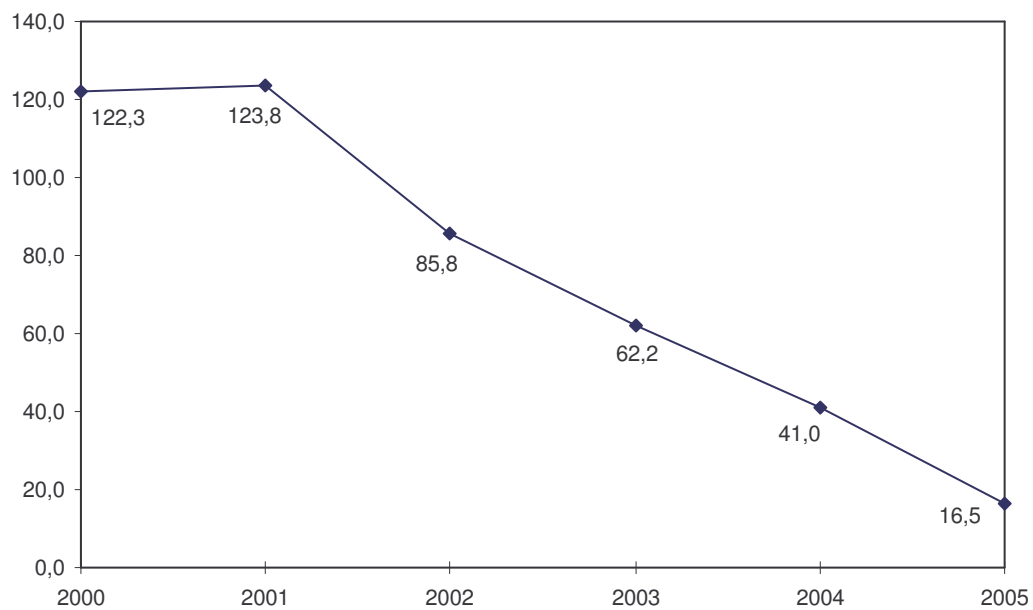
Development of total assets / liabilities 2000 – 2005 (CZK billion)



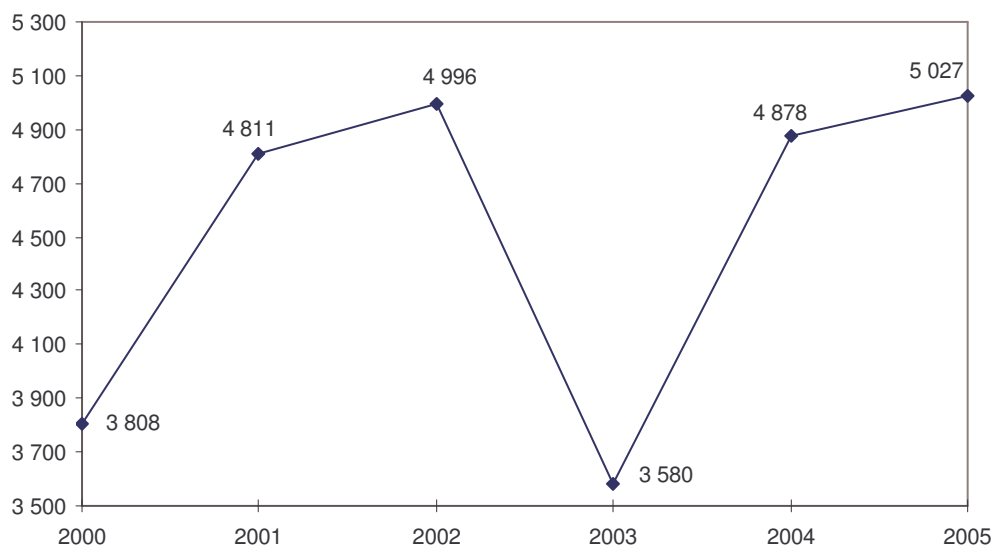
Receivables from loans 2000 – 2005 (CZK billion)



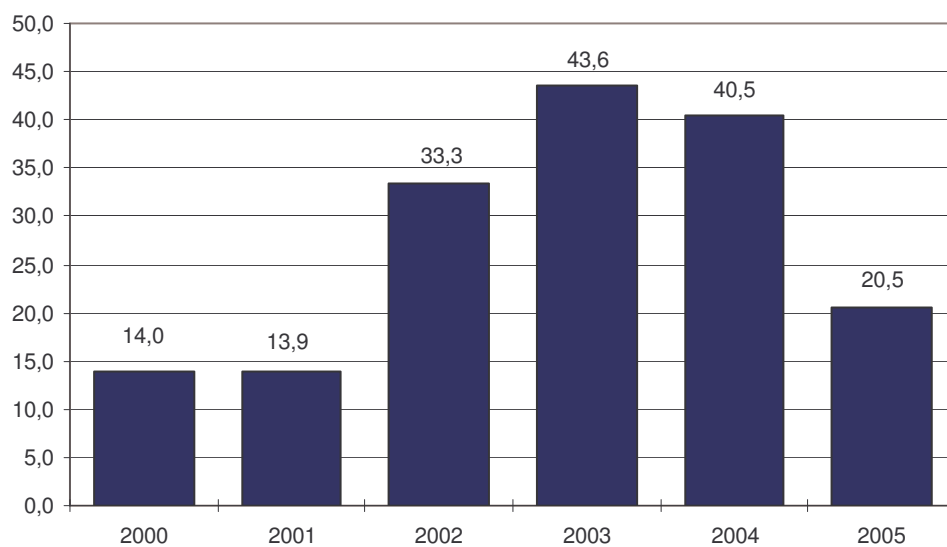
Due from customers (net amount) 2000 – 2005 (CZK billion)



Number of clients 2000 – 2005



Securities issued 2000 – 2005 (CZK billion)



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Development of KOB/ČKA from 1996 to 2005 in figures

	KOB s.p.ú. In liquidation (Czech)					ČKA				
Aggregate balance Selected items (CZK billion)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Selected assets										
Due from banks (net amount)	7.2	9.5	13.6	15.6	20.9	32.4	53.3	2.3	0.5	0.02
Total due (net amount)	69.3	79.3	97.0	101.5	122.3	123.8	85.8	62.2	41.0	16.5
Securities – net amount (debt, shares, mutual shares)	18.8	17.6	15.4	15.4	0.3	4.8	2.6	13.3	6.1	3.4
Participation interests (net amount)	10.5	8.6	9.1	9.9	5.6	3.9	5.0	5.0	5.1	4.4
Selected liabilities										
Redistribution loan	36.8	36.8	32.4	28.3	12.8	11.7	10.7	9.7	8.8	0
Due to banks	25.6	41.0	57.4	101.1	110.9	102.6	102.0	84.9	40.5	22.1
Due to customers	8.5	5.9	3.8	4.5	11.7	29.3	30.3	8.1	11.6	0.8
Securities issued	2.0	9.0	14.0	14.0	14.0	13.9	33.3	43.6	40.5	20.5
Provisions	6.3	6.3	6.3	7.4	13.0	44.0	38.4	4.0	2.6	0.4
Reserve fund	32.2	31.5	31.4	31.4	31.4	29.3	26.0	23.0	10.8	8.8
Share capital	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Total assets / liabilities	114.8	129.7	141.1	195.7	214.2	242.7	246.4	174.5	121.0	63.6
Loan portfolio (CZK billion)										
– Loans for working capital (TOZ)	42.3	39.4	37.7	33.0	29.5	25.9	21.7	9.9	7.8	3.8
– Purchased loans (KB, IB)	9.9	9.2	9.1	8.4	8.0	6.0	5.3	3.4	2.0	1.6
– Restructured loans	8.6	10.8	11.2	11.9	11.0	10.1	8.1	1.9	1.8	1.4

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Old block, total	60.8	59.4	58.0	53.3	48.5	42.0	35.2	15.2	11.6	6.8
New and newly assumed loans	18.2	34.7	67.0	107.5	139.2	154.5	170.4	120.3	98.6	63.1
of which: loans assumed to DBV			15.0	13.7	12.6	11.5	10.4	9.5	8.6	7.7
EIB development loans			12.9	18.0	–	–	–	–	–	–
from IPB/ČSOB						23.3	80.3	55.3	46.3	35.8
Total loans (gross amount)	79.0	94.1	125.0	160.8	187.7	196.5	205.6	135.5	110.2	70.0
Provisions	(9.7)	(14.8)	(28.1)	(59.3)	(65.4)	(72.7)	(119.8)	(73.3)	(69.2)	(53.5)
Total loans (net amount)	69.3	79.3	97.0	101.5	122.3	123.8	85.8	62.2	41.0	16.5
Number of credit clients										
TOZ clients	3,752	3,625	3,655	3,246	2,164	1,809	1,353	652	557	263
Total clients (less DBV)	4,044	3,950	4,045	4,748	3,808	4,811	4,996	3,580	4,878	5,027
Securities portfolio (CZK billion)										
Debt securities	18.6	17.4	15.4	15.4	0.3	3.1	1.1	1.5	0.5	0.5
Shares, mutual shares and other interests	0.2	0.2	0.0	0.0	0.0	1.7	1.5	11.8	5.6	2.9
Total securities	18.8	17.6	15.4	15.4	0.3	4.8	2.6	13.3	6.1	3.4
Participation interests (CZK billion)										
Participation interests (gross amount)	10.6	14.1	15.4	14.9	11.5	10.8	13.3	13.4	9.6	6.3
Provisions	(0.1)	(5.5)	(6.3)	(5.0)	(5.8)	(6.9)	(8.4)	(8.4)	(4.5)	(1.9)
Participation interests (net amount)	10.5	8.6	9.1	9.9	5.7	3.9	5.0	5.0	5.1	4.4
Profit / Loss development (CZK million)										
Profit / Loss before creation and usage of provisions	754.3	111.8	(320.1)	(4,746.4)	339.1	* (15,909.2)	(36,851.7)	(96,253.1)	(14,288.2)	(19,131.8)
of which: ČKA						** (3,323.0)	x	x		
Profit / Loss for the accounting period (after deduction of income tax)	(5,058.6)	(10,356.8)	(14,389.1)	(36,089.2)	(12,742.5)	* (57,648.9)	(79,433.5)	(18,181.8)	(3,451.2)	1,417.6
of which: ČKA						** (16,122.5)	x	x		

COMPANY BODIES

The key management and statutory body of ČKA is its five-member Board of Directors, directed by the Chairman of the Board, who is at the same time the CEO of ČKA. The Supervisory Board of ČKA, appointed by the Chamber of Deputies of the Czech Parliament, has supervisory and approving powers. It controls the specific directions of ČKA's activities, the exercise of ČKA's ownership rights in its subsidiaries, and it checks whether the business activities of ČKA are performed in accordance with the generally accepted rules and decisions of ČKA's bodies. The Supervisory Board also approves draft Articles of Association, financial statements and the financial and asset operations exceeding CZK 500 million, the establishment of business companies, the decisions on ČKA's activities exceeding ČKA's annual financial plan and budget, the personal representation of ČKA in the statutory and supervisory bodies of the legal entities the members of which are appointed by ČKA, following a discussion with MoF or other institutions, it proposes personnel, organisational or other measures to MoF or to the Board of Directors.

Supervisory Board of ČKA as at 31. 12. 2005

Ing. Vlastimil Tlustý, CSc., Chairman	(dismissed on 2. 2. 2006)
Ing. Josef Hojdar, Vice-Chairman	
Michal Doktor, Member	
Ing. Vladimír Doležal, Member	(dismissed on 2. 2. 2006)
Ing. Miloslav Kala, Member	(elected as Chairman of the Supervisory Board on 16. 3. 2006)
Ing. Alfréd Michalík, Member	
Ing. Pavel Pešek, Member	
Mgr. Ing. Pavel Tollner, Member	
Ing. Miloslav Vlček, Member	
JUDr. Zuzka Bebarová – Rujbrová	(elected as member of the Supervisory Board on 15. 3. 2006)
Ing. Jiří Václavek	(elected as member of the Supervisory Board on 15. 3. 2006)

Board of Directors of ČKA as at 31. 12. 2005

Zdeněk Čáp, Ph.D., Chairman of the Board of Directors	
Ing. Petr Goldmann, Member	
Ing. Mojmír Hampl, MSc., Ph.D., Member	(dismissed from the position of a member of the Board of Directors on 10. 5. 2006)
Ing. Jiří Jurán, MBA, Member	(dismissed from the position of a member of the Board of Directors on 10. 5. 2006)
Ing. Radka Kafková, Member	

SUPERVISORY BOARD OF ČKA

Ing. Vlastimil Tlustý, CSc.,

Chairman of the Supervisory Board (dismissed from the position of the Chairman of the Supervisory Board on 2. 2. 2006)

Date of birth: 19 September 1955

He graduated from the Agricultural University of Prague in 1979. From 1980 to 1990, he was a research fellow and research worker at the Research Institute of Agricultural Machinery. After one year at the Agricultural University (VŠZ) (1990 – 1991), he became First Deputy Minister of Agriculture, a position he held until 1992. He was elected to the Chamber of Deputies for the Civic Democratic Party (ODS) in 1992. Until 1996, he was a member of the Agricultural Committee. From 1996, he was Deputy Chairman of the Budget Committee and from 1998, its Chairman. In 2002, he became Deputy Chairman of the Budget Committee again. He also holds the post of Chairman of the Club of Deputies of the Civic Democratic Party (ODS).

Membership in other corporate bodies: At present, he is not a member of any other corporate body.

Ing. Josef Hojdar,

Vice-Chairman of the Supervisory Board

Date of Birth: 16 October 1946

Until 1991, he was employed by Severočeské hnědouhelné doly; by that time, he also graduated from the Mining Institute in Ostrava (1980). From 1994 to 1996, he was the First Deputy Mayor of the town of Most in addition to running his own business. He has been a deputy of the Chamber of Deputies for the Czech Social Democratic Party (ČSSD) since 1996. In the years 1996 through 1998, he was a member of the Budget Committee; from 1998, he was a member of the Economic Committee of the Chamber of Deputies and since April 2000, he has been Chairman of the Economic Committee.

Membership in other corporate bodies: At present, he is not a member of any other corporate body.

Michal Doktor,

Member of the Supervisory Board

Date of Birth: 2 October 1967

After leaving grammar school in 1985, he worked for a state farm in Třeboň and then he held various economic positions in the companies PZO Pragoinvest Prague, VD Jipro Lomnice nad Lužnicí and BST České Budějovice. He has been a deputy of the Chamber of Deputies since 1998. Until 2002, he was a member of the Foreign Committee and a member of the Permanent Committee of the Chamber of Deputies for Banking; at present, he is a member of the Budget Committee.

Membership in other corporate bodies: At present, he is not a member of any other corporate body.

Ing. Vladimír Doležal,

Member of the Supervisory Board (dismissed from the position of the Member of the Supervisory Board on 2. 2. 2006)

Date of Birth: 30 April 1965

After graduating from the Prague Technical University (ČVUT) in 1988, he worked as a designer in the company ČKD Praha, Lokomotivka plant. In 1990, he was elected Member of the Municipal Council and at the same time, he became Deputy Mayor of the Prague Borough Dolní Měcholupy. From 1993 to 1997, when he was appointed Secretary of the Municipal Authority in Prague 15, he worked in the position of a business manager for the company ATTL s.r.o. and of a Deputy Mayor of Dolní Měcholupy (on an external basis). In the period 1998 through 2006, he was a member of the Chamber of Deputies of the Czech Parliament for the Civic Democratic Party (ODS). From 1998 to 2002, he was a member of the Permanent Committee of the Chamber of Deputies for Banking. He was a member of the Budget Committee.

Membership in other corporate bodies: Until May 2005, he was a member of the Supervisory Board of Autoklub Bohemia Assistance, a.s.; he is a member of the Supervisory Board of the company Global Investment, a.s.

Ing. Miloslav Kala,

Member of the Supervisory Board (elected as Chairman of the Supervisory Board on 16. 3. 2006)

Date of Birth: 3 August 1963

In 1988, he graduated from the Technological University, Mechanical Engineering Faculty, in Brno. From 1988 through 1996, he worked with Adamovské strojířny. From 1996 through 2000, he worked in the economic and organisation advisory field. From 2000 through 2002, he was the Mayor of the town of Blansko. Since 2002, he has been a Member of the Blansko Municipal Council, a deputy of the Chamber of Deputies of the Czech Parliament for the Czech Social Democratic Party, a Member of the Economic Committee, and a Vice-Chairman of the Mandate and Immunity Committee.

Membership in other corporate bodies: From 2003 through 2004, he was a member of the Board of Directors of a state enterprise SŽDC. He resigned on 26 February 2004 due to his appointment to the ČKA Supervisory Board.

Ing. Alfréd Michalík,

Member of the Supervisory Board

Date of Birth: 25 August 1944

In 1967, he graduated from the Mining Institute, Faculty of Metallurgy, Department of Economics and Management of Metallurgy in Ostrava. In the period 1991 – 1992, he completed a management course organised by the company STELCO in Hamilton, Canada. Until 1990, he worked with Železárny and drátovny Bohumín in various economy-related positions. From 1990 through 1992, he was Deputy Economic Director and from 1993 through 1994, he was an advisor to the CEO of the company Železárny and Drátovny Bohumín. From 1994 to 1997, he was the Economic Director of the company KOVONA Karviná, a.s. In 1996, he was elected to the Senate and, when his senator's term of office expired in 2000, he was an advisor of the National Property Fund (NPF) until 2002. In 2002, he was elected to the Chamber of Deputies of the Czech Parliament. In the Senate, he held the post of the Vice-Chairman of the Committee for Economy, Agriculture and Transport. In the Chamber of Deputies, he is a member of the Committee for Social Policy and Health and a member of the Budget Committee.

Membership in other corporate bodies: He is the Chairman of the Supervisory Board of the company Bohumínská městská nemocnice, the sole shareholder of which is the town of

Bohumín. He is a member of the Supervisory Board of the company VIPAP VIDEM Krško, d.d. and Deputy Chairman of the Supervisory Board of the company Válcovny plechu Frýdek-Místek, a.s.

Ing. Pavel Pešek,

Member of the Supervisory Board

Date of Birth: 31 March 1964

He graduated from the Agricultural University in 1989 and from 1989 to 1992; he was employed as an agronomist by a farmer's co-operative in Brloh. In 1992, he was elected Deputy of the Czech National Council. From 1993 to 2002, he was a Deputy of the Chamber of Deputies of the Czech Parliament. He was a member and, from 3 July 1996 to 19 June 1998, Vice-Chairman of the Agricultural Committee.

Membership in other corporate bodies: Since 2 April 1997 until now, he has been a member of the Supervisory Board of the Land Fund of the Czech Republic; since 7 May 2002, he has been Vice-Chairman of the above Board. Since September 2003, he has been a member of the Supervisory Board of the company IMOB a.s. and he is also a member of the Supervisory Board of the companies BH CAPITAL, a.s., Konpo, s.r.o. and Českomoravská nemovitostní, a.s.

Mgr. Ing. Pavel Tollner,

Member of the Supervisory Board

Date of Birth: 10 March 1949

He graduated from the Technical University, Faculty of Civil Engineering in Brno. Until 1974, he worked as a designer for DRUEXPO, a production co-operative in Brno. From 1974 through 1977, he worked as a designer in the company Investprojekt Brno, from 1978 through 1980, as a planner designer in the company Brnoprojekt Brno, and from 1980 through 1982, as an investment clerk in the company Podnik výpočetní techniky. In the years 1982 through 1990, he was a production planner, site manager in a foreign construction project and the head officer of the Foreign Trade Department of the company Průmyslové stavby Brno. From June 1990 to October 2001, he was a deputy of the Czech National Council and afterwards, of the Chamber of Deputies of the Czech Parliament. He majored in Religious Studies in the Theological Faculty of the Charles University in Prague. Since 31 October 2001, he has been a member of the Supervisory Board of ČKA.

Membership in other corporate bodies: He is a Member of the Supervisory Board in the company Česká finanční, s.r.o. and Konpo, s.r.o.

Ing. Miloslav Viček,

Member of the Supervisory Board

Date of Birth: 1 February 1961

He graduated from the Agricultural University in Brno in 1989. Until 1991, he worked in various economic positions for a farmer's co-operative in Ludmírov. From 1991, he worked as a tax administration clerk in the Financial Office in the municipality of Konice. He was elected Deputy for the Czech Social Democratic Party (ČSSD) in 1996. Initially, he was a member of the Committee for the Public Administration and the Environment, and since 1998, he has been a member of the Budget Committee.

Membership in other corporate bodies: At present, he is not a member of any other corporate body.

JUDr. Zuzka Bebarová – Rujbrová,

(appointed to the position of a member of the Supervisory Board on 15. 3. 2006)

Date of birth: 13 January 1951

Mrs. Bebarová – Rujbrová graduated from the Law Faculty of UJEP (Jan Evangelista Purkyně University) in Brno. Before November 1989 she performed the duties of a presiding judge of the Senate of the District Court of Blansko. Since 1992, she worked as a lawyer (currently, the performance of the lawyer's profession suspended). In 1994 she became a member of the Town Council of Blansko. Since 1996 to date she has been a female MP, in the current election period, the Chairperson of the Petition Committee. Between 1999 and 2004, she was Deputy Chairperson of the Communist Party of Bohemia and Moravia for municipal policy and elections. She is the specialized spokesperson for the Communist Party of Bohemia and Moravia in charge of the Interior sector and legislation.

Membership of other corporate bodies: At present, she is not a member of any other corporate body.

Ing. Jiří Václavek,

(appointed to the position of a member of the Supervisory Board on 15. 3. 2006)

Date of birth: 23 March 1942

Mr. Václavek graduated from the Technological University, the Mechanical Engineering Faculty. Between 1967 and 1969 worked as a planner for Západosmoravské strojírny (the Western Moravian Engineering Works) at Třebíč. Between 1971 and 1979 he worked as a programmer and designer for automation of economic agendas at PVT Prague, plant Brno. Between 1980 and 1990 he worked as a system engineer for DRUPOS Brno. Between 1990 and 1996, he performed the duties of the Deputy Mayor of the borough Brno – Královo Pole. Since 1996, he has held various positions in the Chamber of Deputies of the Parliament of the Czech Republic (Deputy Chairman of the Budget Committee, member of the Organizational Committee). Between 1999 and 2005, he was a member of the Presidium of the National Property Fund.

Membership of other corporate bodies: Since 1999, he has been a member of the Board of Directors of University of Veterinary and Pharmaceutical Sciences, Brno and the Board of Directors of the company VIRGO.

BOARD OF DIRECTORS OF ČKA

Zdeněk Čáp, Ph.D.,

Chairman of the Board of Directors and the CEO

Date of Birth: 31 August 1968, residence: Vlasákova 2763/5, Mělník

In 1999, he completed a PhD at the University of Economics, Faculty of Business Administration in Prague. In the period 1992 – 1999, he worked with KB, a.s., Ústí nad Labem Branch, in the marketing section, he was a member of the Corporate Banking implementation team of the KB, a.s. transformation project, the Deputy Manager of the KB Teplice Business Centre, Deputy Manager of a regional branch of KB, a.s. and Branch Manager of KB, a.s., Ústí nad Labem Branch. In the period 2000 – 2004, he worked as the Statutory Representative and Deputy CEO of the company Konpo, s.r.o. On 11 March 2004, he was elected member of the Board of Directors of ČKA and, on 1 April 2004, he was appointed Chairman of the Board of Directors and CEO of ČKA. In the period 1996 – 1999, he worked as an External Assistant for the Corporate Finance Department of the Social Affairs and Economics Faculty of Jan Evangelista Purkyně University (FSE UJEP) and as a Fellow of the Scientific Council of FSE UJEP. Since 2004, he has been a Member of the MBA Degree Examination Board and a Member of the Doctoral Thesis Examining Board at the University of Economics, Faculty of Business Administration in Prague. Since 2004, he has been studying MBA programme at Sheffield Hallam University in cooperation with ČVUT.

Membership in other corporate bodies: Member of the Supervisory Board of the company Konpo, s.r.o., Member of the Supervisory Board of ČSA, Member of the Economic Council of the Czech Government.

Ing. Petr Goldmann,

Member of the Board of Directors and Senior Manager of the Collective Solutions Department

Date of Birth: 3 June 1961, Residence: Mařákova 1106, Litomyř

In 1983, he graduated from the Mining Institute, Major in Economics and Management. In the period 1984 – 1991, he worked as an economist and from 1989, as the Head Financial Specialist, with the company Královodvorské Źelezárny, a.s. In 1991, he joined KB, a.s., and worked in the following positions: Commercial Specialist (1991 – 1992), Head of Department (1992 – 1997) and Business Risk Specialist (1997 – 2000). In 2000, he joined the Bank as the Risk Management Department Manager. In 2002, he was appointed Restructuring Department Manager. In 2003, he became the Block Transaction and Restructuring Department Manager. He was appointed Member of the Board of Directors effective from 15 March 2004; effective from 16 March 2004, he was appointed Senior Manager of the Trade Specialist Department and, following the change in the ČKA's organisational structure on 1 September 2004, he became Senior Manager of the Collective Solutions Department.

Membership in other corporate bodies: Since 30 June 2004, he has been Deputy Chairman of the Supervisory Board of the company Konpo, s.r.o. Since 19 January 2005 Chairman of the Supervisory Board of První českorská banka, since 3 June 2005 Deputy Chairman of the Supervisory Board of BH Cupital, a. s., since 29 June 2005 member of the Supervisory Board of Aero Vodochody, a.s.

Ing. Mojmír Hampl, MSc., Ph.D. (dismissed from the position of a member of the Board of Directors on 10. 5. 2006)

Manager of the Business and Administrative Support

Date of Birth: 13 March 1975, Residence: Hvězdova 1568/25, Praha 4

In 1998, he graduated from the University of Economics in Prague, Major – Economic Policy. In 2000 – 2001, he completed a post-graduate course in economics and financial markets at the University of Surrey, United Kingdom. In 2004, he received a Ph.D. degree from the University of Economics in Prague. In the years 1998 through 2002, he worked as an analyst and later as a senior analyst with ČNB. In 1998, he was also a Special Advisor to the Minister without Portfolio. In the period 2002 through 2004, he worked with ČS, a.s. as a Senior Analyst and as the Financial Analysis Coordinator of the ERSTE financial group. Effective from 1 April 2004, he was appointed Member of the Board of Directors and the Chief Manager of the Methodological and Financial Department and, since the organisational structure change of ČKA on 1 September 2004, he has become Senior Manager of the Business and Operating Support Department. In the years 2002 through 2003, he was a member of the external advisory team to MoF for the Public Budget Reform. In 1999, he was awarded the title of Young Economist of the Year by the Czech Society for Economics and he holds also numerous other academic awards.

Membership in other corporate bodies: Member of the Board of Directors of the Czech Society for Economics, Deputy Chairman of the Supervisory Board of the company Integra, a.s., member of the Supervisory Board of IMOB, a.s. and member of the academic council of University of Škoda Auto.

Ing. Jiří Jurán, MBA (dismissed from the position of a member of the Board of Directors on 10. 5. 2006)

Member of the Board of Directors and Senior Manager of the Individual Solutions Department

Date of Birth: 7 February 1966, Residence: Hybešova 4, 792 01 Bruntál

In 1998, he graduated from the Mining Institute in Ostrava, Faculty of Economics, and in 2003, he successfully completed his MBA studies at Sheffield Hallam University School of Business and Finance. As at 1988, he worked as a reviewer and inspector with the Czechoslovak State Bank. In 1990, he worked with the Czech Police as an investigator in the District Investigating Bureau of Bruntál (economic crimes), and then as the Finance Deputy General Manager of Kovohutě Břidličná, a state-owned company, where he became the Financial Manager of the company after its transformation into a joint-stock company. In February 1994, he joined KB, a.s., Bruntál Branch, as the Sales Department Manager. In 1996 – 1997, he was the Deputy Manager in KB, a.s. Business Centre in Olomouc and, subsequently, the Risk Receivable Department Manager of the KB, a.s., Detached Office in Opava. In 2000, he was appointed Executive Manager of the KB, a.s., Risk Receivable Department, he was involved in the establishment of the company Konpo, s.r.o. and, in the above position, he carried out a transfer of risk receivables worth approximately CZK 60 billion from KB, a.s. to the Bank. From June 2000, he was the Risk Receivable Department Manager of the KB, a.s. Head Office in Opava. He was appointed a Member of the Board of Directors of ČKA and on 1 October 2001. He was appointed to the position of the Senior Manager of the Receivable and Asset Management Division; following the change in the organisational structure, he became Senior Manager of the Individual Solutions Department.

Membership in other corporate bodies: Chairman of the Supervisory Board of the company Prisko, a.s., (appointed by the General Meeting of the Company held on 8 August 2003); since 2 October 2003, he has been a Member of the Supervisory Board of the company IMOB, a.s., and since 17 June 2004, he has been a Member of the Supervisory Board of the company Česká finanční, s.r.o.

Ing. Radka Kafková,

Member of the Board of Directors and Senior Manager of the Complex Solutions Department

Date of birth: 21 February 1967, Residence: Písčítá 196/18, 198 00 Praha 9

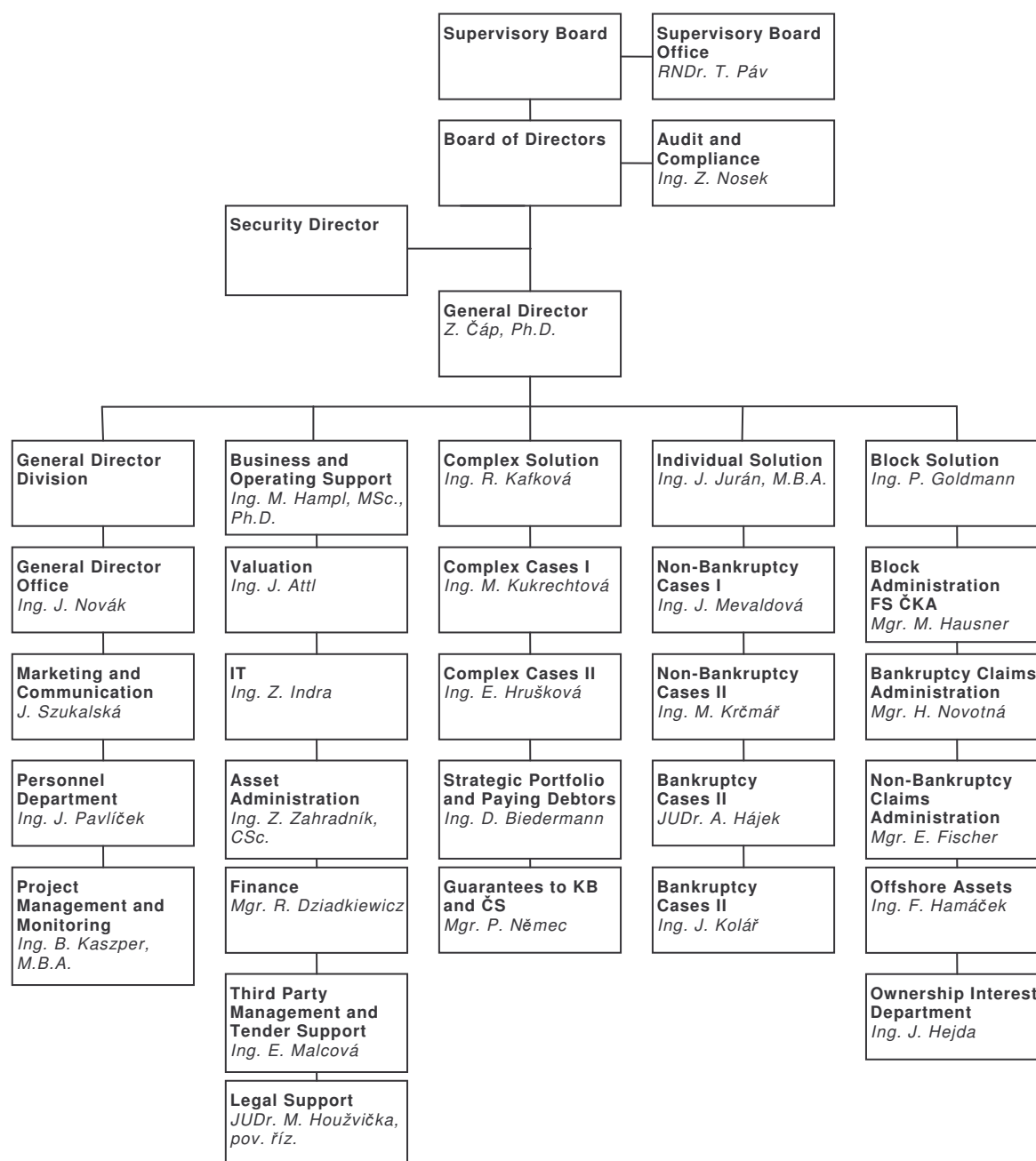
In 1989, she graduated from the Mining Institute, Mechanical and Electrical Engineering Faculty. In 1993, she worked as Account Manager (loan provision and loan deal management, specifically high risk loans) with ČS, a.s. and then, in the period 1993 – 1994, as an Account Manager (risk management) with Česká banka, a.s. In the period 1994 – 1997, she was the Financial Restructuring Department Manager in Union banka, a.s. Concurrently, in the period 1995 – 1997, she was also a lecturer at the Mining Institute, Faculty of Economics. In the period 1997 – 1999, she was the Loans Receivable Department Manager of ČNB, from 1999 to 2001, she was a Statutory Representative and the First Deputy CEO of the company Česká finanční, s.r.o. In the period 1998 – 2001, she was the Chairman of the Supervisory Board of Banka Bohemia, a.s., in liquidation. After 2001, until her appointment to the Board of Directors of ČKA, she was a self-employed finance and business advisor. Effective from 29 May 2003, she was appointed Member of the Board of Directors, effective from 3 June 2003, she was appointed Senior Manager of the Restructuring Department and, after the organisational structure change on 1 September 2004, she has been Senior Manager of the Complex Solutions Department.

Membership in other corporate bodies: Chairman of the Supervisory Board of the company Česká finanční, s.r.o., since 19. 4. 2005 member of the Supervisory Board of EXPLOSIA, a.s.

ORGANISATIONAL CHART

ČKA's organisational structure is split into five Divisions, managed by the CEO and by four Managing Directors, who are at the same time members of the Board of Directors. For competent decision-making on important issues which relate primarily to financial or other significant operations of ČKA, advisory collective bodies have been established, namely commissions and work groups; however, they have no decision-making powers. The Divisions are further sub-divided into Departments.

ČKA's organisational structure as at 31 December 2005



GENERAL INFORMATION

Business firm:	Česká konsolidační agentura
Registered office:	Praha 7, Janovského 438/2, Postal Code 170 06
Issuer's identification number:	70109966
Legal form of the Issuer:	Legal entity established by special Act
Date of establishment and the relevant legislation governing the establishment of the issuer:	<p>ČKA was set up by Act No. 239/2001 Coll. on ČKA, amending certain other acts ("the ČKA Act") as at 1 September 2001, i.e. as at the effective date of the ČKA Act.</p> <p>ČKA is the legal successor to Konsolidační banka Praha, s.p.ú., the latter having been dissolved in accordance with Article 19 of Act No. 239/2001 Coll. on ČKA as at the effective date of the Act. Konsolidační banka Praha, s.p.ú. was deleted from the Commercial Register as at 1 September 2001.</p> <p>ČKA is a legal entity with its registered office in Prague, which is authorised to manage the state assets entrusted to it on the basis of the ČKA Act, as well as the state assets it becomes authorised to manage when performing the defined activities or in relation to them.</p>
Date of termination:	According to the ČKA Act, ČKA shall terminate without liquidation on 31 December 2007 and the Government, represented by MoF, shall be its legal successor. The titles and the liabilities of ČKA existing at the date of its termination shall devolve to MoF.
Registration court:	ČKA has been entered into the Commercial Register at the Municipal Court in Prague in Section A, Inset 45993.
Government guarantee:	The liabilities of ČKA are guaranteed by the Government based on Article 1, Paragraph 3 of the Act on ČKA, Czech Republic.

ČKA BUSINESS ACTIVITIES

Are specified in Article 3, Paragraph 1 of the Act on ČKA and in Article 3 of the Articles of Association, which defines ČKA's activities as follows:

- (a) purchase, sale and administration of receivables and other selected assets;
- (b) restructuring of business companies and other legal entities determined by the decision of the Government;
- (c) purchase, sale and custody of securities;
- (d) custody of pledges over movable assets,;
- (e) keeping of accounts belonging to legal entities and private individuals who have liabilities to Česká konsolidační agentura, up to the aggregate amount of their liabilities;
- (f) financial and business advisory services;
- (g) fundraising on the financial market and other activities as required by MoF in relation to the performance of the activities listed in Points a) through g);
- (h) transfers of payments, clearing and activities relating to foreign exchange transactions;
- (i) asset valuation;
- (j) organising of educational and training events;
- (k) lease of real property and non-residential premises, including provision of basic services relating to such activities;
- (l) operation of training facilities, provided at the same time as the following activities:
 - purchase of goods for resale and sale (except for the goods defined in the Appendix of Act No. 455/1991 Coll. as amended, and the goods excluded by the above Act);
 - hotel services;
 - accommodation services;
- (m) trading in derivatives;
- (n) automated data processing;
- (o) provision of software;
- (p) designing, creating and operating of information systems;
- (q) IT consulting and advisory services;
- (r) Depositing of financial assets on the financial market using reverse REPO operations;
- (s) Underwriting or placement of investment instrument issues (solely to secure the implementation of the Government Resolution No. 908 as at 10 September 2003 on payables and receivables of the former state enterprise České Dráhy as at 31 December 2002, and the strategies of their solution).

The activities set out under Points h) through l) have been performed by ČKA effective from 1 September 2001, based on the Decision of MoF concerning other activities of ČKA, Ref. No.: 06/69 738/2001 as at 31 August 2001; the activities set out under point m) are based on the Decision of MoF on supplementing the subject of ČKA's activities, Ref. No.: 06/142 791/2002 of 14 January 2003, effective from the above date, and the

activities set out under points n) through q) are based on the Decision of MoF on supplementing the subject of ČKA's activities, Ref. No. 06/63 784/2003 of 1 August 2003, effective from the above date. The activity set out under point r) is performed by the ČKA based on the Decision of MoF on other activities of ČKA, Ref. No.: 06/96 320/2001 as at 20 June 2002, effective from the above date.

The activity set out under Point s) is performed by the ČKA on the basis of the Decision of MoF on the extension of the subject of activities of ČKA, Ref. No.: 06/101/230/2003 as at 4 December 2003, effective from the above date.

ČKA was entitled to acquire new assets for consideration until 31 December 2005. With the exception of the acquisition of assets for consideration ensuing from the legal acts performed before Act No. 482/2004 Coll. became effective, the acquisition of assets in relation to the risk and liquidity management, and fundraising on the financial market, ČKA could have done so solely on the basis of a Decision of the Government, or on the basis of an approval granted by the Chamber of Deputies of the Parliament in compliance with Article 3, Paragraph 5 of Act No 219/2001 Coll. In case that the consideration for the acquisition of assets by ČKA, in aggregate with the previous considerations made in compliance with the Decision of the Government according to Article 3 Paragraph 4 of Act No. 239/2001 Coll. exceeded CZK 1 billion within one calendar year, the execution of such a transaction would have required a prior approval granted by the Chamber of Deputies of the Parliament (see the amendment of Act No. 239/2001 Coll. by the Act No. 482/2004 Coll., which became effective as at 7 September 2004).

LEGAL STATUS OF THE AGENCY

Act No. 239/2001 Coll. on the Czech Consolidation Agency secures the legal continuity between the state-owned financial institution the Bank and ČKA, including the legal succession and the devolution of all rights and liabilities. Under the new Act, ČKA is a legal entity which is authorised to manage the state assets, as well as the assets it becomes authorised to manage when performing the defined activities or in relation to them. ČKA will be entered into the Commercial Register, and this entry will have a declaratory nature. Following the amendment of Act No. 239/2001 Coll. by Act No. 482/2004 Coll., which became effective as at 7 September 2004, the Agency shall be terminated without liquidation as at 31 December 2007. With certain exceptions, the Banking Act does not apply to the Agency, which does not have a banking licence.

The position of the Agency as a financial institution was declared by the Official Communication of the ČNB, dated 21 August 2001, which at the same time assigned a zero risk weight to the liabilities of the Agency (the law stipulates that ČKA's liabilities are guaranteed by the Government). After its establishment, ČKA entered into an agreement with ČNB which governed the access of the Agency to the clearing centre.

As part of the changes stipulated by the Act on ČKA, certain banking activities that were to be no longer performed by ČKA were suspended by the Bank and, subsequently, by ČKA. The main activities to be terminated were the credit activities, as ČKA is not a bank as defined in Act No. 239/2001 Coll., and it is not authorised to provide new loans or accept deposits. As at the date of the termination of its activities, the Bank gave the notice of termination of all the current accounts of its employees. Following the tender, the Agency also transferred documentary payments; the Agency therefore does not provide documentary payments anymore. At the end of 2005, the Agency also ceased to keep the accounts of legal entities and perform financial operations on their behalf.

The Act exactly defines the Agency's activities, which include the purchase, sale and administration of receivables and selected assets; restructuring of business companies; the purchase, sale and custody of securities and other activities, including other activities as specified in the Decision made by MoF concerning the performance of the above activities. The Agency may issue bonds. Under the conditions stipulated by Act No. 219/2000, it may acquire securities on behalf of the Government. It also may, following the Government's prior

approval, acquire ownership interests in business companies or to establish such companies. Income and expenses managed by the Agency do not form part of the state budget.

Following the approval by the Supervisory Board, MoF approves the Articles of Association and the Financial Statements of the Agency, assigns tasks to the Agency, decides on the manner of loss settlement, etc. If requested to do so, the Agency shall be obliged to provide information relating to its activities to MoF, through it to the Government, and, possibly, to other Governmental bodies.

ČKA SUBSIDIARIES

Česká finanční, s.r.o.

Registered office: Praha 1, V jámě 1263/6, Postal Code 111 21

Konpo, s.r.o.

Registered office: Praha 1, Na Příkopě 390/3, Postal Code 111 21

PRISKO, a.s.

Registered office: Praha 7, Janovského 438/2, Postal Code 170 06

*** Please see the Consolidated Group Chapter for details of the companies.**

STRUCTURE OF THE ČKA GROUP

Controlling entity: Česká konsolidační agentura

Directly controlled entities:

Jméno společnosti	Share capital of the Company (CZK'000)	Stake in the share capital of the Company (%)
Explosia, a.s.	1,165,000	100.00
PRISKO, a.s.	794,760	100.00
Global Investment, a.s.	744,000	100.00
CRF Praha, a.s. under liquidation	434,378	100.00
IPB REAL INVESTMENT, a.s.	50,000	100.00
První východní, a.s. under liquidation	5,000	100.00
Integra, a.s. under liquidation	2,517	100.00
IMOB, a.s.	2,200	100.00
Českomoravská nemovitostní, a.s.	2,000	100.00
Česká finanční, s.r.o.	200	100.00
Konpo, s.r.o.	100	100.00
TCHECOMALT GROUP, a.s.	400,000	99.93
BH CAPITAL, a.s.	408,099	71.89

Information on the entities in which the issuer has a direct or indirect interest amounted to at least 10% of the consolidated equity or at least 10% of the net annual profit or loss of the consolidation group.

Konpo, s.r.o.

Registered office: Praha 1, Na Příkopě, Id. No. 390, Orient. No. 3, Postal Code 111 21

Company ID: 26149729

Business activities:

The main business activities of the company consist of:

- real estate activities,
- administration and organisational management services provided to individuals and legal entities.

Amount of subscribed share capital: CZK 100,000

Stake of the issuer in the share capital: 100.00%

Česká finanční, s.r.o.

Registered office: Praha 1, V jámě 1263/6, Postal Code 111 21

Company ID: 47450622

Business activities:

The main business activities of the company consist of:

- data processing, databank services, network administration,
- real estate activities – lease of immovables, flats and non-residential areas (in case if other than basic services securing their due operation are provided),

- administration and organisational management services provided to individuals and legal entities.

Amount of subscribed share capital: CZK 200,000

Stake of the issuer in the share capital: 100.00%

PRISKO, a.s.

Registered office: Janovského 438/2, Praha 7

Company ID: 46355901

Business activities:

The main business activities of PRISKO consist of the management and settlement of assets and liabilities relating to the privatised assets of the former state company Škoda Mladá Boleslav, established in relation to the 1992 privatisation, when certain liabilities of the former company were taken over. The above liabilities included namely the liability for the defects of the products manufactured by Škoda in the past, solutions to certain receivable-related and asset-related relationships (relating mostly to real-estate property) contributed by the Czech party to the newly-privatised company – the current ŠKODA AUTO a.s.

Amount of subscribed share capital: CZK 794,760,000

Stake of the issuer in the share capital: 100.00%

Explosia a.s.

Registered office: 532 17 Pardubice-Semtín

Company ID: 25291581

Business activities:

The main business activities of the company consist of:

- production of industrial and military explosives,
- production of propellants and final development of ammunition,
- research and development ensuring the long-term development of main production areas,
- technical service necessary for the customers, production and trade.

Amount of subscribed share capital: CZK1,165,000,000

Stake of the issuer in the share capital: 100.00%

GALILEO REAL, k.s.

Registered office: Praha 1, Rybná 14/682 (until 10 January 2006); Praha 7, Janovského 438/2, Postal Code: 170 06 (since 10 January 2006)

Company ID: 26175291

Business activities:

The main business activities of the company consist of:

- real estate activities,
- mediation of business activities which do not require a special permit,
- purchase of goods for resale and sale,
- factoring and forfaiting (purchase of receivables).

Amount of subscribed share capital: CZK 2,900,000,000 (until 10 March 2006); CZK 2,350,000,000 (since 10 March 2006)

Stake of the issuer in the share capital: 31.03% (by 21 February 2006); 100.00% (since 21 February 2006)

České aerolinie, a.s.

Registered office: Praha 6, Ruzyně Airport, Postal Code: 160 08

Company ID: 45795908

Business activities:

The key business activities of the company consist of:

- commercial air service operation,
- provision of services at the check-in in the Praha-Ruzyně Airport, clearance of aircrafts on the operating area, clearance of passengers, cargo and mail,
- provision of catering services for aircrafts (supplies of food and beverage),
- mediation of air transportation services.

Amount of subscribed share capital: CZK 2,735,510,000

Stake of the issuer in the share capital: 34.59%

KORADO, a.s.

Registered office: Česká Třebová, Bří Hubálků 869, Ústí nad Orlicí District, Postal Code 560 02

Company ID: 25255843

Business activities:

The main business activities of the company consist of:

- manufacturing of central heating bodies,
- production, installation and repairs of air conditioning equipment,
- production and processing of plastic materials including finishing technologies,
- heating engineering.

Amount of subscribed share capital: CZK 840,700,000

Stake of the issuer in the share capital: 34.22%

První česko-ruská banka, s.r.o.

Registered office: Novocheremouchkinskaya 65, Moscow, the Russian Federation

Company ID: 044525300

Business activities:

The business activities include the activities as stipulated by the Russian Federation Act on Banks and Banking No. 395-1, as amended. A licence was issued to the bank which authorises it to perform any banking transactions carried out both with legal entities and individuals.

Amount of subscribed share capital: RUB 3,510,152,000, i.e. CZK 3,002,865,000 (translated using the exchange rate as at 31 December 2005)

Stake of the issuer in the share capital: 13.87%

Výzkumný a zkušební letecký ústav, a.s.

Registered office: Praha 9, Beranových 130

Company ID: 00010669

Business activities:

The main business activities of the company consist of:

- activities of organisational and economic advisors,
- development, design, manufacturing, tests, maintenance, repairs, modifications and construction changes of aviation technology,
- air transport and aviation work,
- foreign trade with military material,
- advisory activities of commercial and technical nature.

Amount of subscribed share capital: CZK 750,968,000

Stake of the issuer in the share capital: 47.55%

EVENTS OF 2005

January

ČKA sold 285,025 shares in the company Český Telecom, a.s. in accordance with Czech Government Resolution No. 685 of 7 July 2004 in the public market.

In connection with the Czech Government Resolution No. 1209 as at 1 December 2004, the sale of securities Black Diamond, at the total nominal value of USD 10 million, was completed.

February

ČKA sold shares in the company Lesní společnost Hradec Králové, a.s. (21.13%) and shares in the company Jihočeské lesy České Budějovice, a.s. (36.36%) in accordance with Czech Government Resolution No. 24 of 5 January 2005.

The Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic issued an arbitration award on 17 February 2005 in the dispute between ČKA and ČSOB on the receivable from the debtor J.RING, a.s. whereby it decided that ČSOB is obliged to refund to ČKA the payment for cession of the receivable of CZK 1,448,065,053.00 and relevant interest and charges.

March

On 8 March 2005 the company OSINEK, a.s. fully repaid its liability to ČKA of CZK 1.8 billion.

Repayment of the 4th issue (CZK 5 billion) and 9th issue (CZK 5 billion) of ČKA's short-term bonds.

Repayment of bonds of Konsolidační banka Praha, s.p.ú KOB/var05, ISIN CZ0003700478 worth CZK 5 billion.

April

Receipt of the payment of ČKA's receivable from the Czech state for the Agency's unpaid losses from the Ministry of Finance worth CZK 13 billion.

Collection of CZK 1.4 billion from ČSOB, a.s. for the refunded receivable from the company J.Ring, a.s. in liquidation, from ČKA to ČSOB.

May

In accordance with Czech Government Resolution No. 899 of 15 September 2004, the sale of the 69.00% ownership interest in the company Autoklub Bohemia Assistance, a.s. was completed.

In accordance with Czech Government Resolution No. 415 of 28 April 2004 ČKA sold 9.76% of shares in the company SPOLANA, a.s.

ČKA sold 32.93% of shares in the company Výzkumný ústav pivovarský a sladařský, a.s., in accordance with Czech Government Resolution No. 569 of 11 May 2005.

ČKA, together with its subsidiaries Konpo, s.r.o. and Česká finanční, s.r.o. announced public tenders for the cession of two blocks of receivables from ČKA's portfolio, two blocks of receivables from the portfolio of the company Česká finanční, s.r.o. and one block of receivables from the portfolio of the company Konpo, s.r.o. All five blocks included

3,596 receivables from 2,375 debtors and the total value of receivables was CZK 30.7 billion. Receivables were divided into three bankruptcy and two non-bankruptcy blocks.

ČKA ceded the receivables and the ownership interest in the company Jihočeské papírny, a.s., Větrní whereby Czech Government Resolution No. 642 of 23 June 2004 was implemented and through which the Company was included into the EXIT 2 programme and Czech Government Resolution No. 473 of 20 April 2005 whereby the Government approved the assignment of these ČKA's assets in the company Jihočeské papírny a.s. Větrní, to the winner of the tender.

In connection with Czech Government Resolution No. 1152/2003 ČKA's assets in the companies of the UNIPETROL Group were ceded to the company Polski Koncern Naftowy ORLEN S.A.

ČKA on 27 May 2005 ceded receivables from the company Zetor Trade, s.r.o. and ZETOR P.D.C., a.s. to the winner of the tender whereby Czech Government Resolution No. 235 of 23 February 2005 was implemented, on the basis of which the companies of the Zetor Group were included into the EXIT 2 programme.

On 23 May 2005 ČKA ceded receivables from the company Plynostav Pardubice holding, a.s. to the company České přístavy, a.s. This strategic investor was selected on the basis of a public tender under the government restructuring programme EXIT 2 and after an approval by the Czech Government Council – Investment Council.

ČKA brought an arbitration action with the Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against Komerční banka, suing it for CZK 679,457,878.52 and the relevant interest and charges, with respect to the allocation of payments collected by Komerční banka, a.s. for the settlement of assets secured by the state guarantee under the Contract on Guarantee of 29 December 2000.

June

ČKA brought an arbitration action with the Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against Česká spořitelna, a.s. (The Czech Savings Bank), suing it for CZK 99,816,721.41 and the relevant interest and charges, with respect to the controversial Motivation Fees (MF 1) from the Realization price under the Contract on Restructuring and Guarantees of 1 March 2000.

Redemption (repayment) of the issue of ČKA's bonds /var05, ISIN CZ0003700635 (CZK 10 billion) and launching of the 10th issue of ČKA's short-term bonds (CZK 5 billion)

July

In accordance with Czech Government Resolution No. 932 of 29 September 2004, 16.97% of shares in the company VÁLCOVNY PLECHU, a.s. were sold and at the same time ČKA's receivables from this company were ceded.

On 8 July 2005, contracts pertaining to the assignment of assets of ČKA and Konpo, s.r.o. from the company VÁLCOVNY PLECHU, a.s. to Mittal Steel Ostrava a.s. were concluded. The cession of receivables of ČKA and Konpo, s.r.o. from the company VÁLCOVNY PLECHU, a.s. to Mittal Steel Ostrava a.s. came into effect on 13 July 2005 by the payment of the purchase price for all assets. On 26 July 2005, ČKA's ownership interest in the company VÁLCOVNY PLECHU, a.s. was assigned to Mittal Steel Ostrava a.s.

Česká spořitelna, a.s. brought an arbitration action with the Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against ČKA, suing it for CZK 162,520,477. and the relevant interest and charges, with respect to the controversial Motivation Fees (MF 2) from the Realization price under the Contract on Restructuring and Guarantees of 1 March 2000.

August

On 23 August 2005, after a previous public tender, individual sale of a receivable from the debtor MIKRONA Praha, a.s., in liquidation, at the total value of CZK 266,248,609.96 was realised.

Launching of the 11th issue of ČKA's short-term bonds (CZK 2.6 billion).

September

On 7 September 2005, the Contract on cession of ČKA's receivables of 19 August 2005, the subject of which was the cession of ČKA's receivables from the debtor TCHECOMALT GROUP, a.s. with its registered office at Prostějov, Vrahovická 56, Company Identification Number (IČ) 25308882 entered into between Česká konsolidační agentura (Czech Consolidation Agency) as the cedent (assignor) and PMS Přerov a.s., with its registered office at Přerov, Komenského 35, Company Identification Number (IČ) 14617099 as the cessionary (assignee) and the Contract on cession of ČKA's receivables of 19 August 2005, the subject of which was the cession of ČKA's receivables from the debtor PROFERTA, a.s., in liquidation, with its registered office at Lovosice, Terezínská 148, district of Litoměřice, Postal Code Number 410 17, Company Identification Number (IČ) 2510312, entered into between Česká konsolidační agentura as the cedent (assignor) and PMS Přerov a.s., with its registered office at Přerov, Komenského 35, Company Identification Number (IČ) 14617099 as the cessionary (assignee) came into effect. For the two aforementioned receivables, the cessionary paid CZK 902,000,000.00 i.e. 38.68% of their aggregate value and 43.39% of the book value of receivables.

Redemption (repayment) of the 10th issue of ČKA's short-term bonds (CZK 5 billion).

October

In connection with Czech Government Resolution No. 1222 of 21 September 2005 100% of ownership interests in the limited partnership companies ARTA REAL (at the nominal value of CZK 2.8 billion) and CZ CREDIT REAL (at the nominal value of CZK 2.9 billion) were sold.

The assumption of receivables of health insurance companies from the payers of health insurance contributions in bankruptcy proceedings or composition proceedings, at the book value of CZK 3.8 billion, in accordance with Czech Government Resolution of 24 August 2005 No. 1080 on the Project of Cession of part of the receivables of health insurance companies from payers of overdue health insurance contributions to the Agency.

November

Based on Czech Government Resolution No. 985 of 20 July 2005 a tender for the joint sale of ČKA's assets in the company AERO Vodochody, a.s., was started.

Redemption (repayment) of the 11th issue of ČKA's short-term bonds (CZK 2.6 billion).

On 2 November 2005, the Municipal Court of Prague decided in the case of ČKA v. the receiver of the assets of the bankrupt company PV BROKERS, a.s., by determining the ČKA's receivable of CZK 187,425,457.43, with the creditors' right to separate satisfaction (the relevant receivable to be set off by the alleged receivable claimed by JUDr. Nemeth).

Subsequently, on 30 November 2005 the High Court of Prague, as the appellate court, confirmed the ruling of the Regional Court of Prague of 8 September 2004, whereby it was decided in the case of ČKA v. the receiver of the assets of the bankrupt company, ARLARA, s.r.o., to the effect that ČKA's receivable of CZK 150,890,274.76 has been determined legitimately. Originally, the receivable was denied by the receiver due to the alleged discharge of the receivable by its set-off against the alleged receivable of JUDr. Nemeth.

Based on a public tender on 18 November 2005 the sale of receivables from the debtor PN AUTOINVEST, s.r.o., Company Identification Number (IČ) 64830438, in the aggregate amount of CZK 254,078,062.18 was completed.

December

In accordance with Czech Government Resolution No. 1383 of 26 October 2005 the sale of 25.83% ownership interest in the company BRNO INN, a.s. was completed.

ČKA acquired on the basis of Czech Government Resolution No. 985 of 20 July 2005 from the company LETKA, a.s., the shares in the company AERO Vodochody a.s. representing the ownership interest of 53.51% and from the Ministry of Finance receivables from this company.

ČKA, together with its subsidiaries Česká finanční, s.r.o. and Konpo, s.r.o., based on Czech Government Resolution No. 1393 ceded all five blocks of receivables for the aggregate price of CZK 1.93 billion.

In December 2005, ČKA completed the implementation of the Project of cession of part of the receivables of health insurance companies from payers of overdue health insurance contributions to Česká konsolidační agentura. The project was implemented on the basis of Czech Government Resolution No. 1080 of 24 August 2005 and approved by the Chamber of Deputies, by its Resolution No. 1872 of 23 September 2005. ČKA assumed in the period between October and December 2005 from nine health insurance companies a total of 4,168 receivables, in the aggregate amount of CZK 3,776,365,322.08.

Správa železniční dopravní cesty (The Railway Traffic Route Administration), the state-owned organisation, paid the entire amount of the advance payment of CZK 1 billion on 12 December 2005, provided on the basis of Czech Government Resolution No. 908 of 10 September 2003.

In accordance with Czech Government Resolution No. 985 of 20 July 2005 on 22 December 2005 receivables of the Ministry of Finance of the Czech Republic from the company AERO Vodochody, a.s. worth some CZK 10.26 billion were ceded to ČKA.

ČKA ceded to the new cessionary the receivable from the company PPF burzovní společnost a.s.

On 15 December 2005, the company Konpo, s.r.o. fully settled the liabilities to ČKA arising from the loans provided on the basis of Czech Government Resolution No. 187 of 16 February 2000 on the purchase of doubtful and loss assets from Komerční banka, a.s., in connection with its privatization.

On 15 December 2005, the Agreement on conditions for the reduction of debts and joint procedure was signed between ČKA and the town of Smržovka, under which it was possible to commence the process of selling the redundant assets of the town of Smržovka, while the proceeds from the sale will be used for partial redemption of the debt of the town of Smržovka with respect to ČKA.

On 30 December 2005, ČKA ceded receivables from the company SLEZSKÝ KÁMEN a.s. to the company Jesenická těžební, a.s. This strategic investor was selected on the basis of a public tender under the government restructuring programme EXIT 2 and after an approval by the Czech Government Council – Investment Council.

Repayment of the balance of the long-term preferential loan (soft loan) of CZK 8.8 billion, received from Česká národní banka (the Czech National Bank) for the refinancing of loans provided in the past to housing co-operatives for the co-operative housing construction.

For the year 2005, the volume of guarantees provided under the Contract on restructuring and guarantees to the firm Leasing ČS (Leasing of the Czech Savings Bank) and its subsidiaries dropped by CZK 53.6 million; the current balance of a guarantee as at 1 January 2006 was CZK 354.9 million.

ACTIVITIES OVERVIEW

PATENTS, LICENCES

ČKA has neither acquired nor owns any patents or licences that would be of material importance for its business. At present, ČKA has registered the combined trademarks KOB Praha, s.p.ú., ČKA, Konpo, s.r.o., Česká finanční, s.r.o. and Revitalizační agentura, a.s which are protected by industrial and legal regulations.

INFORMATION ON LITIGATIONS, ADMINISTRATIVE OR ARBITRATION PROCEEDINGS

In discharge of the ČKA scope of business as defined by the ČKA Act and primarily including the purchase, sale and management of receivables, ČKA, similar to its legal successor KOB Praha, s.p.ú., has been actively involved in conducting court, administrative, or, arbitration proceedings.

The following arbitration proceedings could significantly impact the financial position of ČKA in 2003 and 2004:

On 25 August 2003, Ing. Bedřich Brabec (a shareholder of KORADO, a.s.) commenced arbitration proceedings against ČKA, EBRD and Messrs. Menclík, Petr and Vobora (shareholders of KORADO, a.s.) before the International Court of Arbitration in London. With regard of ČKA, the petitioner claims that the Company has a duty to notify KORADO, a.s. of the assignment of its receivables resulting from all loan contracts, a duty to surrender to the petitioner through an endorsement of the ownership title to the shares of KORADO, a.s. and a duty to hand the title over to him. Further, he is claiming damages. On 27 February 2004, Ing. Brabec extended the scope of his action by requesting damages in the total amount of CZK 3.375 billion from all defendants. The arbitrator appointed for the arbitration proceedings was dismissed, as at 31 December 2005 new arbitrator was not appointed and the final decision in the LCIA proceedings has not been taken.

On 17 February 2004, ČKA filed a total of 3 actions with the Prague Municipal Court for the revocation of arbitration awards issued by the Court of Arbitration at the Economic Chamber and the Agrarian Chamber on 5 November 2003 and 7 November 2003. These arose from original actions for the return of property obtained as a result of unjust enrichment, filed by the company EC Group, a.s. The actions were filed by EC Group, a.s. with the aim of reducing the total consideration that they had paid for the cession of a block of receivables of ČKA 04.

The purpose of filing actions for the revocation of some of these awards was to overrule an adverse situation for ČKA, whereby they had to return the relevant portion of the consideration to the company and, after potential revocation of the arbitration awards by the general court, had to seek a dismissal of the original actions of EC Group a.s. in new arbitration proceedings. The total value of the litigation, i.e. the relevant portion of the consideration which had to be returned to EC Group a.s. and which is at present contested by the actions for the revocation of arbitration awards, amounts to some CZK 230 million.

On 16 May 2005, ČKA brought an action with the Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against Komerční banka, a.s., suing it for CZK 679,457,878.52 and the relevant interest and charges, contesting the manner of allocation of payments received by Komerční banka, a.s. in the course of the state guarantee under the Contract on Guarantee entered into on 29 December 2000 between KOB Prague, s.p.ú and Komerční banka, a.s., as amended by Annex No. 1 of 31 January 2001, Annex No. 2 of 27 February 2001, Annex No. 3 of 11 May 2001 and Annex No. 4 of 3 August 2001.

On 20 June 2005, ČKA brought an action with the Court of Arbitration attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against Česká spořitelna, a.s., suing it for CZK 99,816,721.40 and the relevant interest and charges, with respect to the dispute on Motivation Fees within the Realization price for the completely paid Separated items under the Contract on Restructuring and Guarantees entered into on 1 March 2000 between KOB Prague, s.p.ú, Česká spořitelna, a.s. and the company CORFINA, a.s.

FINANCIAL AND COMMERCIAL CONTRACTS

As at 31 December 2005, ČKA resolved a large number of business cases, based on which several contracts have been entered into. Mostly, this involved the discharge of legal obligations arising from important contracts, concluded on the basis of Government Resolutions in previous years, which are the contracts set out below.

The contract and state guarantee entered into between the Czech Republic, acting through the Ministry of Finance of the Czech Republic, and Československá obchodní banka, a.s.

The contract and the state guarantee were concluded on 19 June 2000 (the complete wording by 27 July 2000). As the result of the authorisation of the Minister of Finance, rights and obligations under this contract and the state guarantee, are exercised on behalf of the Ministry of Finance by Česká konsolidační agentura, the legal successor to Konsolidační banka, s.p.ú. in liquidation.

On 31 August 2001, the Contract on the restructuring plan was entered into by ČSOB, a.s., Konsolidační banka Praha, s.p.ú the legal predecessor of Česká konsolidační agentura and the Czech Republic acting through its Ministry of Finance. The contract regulates the rights and obligations of the parties in the assignment of the assets of IPB business from ČSOB, a.s. to the Agency.

On 31 July 2003, the Redemption contract was concluded between the Agency, ČSOB, a.s., the Czech Ministry of Finance and subjects of the off-shore structure. Under this contract, all assets of subjects of the offshore structure were transferred through the so-called redemption to the Agency, apart from specific assets that are being assigned gradually to the Agency once legal impediments to their assignment are eliminated.

Contract on restructuring and guarantees, entered into by the companies Česká spořitelna, a.s., CORFINA, a.s., and Konsolidační banka, s.p.ú. in liquidation.

Due to its special status, the Agency implements specific restructuring programmes ensuring the stabilisation of large Czech industrial companies and the banking sector. Based on Czech Government Resolution No. 144/2000 on the privatisation of the state ownership interest in business activities of Česká spořitelna a.s. of 2 February 2000, and in compliance with the Contract on restructuring and guarantees entered into on 1 March 2000 by Konsolidační banka, s.p.ú. in liquidation Česká spořitelna, a.s. and CORFINA, a.s. the following steps were taken:

- 30 June 2001: cession of the first part of receivables (1,155 receivables) from ČS, a.s. in the nominal value of CZK 7,905.9 million. The cession price of these receivables was CZK 4,682.5 million.
- 30 June 2002: cession of the second part of receivables (648 receivables) from ČS, a.s. in the nominal value of CZK 6,570.9 million. The cession price of these receivables was CZK 4,110.4 million.
- 31 May 2003: cession of receivables from ECKG s.r.o. from ČS, a.s. in the nominal value of CZK 814.2 million. The cession price of these receivables was CZK 755.7 million.

- Cession of receivables from 82 overdraft accounts in total amount of CZK 616.8 million. The cession price of these receivables was CZK 584.1 million.
- Cession of receivables from bank guarantees given in the total amount of CZK 43.3 million. The cession price of these receivables was CZK 43.1 million.
- 12 December 2003: cession of receivables from Benzina a.s. from ČS, a.s. in the nominal value of CZK 569.8 million. The cession price of these receivables was CZK 569.3 million.
- Cession of two receivables based on a loan contract withdrawing a total amount of CZK 0.1 million through charge cards. The cession price of these receivables was CZK 0.1 million.
- Assumption of receivables with respect to the guarantee from AGROS Bohumilice s.r.o. in the amount of CZK 1.7 million in the fourth quarter of 2004. With respect to this guarantee, ČKA's fulfilment was also 1.7 million.
- Issuance of a guarantee for a one-off balance sheet receivable of ČS as at 31 December 2004 in the amount of CZK 1.2 million.
- Issuance of a guarantee (announcement of a guarantee) on 28 July in favour of CORFINA, a.s. (currently Leasing ČS, a.s.) and its subsidiaries (CORFINA TRADE, s.r.o. a CF Danube leasing s.r.o.) with a total limit of fulfilment (for all 3 guarantees) in the amount of CZK 1,2 billion. On 31 December 2005, 1,592 receivables were transferred to ČKA, thereby CZK 845,1 million were drawn from the provided guarantee. i.e. as at 31 December 2005 CZK 354,4 million remained from the limit.
- In 2005, 2 arbitration actions were brought against ČS, a.s., as at 31 December 2005 the following cases were not decided:
 - action brought by Česká spořitelna (The Czech Savings Bank) against ČKA, suing it for CZK 162,520,477, and the relevant interest and charges (Motivation Fees 2)
 - action brought by ČKA against Česká spořitelna, suing it for CZK 99,816,721.40 and the relevant interest and charges (Motivation Fees 1)
- On 18 May 2006, the arbitration award was issued, on the basis of which Česká spořitelna will pay to ČKA the sum of CZK 99.8 million and the relevant interest and charges (some CZK 30 million).
- In 2005, 12 arbitration actions, suing ČKA for CZK 38 million (individual actions were brought gradually since July 2005) were brought against ČKA by Leasing ČS, a.s. (formerly Corfina, a.s.), with respect to the receivables that were claimed from ČKA under the Representation of guarantee, but ČKA refused to perform its contractual obligations on the grounds that these receivables do not meet the stipulated conditions. As at the end of 2005 the Court of Arbitration decided on none of these receivables.

Contract on guarantee entered into between KOB and Komerční banka, a.s.

The Contract on guarantee has been entered into in connection with the privatization process of Komerční banka, a.s., on 29 December 2000 between Konsolidační banka, s.p.ú., in liquidation and Komerční banka, a.s., on the basis of Point 2), Art III of Czech Government Resolution No. 1334 of 18 December 2000. On the basis of the Contract on guarantee, Konsolidační banka, s.p.ú., in liquidation undertakes to provide a guarantee with respect to the risk assets of Komerční banka, a.s.; this guarantee relates only to the assets classified as substandard, doubtful or loss in compliance with the methodology of the Czech National Bank.

On 30 October 2003, Komerční banka, a.s. delivered an appeal to ČKA for down payment in the amount of CZK 5,861,745,964.70. ČKA paid the whole amount before 31 December 2003. As at 31 December 2003, in accordance with the agreement, no announcement concerning the preparedness to provide payment was made.

In December 2003, in compliance with Article 5.3. of the Contract on Guarantee, ČKA used its right and exercised its Option with respect to a portion of the bankruptcy receivables under state guarantee. This included 95 receivables in aggregate, valued at CZK 610.9 million for which ČKA paid the total sum of CZK 76.5 million during (the course of) April 2004.

On 19 May 2004, in compliance with the Contract on guarantee, Komerční banka, a.s. delivered the call for final settlement to ČKA, based on which the general settlement of the provided state guarantee is performed. The final loss calculated by Komerční banka, a.s. as at 31 December 2003 was CZK 5,314,308,666.87. With regard to the 5% share of Komerční banka, a.s., in its redemption ČKA's performance was CZK 5,048,593,233.53. The difference between the advance and the final loss paid by ČKA, which amounted to CZK 813,152,731.17, was returned by Komerční banka on 17 June 2004, whereupon ČKA forwarded it to the National Property Fund of the Czech Republic.

In connection with the settlement of the state guarantee, based on the Master agreement on the assignment of receivables entered into on 17 June 2004 between ČKA and Komerční banka a.s., on 18 June 2004 1,794 receivables valued at CZK 1,015.93 million in total were assigned to ČKA. The guaranteed portion amounted to CZK 519.51 million and the non guaranteed portion amounted to CZK 496.42 million. For the portion of receivables acquired through the guarantee, ČKA paid CZK 493.54 million (paid in full as part of the payment provided by the National Property Fund of the Czech Republic), for the ceded portions of receivables, ČKA paid CZK 1,794 (CZK 1 per receivable).

After preceding payments from KB to ČKA in the total amount of CZK 64,222,399.58 relating to overpayment for fulfilment of the state guarantee for the period from 1 January 2004 to 17 June 2004 (i.e. until the assumption of receivables by ČKA) the sum of CZK 79,020,79 for one returned receivable was returned to the National Property Fund of the Czech Republic. In the course of 2005, furthermore, 5 additional receivables were refunded to KB (Komerční banka) and with respect to 1 receivable, KB refunded partial performance under the guarantee. For this reason, the National Property Fund of the Czech Republic was refunded the aggregate amount of CZK 464,517.89.

In 2005, ČKA brought an arbitration action against KB, suing it for CZK 679,457,848.52, and the relevant interest and charges.

ČKA won this action and based on the arbitration award No. Rsp. 283/05 of 30 March 2006 KB on 24 April 2006 paid the aggregate amount of CZK 705,899,801.30 to ČKA.

Letter of Intent to conclude a purchase contract in accordance with Sect. 289 of the Act no. 513/1991 Coll., Commercial Code, as amended, and on the conditions of providing an advance for the purchase price in accordance with the provisions of Sect. 269 of the Act no. 513/1991 Coll., Commercial Code, as amended

The Letter of Intent was signed on 7 October 2003 between the Czech Republic, acting through the Ministry of Finance, ČKA and Správa železniční dopravní cesty, a national organisation (Railway Traffic Route Administration, "SŽDC").

By signing the Letter, the Czech Republic undertook to conclude a future purchase contract with ČKA for the sale of real properties owned by the Czech Republic that have been marked, under Annex 2, Act no. 77/2002 Coll., to cover liabilities of České dráhy, a.s., a national organisation, and to match the conditions under which ČKA will credit the account of SŽDC (that being the property manager) with an advance for the purchase price for said real properties. Based on the Letter, ČKA provided an advance of CZK 1 billion for the sale of the real properties as set out in Annex 2, Act 77/2002 Coll., clauses 1, 2 and 4 (structures and land) and an advance of CZK 1.2 billion for the sale of residential buildings as set out in

Annex 2, Act no. 77/2002 Coll. (residential buildings approved for privatisation) to SŽDC on 21 October 2003.

Newly, in 2005 the **Master Agreement on the cession of receivables of health insurance companies was concluded.**

On 24 August 2005, the Czech Government adopted resolution No. 1080 on the Project of cession of part of the receivables of health insurance companies from the payers of overdue health insurance contributions to Česká konsolidační agentura. The relevant Government Resolution was also approved on 23 September 2005 by the Chamber of Deputies of the Parliament of the Czech Republic and with regard to these acts Česká konsolidační agentura was charged with the task to secure the implementation of the Government Resolutions.

The subject of the Project is the cession of the realised, reviewed and identified receivables of individual health insurance companies, from payers of health insurance contributions in bankruptcy proceedings or composition proceedings at a nominal value of over CZK 100,000 per each individual receivable up to the aggregate amount of CZK 3.8 billion.

In the course of October 2006 Česká konsolidační agentura concluded master agreements on the cession of receivables with all the health insurance companies involved. Subsequently, since 5 October 2005 it also concluded individual agreements on the cession of specific receivables.

MAIN FINANCIAL INVESTMENTS

Investments into financial assets

According to Act No. 239/2001 Coll. on ČKA, ČKA is allowed to establish a business company or participate in its establishment, invest the state property it is authorised to manage into a business company, or transfer securities and deal in ownership interests in business companies other than joint-stock companies, solely following a prior approval granted by the Government.

In 2005, the following key operations were implemented in relation to investments into ownership interests and realisable bonds:

- At the beginning of January 2005, 285,025 shares of the company Český Telecom, a.s. were sold.
- In January 2005, the sale of Black Diamond securities was completed in the total nominal value of USD 10 million.
- At the beginning of February 2005, a 21.13% stake in the company Lesní společnost Hradec Králové, a.s. was sold.
- In mid-February 2005, a 36.36% stake in the company Jihočeské lesy České Budějovice, a.s. was sold.
- In the second half of March, a 10.11% stake in the company ELITEX, a.s. was sold.
- In the first half of April 2005, 4 bills of exchange of the company Válcovny trub Chomutov, a.s. were sold in the total value of CZK 130 million.
- On 23 May 2005, the sale of a 69.00% stake in the company Autoklub Bohemia Assistance, a.s. was completed.
- On 24 May 2005, a 9.76% stake in the company SPOLANA, a.s. was sold.
- On 27 May 2005, a 32.93% stake in the company Výzkumný ústav pivovarský a sladařský, a.s. was sold.

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- On 31 May 2005, the sale of a 38.89% stake in the company Jihočeské papírny, a.s. Větrní, was completed.
- On 26 July 2005, a 16.97% stake in the company VÁLCOVNY PLECHU, a.s. was sold.
- On 26 November 2005, stakes in the limited partnerships ARTA REAL (nominal value CZK 2.8 billion, i.e. a 100.00% stake in the registered capital) and CZ CREDIT REAL (nominal value CZK 2.9 billion, i.e. a 100.00% stake in the registered capital), were sold.
- On 1 December 2005, a 25.83% stake in the company BRNO INN, a.s. was sold.
- On 14 December 2005, a substitute settlement was performed between the creditor – ČKA and the debtor – IPB REAL INVESTMENT, a.s. on the basis of the Agreement on Substitute Settlement in the form of acquisition of the following securities: a 79.59% stake in INTEGRA, a.s., a 100.00% stake in Českomoravská nemovitostní, a.s. and an 88.64% stake in IMOB a.s.
- On 19 December 2005, ČKA acquired shares of the company AERO Vodochody a.s., representing a 53.51% stake in the above company, from the company LETKA.
- In the first half of the year 2005, monthly sales were performed of share certificates of open mutual funds acquired on the basis of the Redemption Agreement.
- On a quarterly basis, sales of listed securities and of share certificates of open mutual funds acquired for nil consideration were performed on the basis of Decree No. 62/2001 Coll.; in the months of November and December 2005, certain titles of securities were transferred on the basis of Article 183 i – n of the Commercial Code, as amended.
- During the entire year 2005, acquisitions for nil consideration of shares, share certificates of open mutual funds, flood bonds and equity stakes were performed on an ongoing basis based on the Decree No. 62/2001 Coll.

NON-FINANCIAL INVESTMENTS

In compliance with the Act on Securities, as amended, an overview should be filed of the value of fixed assets acquired by the Issuer in the years 2004 and 2005.

These were current and necessary investments, related mainly to information technologies. The funding of such investments is secured by the Agency's own resources.

	2004	2005
Investments total (in CZK mil.)	3	0.5
of which:		
– Buildings and constructions	0	0.0
– Other investments	3	0.5

Key future investments

ČKA investment plan for 2006

Total volume of investments (in CZK mil.)	1.4
Operating investments	1.4
– Buildings	0.0
– Tangible assets + tangible fixed assets (equipment)	0.2
– Tangible assets – IT	0.7
– Intangible assets – Software	0.5
Other than operating investments – buildings	0.0

INFORMATION ABOUT MAIN ACTIVITIES

Sales and transfers of real estate property

On the basis of the State Guarantee Contract dated 19 June 2000 and the Restructuring Plan Contract dated 31 August 2001, ČSOB, a.s. transferred during the years 2001 and 2003 a total of 16 real estate properties in the total value of CZK 1.3 billion to ČKA. All these properties were offered for use to state organisations and to state organisational units. Of the total number, six properties, with the book value of CZK 748 million, were transferred for nil consideration. The other nine properties, with the book value of CZK 524 million for which no use was found in any governmental organisation, were sold in public voluntary auctions or public tenders for a total price of CZK 466 million. The remaining real estate property will be sold in 2007, at the latest.

On the basis of Czech Government Resolutions Nos. 302 and 380 as at 26 March 2003 and 14 April 2003 respectively, as well as the assigned letter from MoF (ref. No. 06/33520/2003, dated 15 April 2003), the right of disposal of the properties in the Hybernská area 997, 998/2, 4 Prague 1 was transferred from the Ministry of the Interior to ČKA for nil consideration. At present, litigations with the City of Prague are pending to determine the title to the disputed real estate properties Id. No. 998 on land plot No. 511 and to the land plot itself (Plot No. 511) in the cadastral area of Nové Město.

The training centre Koloděje nad Lužnicí, Id. No 66, 105 was offered for sale in a voluntary public auction on 12 December 2005 for redundancy reasons. On 10 March 2006, the training centre Koloděje nad Lužnicí was, on the basis of a document that the declarer settled to the auctioneer on the basis of Article 29 of Act No 26/2000 Coll. the price achieved in the auction (the total price achieved in the auction amounted to CZK 2,448,750), given over to the declarer.

As at 30 November 2005, the training centre Dolní Dvůr “Chata GALL” was, on the basis of the letter of MoF ref. No 501/72166/2005 as at 13 July 2005, offered for use to other ministries and administration organisations. By the letter Ref. No. 427/105879/2005 as at 21 November 2005, and in relation to the letter Ref. No. 501/72166/2005 as at 13 July 2005 and to the decision of the Governmental Dislocation Commission as at 6 October 2005, MoF ordered a transfer of the training centre Dolní Dvůr for nil consideration to the Governmental Tangible Reserves Administration, Šeříková 1/616, Prague 5. The entry in the Land Register was performed as at 1 December 2005.

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Property	Identification No.	Plot No.	Area (sqm)	Cost (CZK thousand)
Dolní Dvůr	21	st. 85/1, st. 425	956	23,556

As at 31 August 2005, the property in Nádražní 1448/8, Ostrava, was transferred for nil consideration to the Financial Head Office in Ostrava on the basis of the letter of MoF ref. No 501/72166/2005 as at 13 July 2005. The entry to the Land Register was performed on 1 September 2005.

Property	Identification No.	Plot No.	Area (sqm)	Cost (CZK thousand)
Ostrava	1448	st. 470/13	243	17,417

List of real estate properties owned by the Czech Republic which were administered by the Agency as at 31 December 2005

Property	Identification No.	Plot No.	Area (sqm)	Cost (CZK thousand)
1. Praha 1, Na Příkopě 3-5	390	st. 484	1,271	101,599
2. Praha 7, Janovského 2	438	st. 1255	4,433	442,094
3. Praha 7, nábř. Kpt. Jaroše	1000	st. 1260	6,808	149,480
4. Praha 1, Hybernská 2, 4	997, 998	510, 511	5,173	Free of charge
5. Parcels in Letňany		544/50,52, 54,55, 84, 85, 86, 87, 547/9, 808/2	29,891	26,299

Credits for co-operative housing construction

By Czech Government Resolution No. 206 of 23 March 1998, the transfer of financing and crediting of co-operative housing construction from IPB to KOB, the legal predecessor of ČKA, was decided upon. In connection with this decision, as at 1 April 1998, some 22,000 receivables from loans provided for co-operative housing construction in the aggregate amount of about CZK 16.1 billion were assigned to KOB, together with the debt with respect to Česká národní banka (The Czech National Bank) arising from the long-term preferential loan (soft loan) provided to secure the funding of the co-operative housing construction.

A. ČKA's receivables from housing co-operatives under loans for co-operative housing construction (assets of the co-operative housing construction)

As at 31 December 2005, ČKA disclosed in its balance sheet a total of 14,061 receivables from 491 housing co-operatives under loans for co-operative housing construction. This totalled approximately CZK 7,678.3 million, including some CZK 0.2 million in overdue loans. Outstanding loans are attached to some 321,000 housing units.

All loans are currently in the repayment regime, no further drawdown will take place. Loans are repaid by half-yearly annuities payable as at 30 June and 31 December of the current year. So far, the payment discipline of housing co-operatives is good. All loans are currently in the repayment regime, no further drawdown will take place. Loans are repaid by half-yearly annuities payable as at 30 June and 31 December of the current year. So far, the payment discipline of housing co-operatives is good. Banking activities associated with the administration, maintaining and collection of receivables from loans provided for the purposes

of the co-operative housing construction are performed for ČKA by Československá obchodní banka under the contract of mandate.

Under the loan contracts entered into with the housing co-operatives, the last loans for housing construction are due as at 31 December 2035. Before ČKA's activities are wound up, the collection of annuities in the aggregate amount of some CZK 1,196.4 million is anticipated (including the principal of CZK 1,051,5 million) as well as the closure of 1,506 accounts of receivables from loans for the co-operative housing construction. As at 31 December 2007, a total of 12,555 receivables from loans for housing construction totalling some CZK 6,626,8 million will remain outstanding. This prediction does not reflect extraordinary loan repayments due to the transfer of title to a co-operative flat for members of co-operatives carried out pursuant to Act No. 72/1994 Coll., on the ownership of flats.

B. Redistribution loan for the co-operative housing construction from ČNB (The Czech National Bank) (liabilities of the co-operative housing construction)

In order to ensure compliance of ČNB with European Union Czech Government Resolution No. 45 of 14 January 2004, charged the Minister of Finance with the task "prior to the winding up of the ČKA's activities to resolve the settlement of liabilities to ČNB arising from the redistribution loan extended with the aim of covering the receivables from the co-operative housing construction". Based on the letter of order from the Minister of Finance of 30 November 2005 ČKA repaid early in full the long-term preferential loan (soft loan) from Česká národní banka (The Czech National Bank) on 29 December 2005.

Refinancing of receivables from loans for co-operative housing construction is secured from other currently available funds of ČKA. In connection with the early repayment of the long-term preferential loan for co-operative housing construction from Česká národní banka (The Czech National Bank), at the beginning of 2006, the structure of the calculation of ČKA's property loss paid from the state budget will be changed, as this loss will, in contrast with the previous years, have an adverse impact on ČKA's financial result.

Správa železniční dopravní cesty, national organisation (SŽDC)

Based on Czech Government Resolution No. 908 of 10 September 2003, ČKA provided to the client under "The Letter of Intent to conclude a purchase contract in accordance with Section 289 and following Sections of Act No. 513/1991 Coll., the Commercial Code, as amended, and on the conditions of providing an advance for the purchase price in accordance with Section 269 of Act No. 513/1991 Coll., the Commercial Code, as amended" (hereinafter the Letter of Intent), entered into between ČKA and the Czech Republic – acting through the Ministry of Transport of the Czech Republic and Správa železniční dopravní cesty (The Railway Traffic Route Administration, as the enjoined party to the contract) on 7 October 2003, advance for the sale of selected real property pursuant to Annex No. 2 to Act No. 77/2002 Coll., in the amount of CZK 1.2 billion, payable by 31 December 2005, for the sale of selected real property (buildings and lands) and in the amount of CZK 1.2 billion, payable by 31 December 2006, for the sale of selected residential buildings.

The liability falling due as at 31 December 2005 was repaid gradually in the course of 2005 and on 7 December 2005 it was repaid in full by the last payment.

ČKA's receivables from bankrupt clients

During the calendar year of 2005 a drop in the balance of ČKA's receivables from bankrupt clients occurred, which resulted in a decrease from CZK 50.5 billion to CZK 35.4 billion of gross book value. The number of bankrupt clients in the same period grew from 1,413 to 3,622. A drop in the balance of the above receivables from bankrupt clients was influenced, in particular, by partial settlement of receivables and subsequent write-offs resulting from the completion of bankruptcy proceedings or their sale.

In accordance with the Czech Government Resolution of 24 August 2005 No. 1080 on the Project of cession of part of the receivables of health insurance companies from payers of overdue health insurance contributions to Česká konsolidační agentura (the Agency), the

Agency assumed in 2005 receivables of health insurance companies from payers of health insurance contributions in bankruptcy proceedings or composition proceedings at the gross book value of CZK 3.8 billion.

Through its representatives in creditors' authorities, ČKA exerts considerable efforts to speed up and optimise the process of realisation of the bankrupt client's assets, and apart from this activity also recovers receivables from guarantors (mostly through the courts).

ČKA's receivables from clients in liquidation

Receivables from clients in liquidation are the Agency's risk receivables paid from the funds obtained by the sale of debtors' property and other assets, As at 31 December 2005, the receivables at the total gross book value of CZK 14.1 billion were in liquidation.

Reducing the numbers of clients in liquidation has been handled primarily by assignments of receivables for consideration. A significant proportion of such clients end up in bankruptcy instituted due to the petition lodged either by the debtor, by ČKA or by another creditor. The number of clients in liquidation whose debt is eventually repaid in full is minimal.

Receivables from the above clients are therefore required to be resolved first through court procedures, by filing complaints for repayment of amounts owed with the court of jurisdiction. In the event of final and conclusive titles (judgments, payment orders), the client may be subsequently resolved through the distraintment.

Interbank and capital market, liquidity management

Significant factors for liquidity management were transfers of assets to the Agency (SŽDC, health insurance companies, etc.), sales of assets and redemptions of losses (in April, July and September the Ministry of Finance of the Czech Republic paid part of the loss of KOB/ČKA in the aggregate amount of some CZK 30 billion).

In the last year, the Agency used the following instruments when managing liquidity:

Deposit operations

Client deposit accounts

In the course of the year 2005 several short-term contracts on deposit accounts were concluded with clients, of which the most important ones were with the National Property Fund of the Czech Republic, trustees in bankruptcy and subsidiaries. With the aim to scale down gradually the financial operations, their number and volume was gradually reduced and the total volume of principals as at 31 December 2005 was zero.

Promissory notes

In the course of the year 2005, ČKA did not issue any promissory note. The aggregate value of sums decreased in the course of the year by some CZK 0.433 billion. As at 31 December 2005 the volume of current draft sums amounted to approximately CZK 5.720 billion.

Loans payable and commitments

Loans received from banks were gradually repaid both on their due dates and also early, the loan received from Česká národní banka for the purposes of financing the co-operative housing construction was repaid on 29 December 2005 in the amount of some CZK 7.832 billion.

In the course of the year no new loan commitments were received and as at 31 December 2005 the total value of available loan commitments was CZK 15.136 billion.

INVESTMENTS

Investments of ČKA at 31. 12. 2005 with a share of the share capital higher than 5%

Company name	ID	Share capital (CZK thousand)	Share ČKA on SC (%)
CRF Praha a.s. in liquidation	64949214	434,378	100.00
Česká finanční, s.r.o.	47450622	200	100.00
Českomoravská nemovitostní, a.s.	60192836	2,000	100.00
IMOB a.s.	60197901	2,200	100.00
INTEGRA, a.s.	60196530	2,517	100.00
M+M společnost s ručením omezeným	45281831	100	100.00
3 Z spol. s r.o.	40764397	100	100.00
ASPIRO CZ s.r.o.	25146262	100	100.00
HERALD GOLD s.r.o.	62911937	100	100.00
BALANC PLUS s.r.o.	25709461	100	100.00
S K Y L A S s.r.o.	45279284	100	100.00
DRIVE PRODUCTION FILM s.r.o.	25610830	100	100.00
KRESTA spol. s r.o.	14893118	600	100.00
AREPO, spol. s r.o.	49096958	100	100.00
EXTRADE, spol. s r.o.	18630316	1,200	100.00
MATĚJ, s.r.o.	25106571	100	100.00
IPB REAL INVESTMENT, a.s.	25748360	50,000	100.00
Konpo, s.r.o.	26149729	100	100.00
První východní a.s. in liquidation	25076396	5,000	100.00
PRISKO a.s.	46355901	794,760	100.00
Explosia, a.s.	25291581	1,165,000	100.00
Global Investment, a.s.	25071858	744,000	100.00
TCHECOMALT GROUP, a.s.	25308882	400,000	99.93
proTYPE Design s.r.o.	47470607	100	80.00
BH CAPITAL, a.s.	00546682	408,099	71.89
EURAMCORP, spol. s r.o.	00571717	200	70.00
Výzkumný a zkušební letecký ústav, a.s.	00010669	750,968	47.55
AERO Vodochody a.s. **)	00010545	2,691,775	46.66
České aerolinie a.s.	45795908	2,735,510	34.59
KORADO, a.s.	25255843	840,700	34.22
Studio M+D, spol. s r.o.	25085875	102	33.33

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GALILEO REAL, k.s.	26175291	2,900,000	31.03
Českomoravská lékárnická platebna, a.s. in liquidation	63999340	60,000	28.58
Prometheus management, spol. s r.o.	60200294	100	25.00
Letov, a.s.	00010626	1,798,833	17.46
Svit, a.s. Zlín	00013552	2,415,044	17.15
CHEMAPOL GROUP, a.s.	00000744	2,506,404	14.71
ZVVZ a. s.	00009041	677,011	13.92
První česko-ruská banka, s.r.o.		3,510,152*)	13.87
CONSUS INVESTIČNÍ FOND a.s.	10000500	522,861	13.61
VIPAP VIDEM KRŠKO d.d.	5971101	2,276,626	13.51
Přerovské strojírný a.s.	00008311	345,941	11.81
Mittal Steel Ostrava a.s.	45193258	12,390,257	10.97
ŠKODA a.s.	00213101	9,479,710	6.65
Union Group, a.s.	64609952	2,300,000	5.22

Notes to table:

*) Amount in ths. RUB

**) Other shares in AERO Vodochody a.s., at the total nominal value of CZK 1,435 million accounting for the ownership interest of 53.31% are recorded in off-balance sheet accounts

In 2005, ownership interests in the companies ARTA REAL, k.s. (100.00%), CZ CREDIT REAL, k.s. (100.00%), Autoklub Bohemia Assistance, a.s. (69.00%), Jihočeské papírny a.s., Větřní (38.89%), Jihočeské lesy České Budějovice, a.s. (36.36%), Výzkumný ústav pivovarský a sladařský, a.s. (32.93%), BRNO INN, a.s. (25.83%), Lesní společnost Hradec Králové, a.s. (21.13%), VÁLCOVNY PLECHU, a.s. (16.97%), E L I T E X, a.s. (10.11%), SPOLANA a.s. (9.76%) were sold.

In 2005, under the agreement on alternative performance, ownership interests in the companies IMOB, a.s. and INTEGRA, a.s. were increased (by 88.64% and 79.59%, respectively) and securities of the company Českomoravská nemovitostní, a.s. were acquired (100.00%).

In the course of 2005, ownership interests and securities were acquired for nil consideration under Decree No. 62/2001 Coll. In concrete terms, with respect to ownership interests these are 100% interests in the companies M+M, s.r.o. (limited liability company), 3 Z spol. s r.o., ASPIRO CZ s.r.o., HERALD GOLD s.r.o., BALANC PLUS s.r.o., S K Y L A S s.r.o., DRIVE PRODUCTION FILM s.r.o., KRESTA spol. s r.o., AREPO, spol. s r.o., EXTRADE, spol. s r.o. and MATĚJ, s.r.o. Furthermore, ownership interests in companies proTYPE Design s.r.o. (80.00%), EURAMCORP, spol. s r.o. (70.00%), Studio M+D, spol. s r.o. (33.33%) and Prometheus management, spol. s r.o. (25.00%) were acquired.

In March 2005, the company První východní a.s. went into liquidation.

SOLUTION OF LOANS FOR HIGH TURNOVER INVENTORIES

As at 31 December 2005 ČKA administered within this historical exposure from loans for high turnover inventories 307 receivables from 263 clients at the book value of CZK 3,810 million. As at the end of 2005, out of this amount, 160 clients and CZK 3,423 million in book value of their receivables were in bankruptcy or liquidation proceedings. Due to the fact that no acceptable hedging instruments are recorded in the Agency's books with respect to these receivables and that these are loans classified under the "loss" category, a risk of potential losses on their settlement is covered up to the book amount of CZK 3,810 million by created provisions amounting to CZK 1,334 million and the special-purpose reserve fund amounting to CZK 2,476 million.

Due to the fact that the portion of resources of the above fund allocated for the coverage of the risk associated with the receivables from loans for high turnover inventories that were settled in the current year, is used in the above amount for the redemption of potential loss on their settlement only after closing of the current year, the Agency reports with respect to such settlement for the current year the so-called covered loss amounting to the volume of use of the above fund, reduced by possible proceeds from cession.

Change in the balance of receivables from loans for high turnover inventories	2004	2005
Number of receivables	614	307
Number of clients	557	263
Book value (CZK million)	7,764	3,810
Nominal value (CZK million)	7,964	4,028
Total value (CZK million)	9,284	4,888

In accordance with Czech Government Resolution No. 1141 of 7 November 2001 on the Proposal for the systemic solution of receivables arising from loans extended for high turnover inventories, in 2005 the implementation of Measure I – Interest on receivables from loans for high turnover inventories at a reduced rate of late charges of 0.1% in accordance with the decision of the Office for the Protection of Competition Ref. No. VP /S 142a/01 – 160 of 7 May 2002 continued. Under this decision, the reduced late charges constitute limited aid as defined in Section 4 (1) a) of Act No. 59/2000, on state aid, as amended which may be provided directly under the Act, if the state aid does not exceed the sum of EUR 100,000 in the three-year period commencing on the day when the provision of state aid was started. Within this framework, in 2005, 117 clients drew down their aid of CZK 22,127,297 in the form of reduced interest rate of late charges.

RESTRUCTURING PROGRAMME EXIT/ROZVAHA

The restructuring programmes EXIT and ROZVAHA are programmes for stabilisation and revitalisation of selected industrial companies. They represent a set of solutions for the financing of industrial companies with an excessive debt or thin capitalisation and their restructuring, including changes in ownership relations. These are companies with direct state ownership interest or loan participation that are within the portfolio of assets of ČKA.

The nomination of firms to which these programmes apply is performed by the Czech Government Council – Investment Council appointed based on Government Resolution No. 1000 of 3 October 2001. The Government decides on the placement of companies in the restructuring programmes.

The companies restructured within the programme EXIT/ROZVAHA

Client	Government resolution (number/date)	Public tender date	Public tender result (winner, transferee, not announced)	Client production scope
BSK Přestanov	194 dated 24. 2. 2003	2. 5. 2003	Osprey, a.s.	Production of building ceramics
CETOS, a.s.	578 dated 5. 6. 2002	21. 11. 2003	Česká typografie, a.s.	Light engineering production
ETA, a.s.	194 dated 24. 2. 2003	2. 5. 2003	Plastkov, s.r.o.	Production of electrical devices
HUTNÍ MONTÁŽE Ostrava, a.s.	521 dated 22. 5. 2002	25. 4. 2002	Superfektus, a.s.	Assembling steel constructions and technological devices
INTERMA, a.s.	578 dated 5. 6. 2002	Direct interested person	Commerzbank AG, pobočka Praha	Construction work
JIHOČESKÉ PAPIRNY, a.s., Větrní	642 dated 23. 6. 2004	4. 10. 2004	Synex CZ, a.s.	Non-production holding company, activities of economic and organisational advisors
KOSTELECKÉ UZENINY, a.s.	891 dated 13. 7. 2005	29. 8. 2005	Agrofert Holding, a.s.	Production, processing, sale of meat and meat product
KOVOŠROT Praha, a.s.	7. 4. 2004	Konpo – opak. VVŘ 15. 3. 2005	Public tender in process	Processing of metal waste
METRA Blansko, a.s.	7. 10. 2002	22. 4. 2003	Média World Int., a.s.	Production of measuring devices
MORA, a.s.	578 dated 5. 6. 2002	14. 1. 2003	Magnum Production, a.s.	Production of machines and non-electrical household devices
NOVESTA, a.s.	24. 2. 2003	29. 4. 2003	E1CZ, s.r.o.	Production of rubber footwear
OBRÁBĚCÍ STROJE Olomouc, s.r.o.	969 dated 7. 10. 2002	16. 2. 2005	Terminated	Engineering, locksmith work, metal-working, production of tools
PERLA, bavln. záv., a.s.	24. 2. 2003	13. 5. 2003	Velveta, a.s.	Production of shirting and fabrics
PLYNOSTAV Pardubice holding, a.s.	887 dated 15. 9. 2004	15. 11. 2004	České přístavy, a.s.	Building and reconstruction of pipeline systems

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PRAGA Hostivař, a.s.	22. 5. 2002	Direct interested person	Grampelhuber Gesellschaft m.b.H.	Production of gearboxes, hydraulics
PSJ holding, a.s.	9. 7. 2003	20. 7. 2003	Hydrostav Bratislava – Vlčie Hrdlo, a.s.	Construction work
ROTAS STROJÍRNY, s.r.o.	1034 dated 20. 10. 2003	27. 4. 2004	Lumír Kot	Engineering, locksmith work, metal-working
SLEZSKÝ KÁMEN, a.s.	1062 dated 24. 8. 2005	7. 10. 2005	Jesenická těžební, a.s.	Mining and processing of stone
TUSCULUM, a.s.	521 dated 22. 5. 2002	13. 8. 2002	Jitona, a.s.	Designer's and window-dresser's work, joinery
VÝTAHY, a.s.	5. 1. 2005	18. 3. 2005	Výtahy Pardubice, a.s.	Production, assembly and servicing of lifts, production of lifting platforms, gate doors
ZETOR Trade, s.r.o, + ZETOR P.D.C.	235 dated 23. 2. 2005	4. 3. 2005	Intern, a.s.	Production and sale of tractors and spare parts, trademark Zetor

KEY RISK FACTORS IN FINANCIAL MANAGEMENT

Since the Agency has been afforded the special position of state guaranteed institution, the financial risk management has been focused on definition and monitoring of procedures, methods and limits of the risks. Risks of financial losses are mitigated also by the limitation on the acquisition of assets for consideration (payment) with regard to the upcoming termination of the Agency's operations which is possible since 1 January 2006 solely in connection with the management of risks and liquidity and completion of previously concluded contracts. In practical terms, financial risks are assessed on a comprehensive basis, along the policy line of revenues, liquidity, and safety.

Significant risks of assets and liabilities

Significant part of risks of the loan (credit) portfolio is eliminated by the Agency's conservative approach to the assessment of the loan portfolio quality associated with the massive creation of provisions or available volume of the special-purpose reserve fund that is intended for the coverage of anticipated losses on special-purpose loans for which the Agency does not create provisions. At the end of 2005, the available volume of the created provisions and the special-purpose reserve fund accounted for 82.5% of the gross book value of the loan portfolio. According to the performed statistical estimates, this volume, together with the acceptable value of received guarantees covers more than sufficiently all anticipated losses on the reduced recoverability of the book value of loan receivables.

Similarly high coverage, by provisions or guarantees of the Ministry of Finance, or periodical fair value revaluation, is also secured with respect to anticipated risks of losses associated with investments in ownership interests and securities.

Other Agency's receivables, where the category of receivables from the redemption of losses by the Ministry of Finance prevails, according to the debtors' financial position or the Agency's internal rating system, represent a negligible risk of losses.

Currency risk is managed on a goal-directed basis by the minimization of positions held in individual foreign currencies. Interest risk is tested regularly by the gap analysis, based on interest inconsistency between interest charged on assets and liabilities. Liquidity risk is eliminated by consistent liquidity planning and diversification of the refinancing funds. In order to hedge effectively the financial positions, the Agency also owns derivatives that hedge cash flows or enable to transfer, convert or reduce (mitigate) the relevant currency and interest risks.

Limits for the management of liquidity, currency and interest risk and limits for credit lines

In 2005, limits set for the management of liquidity, currency and interest risk and limits for credit lines for banks, financial institutions and related groups in all periods were complied with.

INFORMATION ON SECURITIES**I. ČKA securities issues****Unrepaid issues of bonds in 2005****Bonds issued by the Bank**

Name of security	KOB var/05*)
ISIN	CZ0003700478
Type, form, format	Book entered bond on bearer
Coupon	Floating in the amount of (6M PRIBOR + 0.125% p.a.) payable on a half-yearly basis
Nominal value (CZK)	10,000
Issue value (CZK billion)	5
Issue price	100.00%
Issue date	17. 3. 1998
Maturity date	17. 3. 2005

*) The bond issue was duly repaid on its due date.

II. Issue of bonds of Česká konsolidační agentura based on approved first issue programme of long-term and middle-term bonds established in August

The bank in cooperation with the head arranger of ING Bank N.V., Prague branch, set up on 3 August 2001 on the basis of the decision of the Czech Securities Commission n. 45/N/14/2001/1 that came into force 4th Mai 2001 the first program of issuing bonds. During this program which will last 15 years the Agency, as a successor in title of the Bank, can issue bonds, the unpaid volume of which shall not exceed 20 billion Czech crowns and the maturity of which shall not exceed 15 years.

In the course of 2005 within this programme the following issues were issued and outstanding:

Name of security	ČKA 5,05/07
ISIN	CZ0003700627
Type, form, format	Book entered bond on bearer
Coupon	Fixed, payable 1x per year in amount of 5.05% p.a.
Nominal value (CZK)	10,000
Issue value (CZK billion)	5
Issue price	99.50%
Issue date	10. 6. 2002
Maturity date	10. 6. 2007

Name of security	ČKA var/05 *)
ISIN	CZ0003700635
Type, form, format	Book entered bond on bearer
Coupon	Floating, payable semi-annually in amount of 6M PRIBOR + 0.09% p.a.
Nominal value (CZK)	1,000,000
Issue value (CZK billion)	10
Issue price	100.00%
Issue date	28. 6. 2002
Maturity date	28. 6. 2005

*) The bond issue was duly repaid on its due date.

Name of security	ČKA 4,00/10
ISIN	CZ0003700692
Type, form, format	Book entered bond on bearer
Coupon	Fixed, payable 1x per year in amount of 4.00% p.a.
Nominal value (CZK)	100,000
Issue value (CZK billion)	5
Issue price	99.76%
Issue date	5. 11. 2003
Maturity date	5. 11. 2010

III. Issue of bonds of Česká konsolidační agentura based on approved second issue programme of long-term and middle-term bonds established in March 2004

The Agency established on the basis of the decision of the Czech Securities Commission Ref. No.: 45/N/911/2003/2 which came into force on 8 December 2003 the second bond issue programme having the following basic parameters:

- a) the highest volume of unrepaid bonds issued under the programme: CZK 20 billion,
- b) duration of the bond programme: 8 years,
- c) maturity of any bond issue issued within the bond programme: 15 years as a maximum.

In the course of 2005 within this programme the following issues were issued and outstanding:

Name of security	ČKA 4,00/07
ISIN	CZ0003700858
Type, form, format	Book entered bond on bearer
Coupon	Fixed, payable 1x per year in amount of 4.00% p.a.
Nominal value (CZK)	10,000
Issue value (CZK billion)	5
Issue price	100.17%
Issue date	15. 9. 2004
Maturity date	17. 9. 2007

IV. Issue of short-term bonds of Česká konsolidační agentura issued within the approved issue programme of short-term bonds

At the beginning of year 2003, ČKA established an issue programme of short-term bonds which was approved by the means of a decision of the Securities Committee of 5 February 2003. The total face value of all issued and unpaid bonds within the programme must not at any moment exceed CZK 20 billion. The programme will exist until 31 December 2011 and any issue shall have the due period of 1 year maximum, 31 December 2011 at the latest.

In the course of 2005 within this programme the following issues were issued and outstanding:

Name of security	P CKA 52T 5 bln. 22/3 *)
ISIN	52103004
Type, form, format	Book entered bond on bearer RC ČNB
Coupon	2.20
Nominal value (CZK)	1,000,000
Issue value (CZK billion)	5
Issue date	22. 3. 2004
Maturity date	21. 3. 2005

*) The bond issue was duly repaid on its due date.

Name of security	P CKA 13T 5 bln. 20/12 *)
ISIN	52103009
Type, form, format	Book entered bond on bearer RC ČNB
Coupon	2.52
Nominal value (CZK)	1,000,000
Issue value (CZK billion)	5
Issue date	20. 12. 2004
Maturity date	21. 3. 2005

*) The bond issue was duly repaid on its due date.

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Name of security	P CKA 13T 5 bln. 28/6 *)
ISIN	52709010
Type, form, format	Book entered bond on bearer RC ČNB
Coupon	1.68
Nominal value (CZK)	1,000,000
Issue value (CZK billion)	5
Issue date	28. 6. 2005
Maturity date	27. 9. 2005

*) The bond issue was duly repaid on its due date.

Name of security	P CKA 13T 2.6 bln. 2/8 *)
ISIN	50111011
Type, form, format	Book entered bond on bearer RC ČNB
Coupon	1.72
Nominal value (CZK)	1,000,000
Issue value (CZK billion)	2.6
Issue date	2. 8. 2005
Maturity date	1. 11. 2005

*) The bond issue was duly repaid on its due date.

The liabilities of the issuer arising from the bonds issued by the Bank are guaranteed by the Czech Republic as at the date of the issue within the meaning of Section 44a of Act No. 21/1992 Coll., on banks, as amended.

The Czech Republic shall guarantee the liabilities of the Issuer from bonds issued by the Agency under the above bond programmes pursuant to Section 1 (3) of Act No. 239/2001 Coll., on the Czech Consolidation Agency (Česká konsolidační agentura) and amending some Acts, as amended.

No pre-emption or exchange rights are attached to the bonds.

FINANCIAL INFORMATION

REGISTERED CAPITAL

KOB Praha, s.p.ú., being a state financial institution, issued no shares and has held CZK 5.95 billion of the registered (i.e. share) capital since 1994. This was established in accordance with the relevant Government resolutions through a transfer of share capital from the former federal Konsolidační banka, subsidies from NPF CR, the reserve fund of the bank, transfer from the allocated profit and from the incorporator's investment contribution. The share capital of KOB Praha, s.p.ú. at CZK 5.95 billion has been fully paid up. Relating to the transformation, ČKA assumed this capital from KOB Praha, s.p.ú. and the said amount remained unchanged as at 31 Dec. 2005.

Development of the creation and structure of the registered capital of KOB/ČKA

Date	Capital Amount (CZK million)	Increase (CZK million)	
21. 2. 1991		10.00	Founder's contribution
31. 12. 1991	10.00		
		20.00	From profit 1991
		970.00	From reserve fund
		990.00	Total
31. 12. 1992	1,000.00		
		3,000.00	Bonds of National Property Fund
		414.01	Founder's contribution (tangible assets)
		585.99	From the bank's reserve fund
		4,000.00	Total
31. 12. 1993	5,000.00		
		950.00	From profit 1993
30. 6. 1994	5,950.00		

DATA ON FINANCIAL SITUATION AND BUSINESS RESULTS ACHIEVED

Balance sheet

By efficient and effective procedures of receivable recovery and sale and settlement of other assets the total assets and liabilities of the Agency for 2005 managed to be reduced from CZK 121 billion to CZK 63.6 billion as at 31 December 2005.

Assets

Successful liquidity management enabled to reduce the volume of receivables from banks in the year-on-year terms from CZK 530 million to CZK 19 million.

Net book value of ČKA's receivables from clients dropped in particular thanks to the received repayments of principles by CZK 24.5 billion and at the end of 2005 amounted to CZK 16.4 billion.

The value of debt securities, shares, participation certificates and ownership interests, through the realization of significant volumes of their sale carried out with the consent of the Czech Government dropped from CZK 11.2 billion to CZK 7.7 billion.

Other assets of the Agency dropped by CZK 28.8 billion and amounted to CZK 38.8 billion at the end of 2005. This reduction has been primarily achieved by the collection of the Agency's receivables from the Ministry of Finance and the National Property Fund that have arisen to the Agency on account of the reported losses.

Liabilities

In accordance with the current refinancing strategy and in connection with the settlement of receivables and partial reduction of selected deposit accounts, the Agency repaid very high volumes of the received funds whereby it reduced the balance of loan liabilities to banks from CZK 49.3 billion to CZK 22 billion as at 31 December 2005 and the balance of liabilities from debt securities, i.e. in particular from issued bonds or bills of exchange for the same period from CZK 40.5 billion to CZK 20.5 billion. On 29 December 2005, the Agency repaid to Česká národní banka also the whole balance of the long-term preferential loan (soft loan), received for the refinancing of loans provided in the past to housing co-operatives for the cooperative housing construction.

The balance of general provisions (reserves) dropped at the end of 2005 to CZK 356 million after their conversion to specific provisions realized pursuant to transitional provisions of Act No. 593/1992 on Reserves for determining the income tax base.

Reserve funds and other retained earnings were reduced from CZK 10.8 billion to CZK 8.8 billion, in particular by the use of the special-purpose reserve fund for the redemption of the relevant portion of the loss for 2004, in accordance with the statute of this fund.

The volume of capital contributions was reduced in the year-on-year terms from CZK 1.6 billion to CZK 0.6 billion in connection with the Agency's reported profit for 2005.

Valuation gains/losses grew for the year by CZK 885 million by positive revaluation of selected items within the Agency's portfolio of securities.

The value of the Agency's registered capital of CZK 5.95 billion remained unchanged.

Profit/loss

Significantly higher profitability. The Agency's profit grew from the loss of CZK 3,451 million reported for 2004 to the profit of CZK 1,418 million in 2005. In accordance with the commenced trend of maximum economy, the Agency's profitability grew thanks to positive impact of the implemented management approaches characterized in particular by regular comparative analyses of the achieved and planned results, controlling of all realized operations and addressing all potential risks.

The negative interest margin managed to be reduced in the year-on-year terms by favourable development of refinancing and effective settlement of non-interest bearing receivables in the year-on-year terms from CZK -873 million in 2004 to CZK -160 million in 2005.

Positive development of income from shares and other interest which in 2005 grew to CZK 3 billion was generated in particular by the payment of ČKA subsidiary's retained profit.

Other operating income increased by successful development of receivable trading transactions or the received collection for the repaid receivables from CZK 1.5 billion in 2004 to CZK 2.6 billion in 2005. Thanks to the Agency's cost initiatives, also the year-on-year reduction of other operating expense from CZK 835 million in 2004 to CZK 274 million in 2005 contributed to the increased operating profitability.

Administrative costs, thanks to increased efficiency of operating costs dropped for the year from CZK 806 million in 2004 to CZK 676 million in 2005.

Adverse balance from write-offs, creation and use of specific provisions and general provisions (reserves) for receivables and guarantees, due to the assumption of receivables of health insurance companies from debtors in bankruptcy proceedings was increased by CZK -836 million and at the end of 2005 amounted to CZK -3.7 billion.

INFORMATION ON THE FINANCIAL SITUATION AND ACHIEVED BUSINESS RESULTS

ČKA's financial situation has been stabilized in the long-term by synergic mechanisms of state guarantees for the Company's liabilities and for the redemption of audited losses, furthermore, by possibilities to use subsidized reserve funds and last, but not least, by the volume of free cash flow generated by the achieved collection. These instruments safely eliminate any risks associated with the return on assets contributed by investors into financial market instruments issued by the Agency and secure its permanent liquidity.

Also the Company's predicted future financial situation is favourable and no uncovered losses are anticipated. Thereby timely and complete settlement of all Agency's liabilities is secured, including the liabilities arising for the Agency, or for the state, from their future due dates.

For the redemption of a part of the Agency's loss arisen due to the assumption of low quality assets in the period 1991 – 2003, the funds of CZK 63.3 billion are secured under Act No. 5/2005 Coll., on the state bond programme. These funds are released by the Ministry of Finance for the settlement of the above losses in tranches, subject to the Agency's liquidity situation.

Information about revenues – ČKA cash collection

	2004 (CZK mil.)	2005 (CZK mil.)
Income from principals, interests and penalties including income from bankruptcy	14,688.6	7,780.6
Income from cession	1,113.0	6,146.2
Income for returned receivables		1,448.1
Income from shares (property participations and other securities)	10,387.3	8,172.5
ČKA income (excluding the income of subsidiaries and NPF)	26,188.9	23,547.4
Income from subsidiaries, NPF and other	7,606.0	12,314.4
TOTAL ČKA	33,794.9	35,861.8

Statement of changes in shareholders' equity in the last 3 years

Since 1994, Konsolidační banka, s.p.ú., in liquidation which, as a government financial institution did not issue shares, has had available the volume of CZK 5.95 billion worth of share capital, generated in compliance with the appropriate Government Resolution by a transfer from the share capital of the legal predecessor, i.e. the federal Consolidation Bank, and also by subsidies from the National Property Fund CR, from KOB's reserve fund, by the transfer from the allocated profit and by means of the founder's deposit. KOB's share capital, amounting to CZK 5.95 billion, has thus been 100% repaid. Česká konsolidační agentura accepted this repayment in conjunction with the transformation, from Konsolidační banka Praha, s.p.ú. Due to the legal position of the Agency, which is governed by a special Act on ČKA, the share capital is not broken down into ownership interests or shares and similar securities. The current increase of capital was influenced positively in 2005 in particular by the generated profit and gains from valuation of very liquid securities.

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Equity ČKA 2003 – 2005	2003 (CZK mil.)	2004 (CZK mil.)	2005 (CZK mil.)
Share capital paid up and recorded into Commercial Register	5,950	5,950	5,950
Reserve funds and other funds from profit	22,976	10,802	8,761
Capital funds	6,205	1,609	617
Revaluation reserve	90	4	889
Accumulated losses	0	0	0
Loss for the accounting period	(18,182)	(3,451)	(1,418)
TOTAL	17,039	14,914	17,635

Changes in received loans

In accordance with the current refinancing strategy and in connection with the settlement of receivables and partial reduction of selected deposit accounts, the Agency repaid very high volumes of the received funds whereby it reduced the balance of loan liabilities to banks from CZK 49.3 billion to CZK 22 billion as at 31 December 2005 and the balance of liabilities from issued bonds or bills of exchange for the same period from CZK 40.5 billion to CZK 20.5 billion. On 29 December 2005, the Agency also repaid the whole balance of the long-term preferential loan (soft loan), received for the refinancing of loans provided in the past to housing co-operatives for the co-operative housing construction, to Česká národní banka (The Czech National Bank).

Deposits and loans accepted and securities issued in 2004 – 2005	2004 (CZK mil.)	2005 (CZK mil.)
Loans accepted from the bank of issue	8,752	0
Deposits and loans accepted from other banks	40,511	22,050
Corporate deposits	6,149	53
Deposits of clients	5,474	731
Short-term securities issued	5,398	0
Long-term securities issued	35,076	20,511

Loan receivables

Within the category of loans to clients as at 31 December 2005 the Agency reports the gross book value of receivables of CZK 70 billion. These are mostly receivables assumed on the basis of the relevant government decisions from banks or other institutions in an adverse financial situation, and also loans for the co-operative housing construction, loans to state institutions, loans to companies and municipalities important in strategic terms. Classified loans to private legal entities and natural persons prevail, in terms of the gross book value of CZK 59.7 billion, i.e. 85% share in the total loans. The gross book value of standard loans amounts to CZK 10.2 billion.

Assumption of loans

In accordance with Czech Government Resolution of 24 August 2005 No. 1080 on the Project of cession of part of the receivables of health insurance companies from payers of overdue health insurance contributions to Česká konsolidační agentura (the Agency), the Agency assumed receivables of health insurance companies from payers of health insurance contributions in bankruptcy proceedings or composition proceedings at the gross book value of CZK 3.8 billion in 2005.

In accordance with Czech Government Resolution of 21 September 2005 No. 1223 on the cession of the receivables of the company Konpo, s.r.o., from the company NITSCH s.r.o., to the Agency, the Agency assumed all receivables of the company Konpo, s.r.o. from the company NITSCH, s.r.o. for its valuation price pursuant to Section 12 (4) of Act No. 219/2000 Coll., on assets of the Czech Republic and its representation in legal relations, as amended;

In accordance with the above Contract on restructuring and guarantees, selected assets at the book value of CZK 39.9 million were assigned to the Agency.

Settlement of loans

Reduction of the gross book value of loans exceeding CZK 40 billion for 2005 was secured by:

- repayment of principals (CZK 17.8 billion),
- cession (CZK 24.2 billion),
- write-offs (CZK 2.4 billion) after completed bankruptcy proceedings.

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Aggregate amounts and time structure of overdue receivables at 31 December 2005 (CZK thousand)

Time after maturity of receivable	Current	1 – 30 days	1 – 3 months (31 – 90 days)	3 – 6 months (91 – 180 days)	6 – 12 months (181 – 360 days)	Over 1 year (over 360 days)
Total receivables from customers and other banks	3,673,757	7,601,055	40,239	32,943	403,589	58,247,601
Receivables from customers assessed individually	3,654,672	7,601,055	40,239	32,943	403,589	58,247,601
Standard loans and other receivables from clients	2,582,684	7,596,132	0	0	0	56,584
Watched loans and other receivables from clients	13,834	0	0	0	0	0
Non-standard loans and other receivables from clients	30,557	0	0	0	0	600
Doubtful loans and other receivables from clients	550,808	0	0	470	2,932	5,264
Loss loans and other receivables from clients	476,799	4,923	40,239	32,473	400,657	58,185,153
Receivables from clients assessed on a portfolio basis	0	0	0	0	0	0
Receivables from other banks	19,085	0	0	0	0	0
Standard loans, deposits and other total receivables from banks	19,085	0	0	0	0	0
Watched loans and other receivables from banks	0	0	0	0	0	0
Non-standard loans and other receivables from banks	0	0	0	0	0	0
Doubtful loans and other receivables from banks	0	0	0	0	0	0
Loss loans and other receivables from banks	0	0	0	0	0	0

Information about guarantees

The below mentioned guarantees, as at 31 December 2005, include off-balance sheet liabilities of ČKA arising from guarantees from agreements with clients of ČS Group, provided under the Contract on restructuring and guarantees pertaining to the assumption of loan risks on low quality balance sheet and off-balance sheet assets of Česká spořitelna, a.s. by the company CORFINA, a.s., CORFINA TRADE, s.r.o. and CF Danube Leasing s.r.o., concluded by the Bank.

Recipient of collateral	As at 31 December 2003 (CZK thousand)	As at 31 December 2003 (CZK thousand)	As at 31 December 2003 (CZK thousand)
CORFINA, a.s.	614,493.0	408,634.3	354,947.8
ČESKÁ SPOŘITELNA, a.s.	14,057.2	1,155.3	1,155.3
IPB REAL, a.s.	67,250.0	0.0	0.0
KOMERČNÍ BANKA, a.s.	5,861,746.0	0.0	0.0
KOSTELECKÉ UZENINY, a.s.	12,138.0	1,230.0	0.0
SETUZA, a.s.	0.0	1,700.0	0.0
TUSCULUM, a.s.	2,550.0	2,550.0	0.0
VIPAP VIDEM KRŠKO, d.d.	90,229.4	54,516.0	0.0
ZETOR, a.s.	36,684.8	36,684.8	0.0
Celkem	6,699,148.3	506,470.4	356,103.1

FOCUS OF THE FURTHER DEVELOPMENT OF ACTIVITIES AND ANTICIPATED FINANCIAL SITUATION

Vision for 2006

ČKA will proceed in the remaining period in accordance with the basic principles of the approved Project 2007 in such a manner so as to terminate its operations by the statutory time limit of 31 December 2007, while maximising the utilisation percentage of its portfolio within the given time horizon and securing maximum transparency of the whole process.

The key milestones of 2006 include not only the termination of operations of ČKA's subsidiaries Konpo, s.r.o. and Česká finanční s.r.o., but also the solution of receivables of the agricultural and industrial complex and their assignment to the PGRLF (Podpůrný a garanční rolnický a lesnický fond, Agricultural and Forestry Support Fund) and the resolution of mutual relations with ČSOB, a.s.; Česká spořitelna a.s. and Komerční banka, a.s. (also with their related companies, for instance CORFINA).

Furthermore, business operations in the area of individual cession of receivables will be terminated, namely in connection with the planned announcement of a public tender for the residual portfolio of receivables. The announcement of this tender is prepared for the second half of 2006. The cession of the above block is envisaged in three tranches, in accordance with the best historical practice of ČKA.

The greater part of the realizable portfolio of receivables should be resolved already in 2006, provided that ČKA does not assume additional assets.

Outlook for ČKA's business operations in 2006 and 2007

For the immediate period, the Agency expects the continued drop in the volume of the active portfolio and as at 31 December 2006 plans to achieve the total assets an liabilities of

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CZK 33.6 billion, furthermore it plans to reduce the number of receivables from 7,300 to some 2,000 and to reduce the number of clients from 5,000 to about 1,270 as at 31 December 2006. Such an adopted strategy highlighting the “workout” focus results in the reduction of interest income, in particular due to the reduced interest difference and also a drop in the volume of the received payments and in practice eliminates the absolute increase of revenues (income). Basic approaches to the financial management of the Agency’s income and expense (costs and revenues) may be categorised on the basis of the following principles:

The Agency's approach to the enhancement of the recovery and sales processes is based on maximisation of the utilisation percentage, it assumes the mobilisation of funds placed in possibly less profitable assets, minimisation of refinancing costs and in particular operating cost savings. On the side of cost management, the Agency, as part of optimisation of its organisational structure, will continue to streamline its management processes also by way of centralisation of its background operations and completion of the shared infrastructure also for the administration of the possible assumed business assets of subsidiaries.

The anticipated results of 2006, in comparison with 2005, obviously show in particular a negative drop in interest difference, furthermore, approximately a 10% drop in operating costs and significantly reduced revenues (income) from the use of created provisions. As at the date of preparation of this reporting, the financial plan for 2006 was also adopted, with the following structure of its basic indicators:

Selected indicators of financial plan of 2005 (CZK bln.)	Actual 2005 (CZK bln.)	Plan 2006 (CZK bln.)
Profit/(loss)	1.4	(3.1)
Balance sheet sum	63.6	33.6
Income (excluding income from subsidiaries)	23.5	9.2
Utilization from book value of individual cession (%)	33.6	36.0

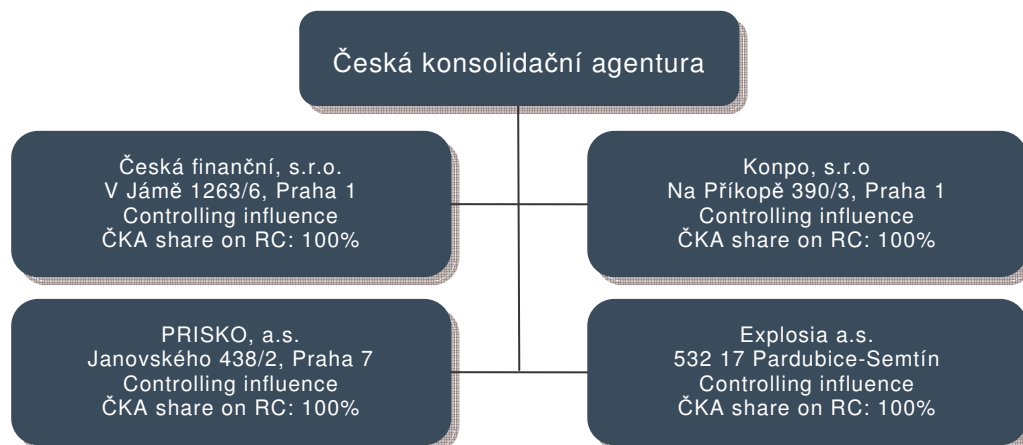
The redemption of anticipated losses is quite safely secured by standard payment mechanisms, mostly from the Agency's special-purpose reserve fund.

Also, the outlook for the Agency's business operations until the termination of its operations in 2007 anticipates a loss at approximately at the level of 2006, furthermore, it anticipates balanced financial operations and the sufficient level of the funds for the redemption of anticipated losses from ČKA's business operations and all outstanding liabilities of the Agency.

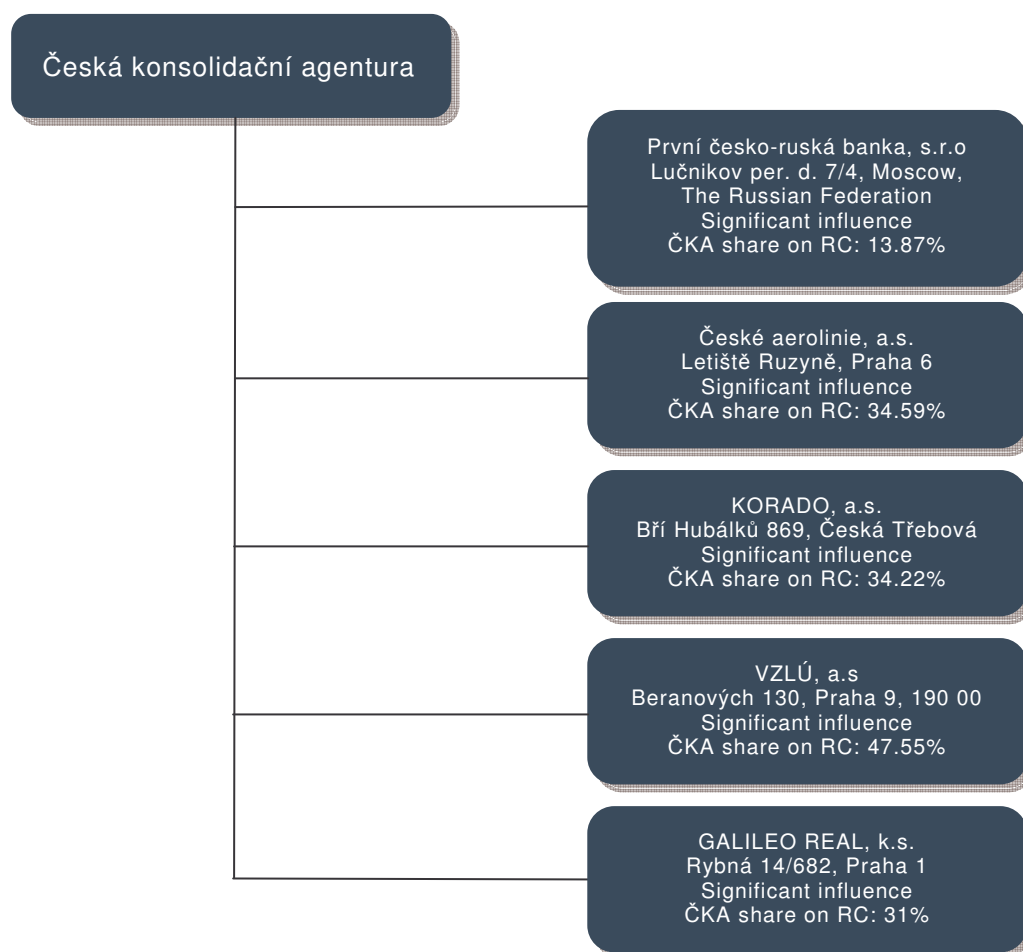
CONSOLIDATED GROUP

Consolidated group in 2005 (as at 31 December 2005)

Full consolidation method



Equity consolidation method



INFORMATION ON THE COMPANIES INCLUDED IN THE CONSOLIDATED GROUP IN 2005

The ČKA Group (hereinafter “the Group”) included five companies as at 31 December 2004. Česká konsolidační agentura is the parent company, and the companies consolidated using the full method include Česká finanční, s.r.o., Konpo, s.r.o., PRISKO a.s., and Explosia, a.s.

Česká finanční, s.r.o.

Registered office: V Jámě 1263/6, Praha 1, Postal Code: 111 21
Company ID: 47450622
Ownership structure: ČKA is the sole partner
Ownership interest acquired: on 30 June 2000, purchase of a 100% shareholding from CNB in accordance with Czech Government Resolution No. 529 of 31 May 2000

Statutory representatives:

Ing. Antonín Šimek (General Manager)
Ing. Milan Blažek
Ing. Jiří Pivrnec

Key business:

Česká finanční, s.r.o. performs asset management as its key business, i.e. of loans receivable, securities and ownership interests. Its duties are to strengthen the stability of the Czech banking sector which was approved by Czech Government Resolution no. 539 of 16 Oct. 1996 (hereinafter “the Stabilisation Programme”) and under the programme declared by the Czech National Bank (hereinafter “CNB”) in particular relating to mergers of smaller-size banks (hereinafter “the Consolidation Programme”).

Stabilisation Programme

Under the Stabilisation Programme, Česká finanční purchased assets from the banks included in the Programme at their book values. Participation of separate banks was approved by CNB. The banks contractually undertook to repurchase any unrealised assets after 7 years (i.e. during 2004 – 2005). Separate banks issued either bank guarantees to Česká finanční, s.r.o. for this purpose, or rendered similar adequate security for their liabilities. However, this did not occur in all cases, since some banks were declared bankrupt. Such assets thus continue to be managed by Česká finanční.

The accounting loss arising for Česká finanční from the implementation and operating expense attributable to the Stabilisation Programme were covered using the Agency funds, or those of NPF, based on the Agreement on Coverage of Cost and Loss Incurred by Česká finanční, s.r.o. of 15 Feb. 2001. This related to the performance of the Stabilisation Programme for the banking sector, concluded between Konsolidační banka and Česká finanční. The above payments were charged on an advanced basis, while no need of advance payments has arisen since 2003.

Consolidation Programme

The Consolidation Programme is funded by CNB. Losses relating to the Consolidation Programme, that would exceed the share capital of Česká finanční, s.r.o. are covered using CNB funds based on the agreement signed between the parties on 29 June 2000 (“Agreement on Coverage of Cost of Operations and Loss on Assumed Assets, relating to performance of the Consolidation Programme”).

Net profit (loss) as at 31 December 2005: CZK (323,692,000)

The Company closed with a negative result, i.e. loss of CZK (323,692,000) in 2005. The total assets and liabilities of the Company decreased year-on-year from CZK 7,440,850 thousand to CZK 5,146,208 thousand.

In 2005, Česká finanční managed to meet its primary objective, which was to realize in the most effective way the greater part of business assets of Česká finanční by their cession, in particular in the form of block sales of receivables. A total of five blocks of receivables were ceded which included most the receivables of the Consolidation and Stabilisation programme, representing 456 receivables, at the aggregate nominal value of CZK 13,360,230, for the cession price, at the aggregate value of CZK 601,946,000. The collection of Česká finanční arising from the administered assets amounted in 2005 to CZK 3,764,839,000 in the aggregate. In connection with asset realisation, employee numbers also dropped by 63%. In the course of 2005, principals of loans provided by Česká národní banka for the purchase of assets within the Consolidation programme, at the aggregate value of CZK 373,223,000 were repaid and the share in profit (dividend) of CZK 2,500,000 reported within the Stabilisation programme was paid to the sole partner of ČKA.

In 2006, the objective of Česká finanční is to realize to the maximum possible extent the residual portfolio of business assets, in particular through their sale. In connection with the above, Česká finanční anticipates that in 2006 the company will be wound up without liquidation in the form of transfer of business assets of Česká finanční to ČKA.

Konpo, s.r.o.

Registered office: Na Příkopě 390/3, Praha 1, Postal Code: 111 21
Company ID: 26149729
Ownership structure: ČKA is the sole partner
Ownership interest acquired: in March 2000, by purchase of a 100% shareholding from KB, a.s. in accordance with Czech Government Resolution no. 187/2000, on the proposed restructuring of KB, a.s. assets, relating to (the procedure of) its privatisation.

Statutory representatives:

Mgr. Miroslav Grunt (General Manager)
Ing. Vladimír Franc
Mgr. Andrzej Martynek

Net profit (loss) as at 31 December 2005: CZK (7,895,163,000)

Key business:

The mission of Konpo, s.r.o. is to minimise the adverse impacts on state expenditure with regard to the privatisation process of KB, a.s., relating to the purchase of CZK 60 billion worth of low-quality receivables. After assumption of the receivables from KB, a.s., key activities include their management, i.e. performance of acts related to the stabilisation of the receivable portfolio, restructuring debtors' receivables, performing financial analyses of assumed receivables, measuring receivables and real estate properties, and dunning receivables through administrative methods until resolved by their full repayment, assignment or through a court procedure. Realisation of assets is a separate activity.

The Konpo losses are covered by the Agency based on the Agreement on Coverage of Cost and Loss Incurred by Konpo relating to the restructuring of KB, a.s. assets performed in connection with the process of the bank's privatisation, entered into between Konsolidační banka and Konpo. Any losses are eventually covered by NPF CR and their settlement takes place through the Agency. For these reasons, Konpo, s.r.o. has been making additions to valuation allowances only for the increments to the managed assets resulting from the interest and late charges, and for declared bankruptcy proceedings beyond the date of the assets transfer from KB, a.s.

2005 was the year when the Company started intense preparation for the termination of its operations. It managed to carry out a massive reduction of the portfolio, at the book value of CZK 18 billion, in particular through block sales, standard administration of receivables and also by way of individual sales of receivables. Sales of seven offered blocks of receivables at the book value of CZK 16.5 billion managed to be realised successfully. Within individual sales, receivables from 226 debtors through 228 tenders were offered for cession, out of which cessions from 33 debtors at the book value of CZK 661 million were realised.

The Company closed with a loss of CZK (7,895 million) in 2005. The total assets dropped year-on-year from CZK 11,988 million to CZK 1,877 million. The envisaged realisation of most of the assets during 2005 should be followed by the scheduled liquidation in 2006.

PRISKO, a.s.

Registered office: Janovského 438/2, Praha 7, Postal Code: 170 06
Company ID: 46355901
Ownership structure: ČKA is the sole shareholder
Ownership interest acquired: in April 1996, by purchase of shares from NPF CR

Board of Directors:

Ing. Olga Mihalčíková – Chairwoman
Ing. Blanka Knyblová – Deputy Chairwoman
Ing. Zdeněk Zahradník (Director since 1 Feb 2005)

Key business:

PRISKO a.s. is a special company, established in relation to the privatisation of the former state company ŠKODA Mladá Boleslav in 1992, at which time it assumed certain liabilities of the original company. These included a liability for defects in products manufactured by Škoda in the past, a resolution to certain receivable relationships and asset-connected relationships (mostly real estate property) that the Czech party contributed to the newly privatised company – the current ŠKODA AUTO a.s.

An important requirement of the formation of PRISKO a.s., in accordance with the above privatisation project was the transparency of its activities under direct supervision of the state-controlled entity, specifically in view of the necessity to ensure consistency with the Government-guaranteed agreements between the Czech and German parties at origination of the current ŠKODA AUTO a.s. Therefore, in 1996 KOB Praha, s.p.ú. acquired the full shareholding from NPF, in accordance with Czech Government Resolution no. 708 of 6 December 1995.

Net profit (loss) as at 31 December 2005: CZK 8,083,000

In 2005, resolution of ownership relationships (titles of third parties and restitution claimants) continued as the key activity, specifically with respect of the real estate properties contributed by the Czech party into the privatised company. The Company's total assets and liabilities amounted to CZK 1,239 million and closed with a profit of CZK 8.1 million.

Explosia, a.s.

Registered office: 532 17 Pardubice-Semtín
Company ID: 25291581
Shareholder structure at 31 Dec 2005: full ownership by Česká konsolidační agentura (100%)

Ownership interest acquired: as at 29 Jan. 2004, 38.54% of the share capital was acquired through purchase of shares from ALIACHEM, a.s.

As at 31 March 2004, 61.46% of the share capital was acquired through purchase of shares from STROJÍRNY TATRA PRAHA, a.s.

Board of Directors:

Ing. Petr Nosál – Chairman
Ing. Tomáš Prokop – Vice-Chairman
Doc. Ing. Ladislav Lehký, CSc. – Member

Scope of business:

The scope of business includes the following:

- production of industrial and military explosives
- production of ammunition substances and final treatment of ammunition
- research and development to ensure long-term development of core production lines, and
- technical service necessary for customers, production and business

Net profit (loss) as at 31 December 2005: CZK 18,547,000

ČKA's business operations in 2005 were influenced favourably in particular by continued fulfilment of the contract for large-calibre ammunition, purchase of part of the liquidated state material reserves, usable as raw materials and a higher volume of services provided by the Research Institute of Industrial Chemistry than originally planned.

GALILEO REAL, k.s.

Registered office: Rybná 14/682, Praha 1
Company ID: 261 75 291
Partners:
General partner: Chancery Nominees, B.V. registered in Netherlands
Limited partner: Cabrice Holdings, B.V. company registered in Netherlands 69%,
Česká konsolidační agentura 31%

Date of acquisition of limited partner share of 31%: 15 October 2003

Statutory body:

Chancery Neminees B.V. as general partner represented by director of IMOB, a.s.

Key business:

Management of receivables ceded from IPB to limited partnership before it was taken over by ČSOB.

České aerolinie, a.s.

Registered office: Praha 6, Letiště Ruzyně, Postal Code: 16008
Company ID: 45795908
Shareholder structure:

MoF	56.92%
ČKA	34.59%
Česká pojišťovna, a.s.	4.33%
City of Prague	2.94%
City of Bratislava	0.98%
NPF SR	0.24%

Ownership interest acquired:
1994 shareholding of 19.10% from Air France (16.32% following the subsequent increase and decrease of share capital)

1997	shareholding of 16.32% from EBRD
1999 – 2001	shareholding of 1.96% by exercising the pre-emptive right relating to the sale of shares by the original shareholders

History of acquisition of ČSA shares:

The ownership interest of ČKA in České aerolinie a.s., the leading Czech air carrier, was acquired in accordance with the decision of the Czech Government, connected with the withdrawal of Air France from Československé aerolinie, a.s. in 1994. In that year, KOB Praha, s.p.ú. purchased a shareholding representing 19.10% of the company's share capital from Air France CS Participation S.A. Following an increase and subsequent decrease in the share capital of the company in 1995 serving to cover the loss brought forward, the share held by KOB Praha, s.p.ú. dropped to 16.32%. According to the agreement signed between KOB Praha, s.p.ú. and the European Bank for Reconstruction and Development in 1994, and the Czech Government decision, EBRD exercised a put option in September 1997, based on which KOB Praha, s.p.ú. purchased shares of České aerolinie a.s. representing another 16.32% of the share capital. Subsequently in 1999 and 2001, KOB Praha, s.p.ú. exercised its pre-emptive right relating to the sale of company shares by some of the original shareholders and acquired another 1.96% of the share capital. The current shareholding of ČKA in the share capital of the company is 34.59%.

Board of Directors:

Ing. Radomír Lašák – Chairman
 RNDr. Kateřina Hobzová Chalupová – Vice-Chairwoman
 Ing. Peter Jusko – Director
 Ing. Tomáš Heczko – Director
 Ing. Jan Váňa – Director until 31. 5. 2006

Scope of business:

The scope of business includes the following key areas:

- commercial air service operation
- provision of services at the clearing process in the Praha-Ruzyně Airport, clearance of aircrafts on the operating area, clearance of passengers, cargo and mail
- provision of catering services for aircrafts (supplies of food and beverages), and
- procurement of services in air transport

Unaudited Net profit (loss) as at 31 December 2005: CZK (496,057,000)

In 2004, the Company commenced implementation of its strategy prepared for the period 2004 – 2014. The key tasks under the strategy included internal optimisation and external expansion. In the internal optimisation area new projects were triggered to improve efficiency of the Company's operation. The other area noted an aircraft fleet expansion, as well as network expansion through an increased number of destinations. A process was launched for the purchase of a new generation of medium distance airliners for the period 2007 – 2011. In 2005, the strategy was modified with the view of achieving a reduction of the Company's anticipated results. However, the Company continues to face problems associated with the marketing of its product and other internal and external adverse factors.

KORADO, a.s.

Registered office:	Česká Třebová, Bří Hubálků 869, Postal Code: 56002, District: Ústí nad Orlicí	
Company ID:	25255843	
Shareholder structure:	ČKA:	34.22%
	EBRD	29.14%
	F. Menclík	9.16%
	L. Petr	9.16%
	M. Vobora	9.16%

Ing. B. Brabec 9.16%
 Ownership interest acquired: in the year 2000 in relation with capitalisation of part of
 receivables of KOB Praha, s.p.ú. against KORADO, a.s.

Board of Directors:

Mr. František Menclík – Chairman
 Mr. Miroslav Vobora – Vice-Chairman
 Mr. Richard Howard Brook – Director
 Ing. František Hamáček – Director

Scope of business:

The scope of business includes the following key areas:

- manufacture of central heating radiators
- manufacture, installation and repairs of air-handling equipment, and
- production and manufacture of plastics, including finishing technologies

KORADO, a.s., is one of the largest independent European manufacturers of steel radiators. In 1996, the company used a loan to implement an extensive capital expenditure programme, which has resulted in one of the most modern manufacturing plants within the industry. KORADO, a.s. realises about one half of its sales in the Czech Republic and its market share (moves along) fluctuates around 63.1%.

Net profit (loss) as at 31 December 2005: CZK 36,891,000

The company KORADO, a.s. had to deal with two crucial problems in 2005 which it could not have influenced objectively, namely the steep rise in input material prices, in particular plate, and significant, an all-European drop in demand for radiators, primarily in Western European markets by more than 10%. Despite these adverse impacts, the company KORADO, a.s. managed to achieve very interesting, positive business results – within the KORADO group, a profit after tax of CZK 55.6 million was achieved.

První česko-ruská banka, s.r.o.

Registered office: Novočeremuškinskaja 65, 117418 Moscow, Russian federation
 Ownership structure: Strojtransgaz, v.o.s. (RF) 35.03%
 R. J. Popov (RF) 25.25%
 V. J. Lorenc (RF) 25.25%
 ČKA 13.87%

Ownership interest acquired:

On 28 August 2002, based on an agreement to transfer a shareholding between ČSOB, a.s and ČKA of 2 May 2002 and in accordance with the Agreement of Restructuring Plan signed between ČSOB, a.s., ČKA and the Czech Ministry of Finance, a shareholding in PČRB, s.r.o. – Moscow, at the nominal value of CZK 156.808 million was transferred to ČKA.

On 4 December 2003, based on a contract of the shareholding purchase, the shareholding of První Investiční Společnost, a.s. at the nominal value of CZK 4.264 million was transferred to ČKA in accordance with Government Resolution no. 1278/2002 of 16 December 2002.

ČKA also resolved its credit exposure towards PČRB in 2004. Prior to maturity, ČKA sold its promissory note based receivables from PČRB at USD 13.7 million back to PČRB, who paid less than the nominal value on early purchase grounds. ČKA used the funds of USD 10.7 million gained on the purchase to increase its shareholding in PČRB to the current 13.87%.

Board of Directors:

Popov Roman Jakubovič – Chairman for the Russian party
 Arsentěva Olga Vasilijevna – First Vice-Chairman (for the Russian party)

Ing. Filippov Michal – Vice-Chairman for the Czech party
Oblezov Ilja Viktorovič – Vice-Chairman for the Russian party

Net profit (loss) as at 31 December 2005 (IFRS): RUB 995,000,000

Scope of business:

Performance of activities as stipulated by the Russian Federation Act on Banks and Banking no. 395-1, as amended. The bank has been issued a licence authorising it to perform all banking transactions carried out both by legal entities and individuals, except for trading in precious metals.

The bank was established in Moscow in 1996, with its primary mission to provide service to the Czech and Russian trade and to joint-ventures.

Following the transfer of the shareholding in PČRB from ČSOB to ČKA in August 2002, the strategic investor (Strojtransgaz) invested its capital into the bank in December 2002, who then increased the bank's share capital to the current RUB 3.2 billion (approx. USD 100 million) in June 2003.

Výzkumný a zkušební letecký ústav, a.s. (VZLÚ, a.s.)

Registered office: Beranových 130, Praha 9, Postal Code: 190 00

Company ID: 00010669

Ownership structure:	ČKA	47.55%
	PAL, a.s.	44.62%
	ČSOB, a.s.	7.83%

Ownership interest acquired: – 31.46% in May 1995 – from AERO Holding, a.s. in connection with receivables against AERO Holding, a.s. and based on government decree number. 482/1994
– 16.09% in August 2003 – from Triton Development Fund Ltd. Based on redemption contract

Board of Directors:

Ing. Milan Holl, CSc. – Chairman
Ing. Jan Bartoň – Vice-Chairman
doc. Ing. Karel Šperlink, CSc. – Director
Ing. Oldřich Hlavička – Director
Ing. Václav Neumajer – Director

Net profit (loss) as at 31 December 2005: CZK 1,891,000

Key business:

The main business activities of the company consist of the following:

- research and development in the field of natural and technical sciences
- development, design, manufacturing, tests, maintenance, repairs, modifications and construction changes of aviation technology
- air transport and aviation work
- measuring and testing of products
- advisory activities of commercial and technical nature

Further information on consolidated companies is stated in the notes of consolidated financial statements of ČKA.

THE REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITIES OF THE AGENCY IN THE YEAR 2005 AND ON THE STATE OF ITS ASSETS

Project 2007

In order to complete the tasks set out in Czech Government Resolution No. 45 of 14 Jan 2004 on the termination of ČKA's activities by 2007, which assumed a significant shortening of the originally determined deadline of termination of the Agency, the Agency reassessed all the relevant aspects of the existing processes of collecting receivables from the portfolio of assets in its balance sheet, and it adopted its "Project 2007" in order to ensure that the above deadline for the termination of activities is met and to achieve the highest possible utilisation rate of the portfolio with the maximum possible transparency. Certain aspects of the original basic concept of the projects were specified in more detail, and they now also include the intent to terminate the activities of the subsidiaries Konpo, s.r.o. and Česká finanční, s.r.o. in 2006, specifically by transferring their residual assets to the Agency as the sole partner in compliance with Articles 69b and 153c of the Commercial Code. As at the date of processing this information liability, the above intent was accepted by the Board of Directors, and it has been prepared for discussion in the Supervisory Board of the Agency and in the Czech Government.

The results of the project in 2005 showed that its adoption was fully justified. In the first completed year of project implementation, there was a significant increase, particularly in the sales prices of the cessed receivables. As compared with the plan of CZK 410 million, the sales price for the sale of the blocks of receivables reached CZK 1.002 billion, and the planned sales price for the individually assigned receivables amounting to CZK 3.286 billion was exceeded by the achieved sales price amounting to CZK 4.709 billion.

Cession of receivables

In 2005, the Agency assigned 2,939 receivables with the book value of CZK 24.245 billion to new acquirers. The sales price amounting to CZK 5.712 billion thus reached 23.6% of the book value of the assigned receivables. In the recent history of the cession of these mostly loss receivables and receivables difficult to collect, the parameters of the results achieved in 2005 are historically unique and much more successful as compared to 2004.

Period	Cession results	Number of		Value		Sales price	Value revenue rate	
		clients	receivables	nominal	book		nominal	book
				CZK mil.	CZK mil.	CZK mil.	%	%
2004	Blocks	222	251	47.8	45.5	3.0	6.2	6.5
	Individual	136	232	7,187.4	6,091.9	1,472.5	20.5	24.2
	Total	358	483	7,235.2	6,137.4	1,475.5	x	x
2005	Blocks	2,175	2,598	13,913.9	10,236.8	1,002.4	7.2	9.8
	Individual	190	341	17,630.2	14,007.9	4,709.2	26.7	33.6
	Total	2,365	2,939	31,544.1	24,244.7	5,711.6	x	x

Cash proceeds

The receipt collection amounting to CZK 35.9 billion in 2005 is proof, specifically in relation to the volume and the viability of the receivables available, of the unusually high level of efficiency of their management solution, even despite the less favourable structure of the

active portfolio. The Agency uses, for the collection above, all acceptable methods of judicial and extra-judicial exaction, efficiently supported by the adoption of the new business strategy:

Cash proceeds in 2004 and 2005 (CZK mil.)

Period	Repayments of principals, interest and penalties	Sales prices for the assignment including the EGAP insurance settlement	From sale of securities	From receivables returned	Total
2004	22,294.6	1,113.0	10,387.3	0.0	33,794.9
2005	20,095.0	6,146.2	8,172.5	1,448.1	35,861.8

Balance sheet sum

For the Agency, as a kind of “workout” institution, decreasing the balance sheet sum by the termination of its activities is a very relevant and permanent task. The efficient and effective methods of receivable settlement helped to decrease the balance sheet total of the Agency by 31 December 2005 to CZK 63.6 billion in the following structure:

Selected Assets	2003 (CZK mil.)	2004 (CZK mil.)	2005 (CZK mil.)
Net receivables from clients	62,169	40,963	16,447
Shares, share certificates and other interests	18,278	11,189	7,709
Other assets	94,011	68,870	39,471
Of which: receivables from the unsettled losses incurred by ČKA	81,488	64,574	34,574
Balance sheet sum	174,458	121,022	63,627

Revenues

In 2005, the Agency recognised revenues amounting to CZK 16.415 billion, which were CZK 4.418 billion or 36.8% higher than the revenues achieved in 2004 amounting to CZK 11.997 billion.

The key activities of ČKA, specifically revenues from securities and from the assignment of receivables, have a positive impact on the increase of revenues.

Costs

In 2005, the Agency recognised costs amounting to CZK 14.997 billion, which were CZK 451 million or 2.9% lower than the costs achieved in 2004 amounting to CZK 15.448 billion.

There was a positive decrease particularly in the refinancing costs and other operating and administration costs of the Agency.

Profitability

The profit of the Agency increased from a loss of CZK 3.451 billion suffered in 2004 to a profit of CZK 1.418 billion achieved in 2005. In compliance with the maximum cost efficiency trend, the profitability of the Agency increased due to the positive influence of the applied management methods along with the regular comparative analyses of the actual and planned results, the controlling of all the operations implemented, and elimination, or tackling, of all potential risks:

Consolidated Annual Report 2005

Selected indicators of profit/loss generation	2003 (CZK mil.)	2004 (CZK mil.)	2005 (CZK mil.)
Interest profit/loss	557	(873)	(160)
Revenues from shares	53	33	2,986
(Profit) or loss from financial operations	(33,098)	476	528
Other operating costs	(2,649)	(835)	(274)
Administration costs	(875)	(806)	(676)
Depreciation, generation and use of reserves and provisions, pro-rating of provisions and reserves, losses from transfers of investments	16,408	(2,907)	(3,648)
Profit (loss) for the accounting period	(18,182)	(3,451)	1,418

Settlement of losses

In 2005, MoF settled losses worth CZK 30 billion incurred in 2002. The remaining loss incurred in 2002 and the loss suffered in 2003 totalling in the aggregate CZK 33.255 billion, shall be repaid gradually in compliance with the approved Act No. 5/2005 on the Governmental Bond Programme to settle the loss of ČKA. The outstanding portion of the loss incurred in 2004 amounting to CZK 1.319 billion, which is to be settled by MoF, is proposed to be settled from the income achieved in 2005.

Operational budget

The Agency's budgeted operational expenses show year-on-year decreases, positively affected by the savings achieved especially in the areas of expenses incurred to purchase services and staff expenses:

	2003 (CZK mil.)	2004 (CZK mil.)	2005 (CZK mil.)
Budgeted operating costs	715	705	618
Of which: Wages and salaries (including the Supervisory Board of ČKA)	311	313	310

Compliance with the financial plan indicators

No.	Indicator	Actual as at 1 Jan 2005	Updated plan 2005	Actual achieved	Meeting of the plan (%)	Met
1	(Loss)/profit (CZK mil.)	0	(6,770)	1,418	x	YES
2	Balance sheet sum (CZK mil.)	121,022	66,886	63,627	106.0	YES
3	Planned collection (CZK mil.)	0	15,895	23,548	148.2	YES
	Collection including instalments					
4	from KONPO, ČF (CZK mil.)	0	x	35,863	x	x
5	Operational expense budget (CZK mil.)	0	(711)	(618)	87.0	YES
	Number of ČKA employees					
6	as at 1 January 2006	374	336	325	128.9	YES

HR policy

In the executive departments of the Agency, significant staff changes following the measures of "Project 2007" took place in 2005. The new models of the organisation at the Agency implemented in 2004 have been tested in practice during the year 2005, and deemed fully functional and efficient. The implemented incentive system and the system of periodic valuation will be a reliable starting point for the personnel policy in the forthcoming periods.

Furthermore, personnel activities have been focused on cooperation with educational institutions which specialise in expert employee training, including training of their language competency, this is the main tool for keeping necessary employees in order to ensure smooth and proper termination of the Agency's activities in 2007 and also a tool for increasing the employment possibilities of employees after activities of the Agency are terminated.

Number of employees in 2003 – 2005

	2003	2004	2005
Average number of employees	538	467	359

Conclusion

Following the analysis and assessment of the above parameters, the ČKA Board of Directors assesses the results achieved as historically the best convincing and the business and financial plans of the year 2005 as having been achieved.



THE REPORT OF SUPERVISORY BOARD FOR 2005

The Supervisory Board performed its tasks in 2005 in accordance with Act No. 239/2001 Coll., on the Czech Consolidation Agency (Česká konsolidační agentura), statutes of Česká konsolidační agentura and abided by the applicable internal guidelines of Česká konsolidační agentura.

The Supervisory Board met in the course of 2005 at 23 meetings, discussed 260 items on the agenda and adopted 147 resolutions.

The Supervisory Board is required by law to consider all financial and asset transactions of ČKA in excess of CZK 500 million. While such transactions were not numerous, they mostly involved the resolution of extremely challenging problems, not only in terms of the expensed finance, but even more importantly, in view of the fact that, potential solutions had both a financial and significant social dimension and are therefore closely monitored by the media and the public. Out of the most important ones, and the most closely monitored cases let us mention for instance the solution of receivables from the companies Zetor, Tchecomalt, Proferta, ZPS, Kostecké uzeniny, Aero Vodochody, Unipetrol, agricultural and food complex and block sales of receivables within the portfolio of ČKA's subsidiaries Konpo and Česká finanční. The plan to cede the receivables assumed from health insurance companies was also approved for block sale. The Supervisory Board is not responsible for the fact that some of these cases were not completed in 2005.

Unfortunately, in the course of 2005, an agreement with ČSOB on the resolution of the so-called receivables with an error in law failed to be arrived at.

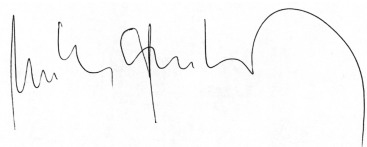
The Supervisory Board consistently took care that all cessions of receivables were carried out through transparent tenders. In instances where such cession was performed pursuant to Section 5 (6), of Act No. 239/2001 Coll., i.e. where pursuant to a decision by the Government, ČKA is required to carry out a transaction which it would otherwise be prevented from performing on the grounds of the prudence principle because of the risks arising for ČKA from such transaction, the Agency took care to warn the Government about the fact prior to giving consent to the transaction and to accomplish such transactions based on a letter of order from the Minister of Finance of the Czech Government.

In 2005, the review of internal guidelines of Česká konsolidační agentura in accordance with the results (findings) of a forensic audit and awards of the Supreme Audit Office continued, including the efforts to simplify to maximum possible extent the procedures used with a view to terminate ČKA's operations in 2007. The Supervisory Board dealt closely with all core guidelines stipulating the Agency's operations and took an active part in the formulation of their final wording. The Supervisory Board also discussed the Agency's organizational and personnel issues in connection with the discontinuation of its operations.

The standard agenda of the Supervisory Board included consideration of the operating budget and investment plan of ČKA, monthly operating information on ČKA's performance and the

performance of subsidiary companies and monitoring the liquidity developments, including the discussion of optional solutions and submission of the findings to the Ministry of Finance for final approval.

The Supervisory Board also co-operated with the Internal Audit Department in the scheduled reviews and examination of external complaints. Individual review tasks assigned to the Internal Audit Department by the Supervisory Board were completed in accordance with the provisions of the Act on the Czech Consolidation Agency (Česká konsolidační agentura), statutory and other internal guidelines of the Agency.



Ing. Miloslav Kala

Chairman of the Supervisory Board of ČKA

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

The persons responsible for the Annual Report are, on behalf of the Issuer, Česká konsolidační agentura, with the registered office at Praha 7, Janovského 438/2, Postal Code 170 06, ID No. 70109966, Ing. Petr Goldmann, Member of the Board of Directors and a Senior Manager of ČKA, and Ing. Radka Kafková, Member of the Board of Directors and a Senior Manager of ČKA. Both of the aforementioned persons are jointly responsible for the whole content of this Report.

Affidavit

The data set out in the Annual Report reflect the actual status, and no substantial circumstances which might affect the exact and correct assessment of the Issuer and of the securities issued by him, have been withheld or distorted.

19 May 2006



Ing. Petr Goldmann



Ing. Radka Kafková

REMUNERATION PRINCIPLES AND INFORMATION ON THE INCOME OF THE MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD IN 2005

The managers of ČKA include the Chairman and Members of the Board of Directors of ČKA. The remuneration principles of ČKA managers follow from management contracts, the Remuneration Rules of Top Management issued based on the provisions of Article 7, Section 3, letter f) of Act No. 239/2001 Coll.; the Superior Collective Agreement between the Union of banks and insurance companies and the Trade Union of employees in the finance, banking and insurance sectors; from Act No. 1/1992 Coll., on Wages and Remuneration for Operating Emergency and Average Income (except for the provisions of Article 4, Section 5); the Labour Code, and other general legally binding regulations.

The wages of managers have been negotiated consisting of two parts, a basic wage component (basic monthly wage) and a flexible component (annual remuneration) which is linked to meeting the stipulated binding indicators. In the case that extraordinary results are achieved, an extraordinary remuneration may be paid. The managers were not provided with any income in the form of profit sharing, nor were they provided with any loans, borrowings, warranties or collateral relating to loans.

In accordance with internal standards, managers may be provided with non-monetary benefits in-kind consisting of an allowance for meals (meal vouchers), training programmes, life insurance contributions, contributions to the pension scheme, and to recreational activities. Managers have not been provided with company cars for private use.

During 2005, total financial income of ČKA managers amounted to CZK 27,480,491 (of which compensation of wages was CZK 3,491,789) and total benefits in kind of ČKA managers amounted to CZK 234,802. Total financial income received from entities controlled by ČKA in 2005 was CZK 1,590,757 and total benefits in kind received from entities controlled by ČKA in 2004 were CZK 569.

Members of the Supervisory Board, if they are not members of Parliament or the Senate, are entitled to remuneration for discharge of office as per the provision of Article 17 of Act No. 239/2001 Coll., of the Czech Consolidation Agency, as stipulated by the articles of the Agency. The amount of annual remuneration for Members of the Supervisory Board is defined in Article 13 of the ČKA Statutes. In the case that a Member of the Supervisory Board has not discharged his office for the whole calendar year, his remuneration is reduced proportionally. No right was raised by any Member of the Supervisory Board for a wage or any part of a wage, if they were not current employees of ČKA.

During 2005, the total financial income of Members of the Supervisory Board received from ČKA amounted to CZK 6,569,624 and total financial income received from entities controlled by ČKA in 2005 amounted to CZK 1,220,322. No benefits in-kind have been provided to Members of the Supervisory Board.

Information concerning managers' income is stated in gross amounts, i.e. prior to the relevant payments and deductions according to the specific legal regulations.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

BALANCE SHEET AS AT 31 DECEMBER 2005 – ASSETS

Assets	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Cash and deposits with central banks	3	2	3
Due from banks	4	19	530
a) repayable on demand		3	10
b) other receivables		16	520
Due from customers	5	16,447	40,963
of which: other receivables		16,447	40,963
Debt securities	6	456	515
of which: issued by other entities		456	515
Shares, mutual shares and other equity interests	6	2,896	5,578
Participation interests with significant influence	7	3,731	3,933
of which: in banks		336	305
Participation interests with controlling influence	7	626	1,163
Long-term intangible fixed assets	8	10	19
Long-term tangible fixed assets	8	596	672
of which: land and buildings for operating activities		480	519
Other assets	9	38,843	67,644
Prepayments and accrued income	10	1	2
Total assets		63,627	121,022

BALANCE SHEET AS AT 31 DECEMBER 2005 – LIABILITIES

Liabilities	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Due to banks	12	22,050	49,263
of which: other payables		22,050	49,263
Due to customers	13	784	11,623
a) repayable on demand		617	1,616
b) other payables		167	10,007
Liabilities from debt securities	14	20,511	40,474
of which: issued debt securities		20,511	40,474
Other liabilities	15	2,176	2,116
Accruals and deferred income	16	115	46
Provisions	11	356	2,586
of which: other provisions		356	2,586
Share capital	17	5,950	5,950
of which: share capital paid up		5,950	5,950
Reserve funds and other revenue reserves		8,761	10,802
a) statutory reserve funds		8,759	10,800
b) other revenue reserves		2	2
Capital reserves		617	1,609
Revaluation reserve		889	4
a) revaluation differences on hedging derivatives		(61)	4
b) revaluation differences on assets and liabilities		950	–
Profit/(loss) for the current period		1,418	(3,451)
Total liabilities		63,627	121,022

OFF-BALANCE SHEET AS AT 31 DECEMBER 2005

Off-balance sheet assets	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Commitments and guarantees given	18	356	507
Receivables from spot transactions		–	9
Receivables from term instruments	28	10,222	10,000
a) interest instruments		10,000	10,000
b) currency instruments		222	–
Receivables written-off		21,635	16,411
Assets placed in custody	18	199	613
Total off-balance sheet assets		32,412	27,540
Off-balance sheet liabilities	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Commitments and guarantees received	18	16,397	54,878
a) commitments		15,119	38,995
b) guarantees and collaterals		1,278	15,881
c) guarantees from bills of exchange		–	2
Collaterals received and pledges	5	1,886	3,964
a) real estate pledges		1,133	3,888
b) other		753	76
Payables from spot transactions		–	9
Payables from term instruments	28	10,222	10,000
a) interest instruments		10,000	10,000
b) currency instruments		222	–
Assets under custody	18	–	433
Total off-balance sheet liabilities		28,505	69,284

INCOME STATEMENT FOR THE YEAR 2005

	Note	2005 (CZK m)	2004 (CZK m)
Interest receivable and similar income	19	2,632	3,810
of which: interest income from debt securities		–	114
Interest payable and similar expense	20	(2,792)	(4,683)
of which: interest expense on debt securities		(1,153)	(1,508)
Income from shares and other interests	21	2,986	33
of which: a) income from interests in associated undertakings		63	24
b) income from interests in subsidiary undertakings		2,923	2
c) other income from shares and interests		–	7
Fee and commission income	22	62	23
Fee and commission expense	23	(19)	(38)
Gains or losses from financial transactions	24	528	476
Other operating income	25	2,619	1,476
Other operating expense	26	(274)	(835)
Administrative expense	27	(676)	(806)
of which: a) staff costs		(416)	(416)
of which: aa) wages and salaries		(310)	(313)
ab) social and health insurance		(106)	(103)
b) other administrative expenses		(260)	(390)
Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets	8	(49)	(63)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	11	7,401	5,827
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	11	(11,060)	(8,650)
Release of allowances for participations with significant and controlling influence	11	187	352
Loss from transfer of participating interests with significant and controlling influence, additions and utilisation of allowances for participating interest with significant and controlling influence	11	(127)	(338)
Additions and utilisation of other provisions	11	–	(35)
Profit / (Loss) on ordinary activities		1,418	(3,451)
Profit / (Loss) for the year		1,418	(3,451)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2005

	Share capital (CZK m)	Reserve fund and other revenue reserves (CZK m)	Capital reserves (CZK m)	Revaluation reserve (CZK m)	Accumulated losses (CZK m)	Profit / (loss) (CZK m)	Total (CZK m)
Balance as at 1 January 2004	5,950	22,976	6,205	90	–	(18,182)	17,039
Transfer of the loss for the year 2003 to accumulated losses	–	–	–	–	(18,182)	18,182	–
Covering 2003 loss from the Capital fund	–	–	(6,014)	–	6,014	–	–
Covering 2003 loss from the Reserve fund	–	(12,168)	–	–	12,168	–	–
No consideration acquisition of securities	–	–	3	–	–	–	3
Revaluation differences on hedging derivatives	–	–	–	(86)	–	–	(86)
Drawings from Social fund	–	(6)	–	–	–	–	(6)
Loss for the year 2004	–	–	–	–	–	(3,451)	(3,451)
The claim for payments to cover 2004 loss – NPF, State (Note 9)	–	–	1,415	–	–	–	1,415
Balance as at 31 December 2004	5,950	10,802	1,609	4	–	(3,451)	14,914
Transfer of the loss for the year 2004 to accumulated losses	–	–	–	–	(3,451)	3,451	–
Covering 2004 loss from the Capital fund	–	–	(1,415)	–	1,415	–	–
Covering 2004 loss from the Reserve fund	–	(2,036)	–	–	2,036	–	–
No consideration acquisition of securities	–	–	3	–	–	–	3
Revaluation differences on hedging derivatives	–	–	–	(65)	–	–	(65)
Revaluation differences on AFS securities	–	–	–	950	–	–	950
Drawings from Social fund	–	(5)	–	–	–	–	(5)

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Profit for the year 2005	–	–	–	–	–	1,418	1,418
Claim for payments to cover loss transactions in 2005 – NPF (Note 9)	–	–	420	–	–	–	420
Balance as at 31 December 2005	5,950	8,761	617	889	–	1,418	17,635

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 GENERAL INFORMATION

Česká konsolidační agentura (hereinafter “the Agency” or “ČKA”) was incorporated on 1 September 2001 in accordance with the Act No. 239/2001 on Česká konsolidační agentura as the legal successor of Konsolidační banka Praha, a State financial institution (hereinafter “the Bank”).

The main activities of the Agency are: administration and realization of non performing receivables accepted and purchased, as per the government's decisions, from commercial banks and companies under difficult financial situations. Other activities of the Agency are restructuring programmes, the funding and supporting of projects, which are determined by a decision of the government.

The Agency retains a number of original activities of the Bank, however, it does not retain the status of a bank. In compliance with Art 1 para 3 of Act No. 239/2001 on Česká konsolidační agentura, liabilities of the Agency will be fully guaranteed by the State.

According to Act No.239/2001 the Agency will cease to exist by 31 December 2007 without liquidation. The legal successor of the Agency will be the state as represented by the Ministry of Finance of the Czech Republic.

2 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values.

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated and are not consolidated. The Agency presents consolidated financial statements separately.

(b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (“CNB”) effective at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions except when deferred in equity as qualifying cash flow hedges, net investment hedges and equity securities in the available-for-sale portfolio.

(c) Fair value of securities

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

- the net present value of expected cash flows for equities; or
- the risk adjusted net present value of cash flows for debt securities and notes.

(d) Securities at fair value through profit or loss

Securities at fair value through profit or loss have two subcategories. Securities held for trading, which were acquired for generating profit from short-term fluctuations in prices or

from dealers' margins or included in a portfolio in which a pattern of short-term profit taking exists, and securities designated at fair value through profit or loss at inception. Any security that is a financial asset or liability can be designated at fair value through profit or loss at inception except for participation interests that are not publicly traded and the fair value of which cannot be reliably measured and securities issued by the Agency.

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as Gains less losses from financial transactions. Trading securities as at 31 December 2004 are included in securities at fair value through profit or loss with the effect from 1 January 2005.

(e) Securities held-to-maturity

Securities held-to-maturity are securities with a fixed maturity where the Agency has both the intent and the ability to hold them to maturity. They are measured at amortised cost.

(f) Available-for-sale securities

Available-for-sale securities are neither securities at fair value through profit or loss nor securities held-to-maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are initially recognized at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value. Since 1 January 2005 subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement. In 2004, changes in the fair value of available-for-sale securities were recognized in the income statement. Comparative figures were not restated as required by Czech accounting rules. Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognized in the income statement. Foreign exchange differences on equity securities are recognized in the revaluation reserve in equity. As at 1 January 2005, the Agency was allowed to transfer securities from available-for-sale securities to securities at fair value through profit or loss (Note 6).

(g) Debt securities purchased in primary issues and not held for trading

Unquoted debt securities purchased in primary issues and not held for trading are recognised in Receivables due from customers or banks and are measured at amortised cost. Quoted debt securities purchased in primary issues not held for trading are recognised in securities at fair value through profit or loss, available-for-sale securities or securities held to maturity.

(h) Transfers between portfolios

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

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

(i) Investments in subsidiary and associated undertakings

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

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

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

(j) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cashflows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on the settlement date.

Securities received in reverse repo agreements that are sold to third parties are recorded at fair value as a trading liability. Trading liabilities with debt and equity securities are included in Liabilities from debt securities and Other liabilities respectively.

(k) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps and other derivative financial instruments are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Agency designates prospectively certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecasted transaction. Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) the derivative is in compliance with the Agency's risk management strategy;
- (ii) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (iii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- (iv) the hedge is effective on an ongoing basis; and
- (v) the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity and transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(l) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments (except securities at fair value through profit or loss) on an accrual basis using the effective yield method based on the acquisition cost.

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 flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Agency 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 paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The linear method is used as an approximation of the effective interest method for securities with remaining maturity shorter than 1 year at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

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

(m) Penalty interest

Penalty interest income is excluded from interest income until received. Amounts previously recognised as income are not reversed.

(n) Dividend income

Dividend income is recognised at the date the claim becomes effective.

(o) Provisions and allowances

Provisions are recognised when the Agency has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

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

Provisions are set aside in the currency in which settlement is expected to be made.

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in the Czech Republic for many collaterals is at an early stage of development and there is a low level of liquidity for certain types of assets. As a result, the realisable value on foreclosure may differ from the value ascribed in estimating allowances.

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

Allowances for assets denominated in foreign currency are created in foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from asset revaluation, to which they relate.

As the Agency does not need to follow ČNB rules, real estate collateral can be considered in estimating the amount of required allowances, even for receivables overdue more than 540 days. When creating allowances for loans for working capital finance (hereinafter “the old block of loans”¹⁾), the partial coverage provided by the special-purpose reserve fund is taken into consideration (Note 17).

¹⁾ “The old block of loans” represents loans taken over by the Bank from commercial banks. The loans were granted by commercial banks prior to November 1989.

Under the Act on Česká konsolidační agentura the Board of Directors of the Agency has to realise certain operations according to strategic Government decisions, which would not necessarily be realised under normal commercial conditions for prudent business activities. In these cases provisions or allowances are established in the same way when the above criteria are met. Assistance from the State in relation to these operations is recorded when it is virtually certain that economic benefits will flow to the Agency and the amount of assistance can be measured reliably.

(p) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives resulting in the following annual rates:

Buildings and constructions	30 years
Machinery and equipment	4 years
Furniture and fittings	6 years
Motor vehicles	4 years
Software	4 years

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

(q) Value added tax

The Agency is registered for value added tax (hereinafter “VAT”). Intangible and tangible fixed assets and inventories are stated at acquisition cost including the appropriate VAT. The Agency does not claim input VAT as the ratio of the taxable income to the total income of the Agency is such that it is not economical for the Agency to claim the input VAT. Input VAT incurred is expensed immediately.

(r) Taxation

The Agency’s income is exempted from corporate income tax and therefore, deferred tax and current tax payable are not accounted for.

(s) Staff costs, pensions and social fund

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

The Agency makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Agency are accounted for directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

The Agency creates a social fund to finance the social needs of its employees and employees’ benefit programme. In compliance with Czech accounting requirements the allocation to the social fund is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund is not recognised in the income statement

but as a decrease of the fund. The social fund forms a component of equity and is not shown as a liability.

(t) Related parties

Related parties are defined as follows:

- board members;
- senior management of the Agency, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Agency's statute ("senior management");
- relatives (direct family members) of board members, senior management of the Agency;
- entities in which board members of the Agency or senior management hold at least a 10% shareholding;
- subsidiaries of the Agency.

In addition associated undertakings of the Agency are considered to be related parties of the Agency.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 5, 7, 9, 11, 13, 15, 21.

(u) Subsequent events

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

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

3 CASH

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Cash on hand	2	3

4 DUE FROM BANKS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Current accounts with banks	3	10
Term deposits with other banks	16	520
	19	530

5 DUE FROM CUSTOMERS**(a) Receivables by type of debtor**

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Standard receivables from companies and individuals	155	2,019
Classified receivables from companies and individuals	59,637	95,409
Standard receivables from housing co-operatives ¹⁾	7,668	8,547
Classified receivables from housing co-operatives ¹⁾	11	13
Standard receivables from governmental entities	2,405	2,008
Classified receivables and other receivables from governmental entities	18	2,070
Standard receivables from municipalities	7	19
Classified receivables from municipalities	79	84
	69,980	110,169
Allowance (Note 11) ²⁾	(53,533)	(69,206)
	16,447	40,963

1) In its portfolio the Agency has loans granted to housing co-operatives. These loans were acquired from Investiční a Poštovní banka, a.s. (hereinafter "IPB"). The difference between the funding cost and interest income is compensated by MF ČR.

2) In addition to the allowances for watch and impaired receivables the Agency has reflected a specific provision for receivables of CZK 2,176 million as of 1 December 2004 in liabilities as required by Czech accounting regulations (Note 11). No such specific provisions were recognised as of 31 December 2005. All specific provisions were released into income and allowances for watch and impaired loans were created in the same amount.

A statutory reserve fund is used to cover expected losses of CZK 4,230 million (31 December 2004: CZK 7,192 million) from the old block of loans. In 2005 the losses of CZK 2,962 million from assigned and written off exposures from the old block of loans were covered by the reserve fund (2004: CZK 2,036 million (Note 17)). This transaction had no net nil impact on the financial statements in the year 2005.

(b) Quality of receivables portfolio

In accordance with the definitions issued by the CNB, the receivables due from clients can be analysed as follows:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Standard	10,235	12,593
Watch	14	607
Impaired: – substandard	31	12,790
– doubtful	560	1,510
– loss	59,140	82,669
	69,980	110,169

The forced sale value ascribed to assets received as collateral for receivables from customers can be analysed as follows:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Land and buildings	1,133	3,888
Other fixed assets	753	76
	1,886	3,964

In addition to the above assets received as collateral, the Agency records guarantees received of CZK 1,278 million (31 December 2004: CZK 15,881 million).

(c) Receivables from related parties

Receivables from private parties and individuals include these receivables from related parties:

	31 December 2004 (CZK m)	Decrease (CZK m)	31 December 2005 (CZK m)
Subsidiary undertakings:			
Loans to subsidiaries	15,217	(14,740)	477
Allowances for watch and impaired receivables	(3,326)	2,849	(477)
	11,891	(11,891)	–
Associated undertakings:			
Loans to associated parties	344	(212)	132
Allowances for impaired loans	(157)	157	–
	187	(55)	132
Total receivables from related parties	12,078	(11,946)	132

Loans to related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers. Based on certain Government decisions loans were also granted to selected companies in order to improve their financial position.

6 SECURITIES AVAILABLE-FOR-SALE

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Debt securities		
Unquoted	456	515
	456	515
Shares, mutual shares and other interests		
Main or auxiliary market of recognised stock exchanges	–	130
Unquoted	2,896	5,448
	2,896	5,578

7 PARTICIPATION INTERESTS WITH SIGNIFICANT AND COTROLLING INFLUENCE

(a) Participation interests with significant influence

At 31 December 2005

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
České aerolinie, a.s., Praha ¹⁾	94,617	2,053	946	34.59	–	–
Výzkumný a zkušební letecký ústav, a.s., Praha	357,086	291	357	47.55	848	751
AERO Vodochody, a.s., Odolena Voda	1,712,830	1,602	1,256	46.66	(6,440)	2,692
KORADO, a.s., Česká Třebová	822	86	288	34.22	935	841
GALILEO REAL, k.s., Praha	0	1,032	900	31.03	661	2,900
Českomor. lék. platebna, a.s., v likvidaci ¹⁾	1,715	0	17	28.58	–	–
První česko-ruská banka, s.r.o., Moskva ^{2), 3)}	0	467	417	13.87	3,462	3,003
		5,531				
Allowance for impairment (Note 11)		(1,800)				
		3,731				

Note: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2005, unless stated otherwise.

1) The company's financial statements were not available.

2) První česko-ruská banka s.r.o. is an associated company of the Agency through its managerial rights.

3) Financial data has been drawn from the company's preliminary unaudited financial statements as at 31 December 2005.

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At 31 December 2004

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
České aerolinie, a.s., Praha	94,617	2,053	946	34.59	2,175	2,735
Výzkumný a zkušební letecký ústav, a.s., Praha	357,086	291	357	47.55	843	751
AERO Vodochody, a.s., Odolena Voda	1,712,830	1,602	1,256	46.66	(5,088)	2,692
BRNO INN, a.s.	6,200	24	62	25.83	161	240
KORADO, a.s., Česká Třebová	822	86	288	34.22	886	841
GALILEO REAL, k.s., Praha	–	1,032	900	31.03	661	2,900
INTEGRA, a.s., Praha	171,230	32	171	20.41	354	839
Lesní společnost Hradec Králové, a.s.	21,134	38	143	21.13	680	679
Jihočeské lesy České Budějovice, a.s., Nové Hrady	174,668	38	255	36.36	716	700
Jihočeské papírny, a.s., Větrní	950,403	94	176	38.89	1,011	452
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	5,840,499	117	117	16.97	356	688
Českomor. lék. platebna, a.s., v likvidaci	1,715	–	17	28.58	–	60
Výzkumný ústav pivovarnický a sladovnický, a.s., Praha	22,740	8	23	32.93	49	69
První česko-ruská banka, s.r.o., Moskva ¹⁾	–	440	392	13.87	4,413	2,829
		5,855				
Allowance for impairment (Note 11)		(1,922)				
		3,933				

1) První česko-ruská banka s.r.o. is an associated company of the Agency through its managerial rights.

Changes of participation in affiliates

Affiliate	(CZK m)
As at 31 December 2004	3,933
Sale of participation	
– Lesní společnost Hradec Králové, a.s.	(39)
– Jihočeské lesy České Budějovice, a.s.	(38)
– Výzkumný ústav piv. a slad., a.s.	(8)
– BRNO INN, a.s.	(24)
– Jihočeské papírny, a.s., Větřní	(14)
– VÁLCOVNY PLECHU, a.s.	(48)
Purchase of participation	
Other movements	(31)
As at 31 December 2005	3,731

(b) Participation interests with controlling influence**At 31 December 2005**

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
PRISKO a.s., Praha	794,760	–	795	100.00	1,233	795
Konpo, s.r.o., Praha	–	–	–	100.00	–	–
Česká finanční, s.r.o., Praha	–	–	–	100.00	603	–
IPB REAL INVESTMENT, a.s., Praha	50	–	50	100.00	(461)	50
INTEGRA, a.s., Praha	838,992	50	3	100.00	52	3
CRF Praha, a.s., v likvidaci ¹⁾	602,466	0	434	100.00	–	–
První východní, a.s., Praha ¹⁾	50	30	5	100.00	–	–
Global investment, a.s., Praha ¹⁾	744	115	744	100.00	–	–
TCHECOMALT GROUP, a.s., Prostějov	136	–	399	99.93	(532)	400
Českomoravská nemovitostní, a.s., Praha	2,000	16	2	100.00	16	2
IMOB, a.s., Praha	220,000	23	2	100.00	31	2
Explosia, a.s., Pardubice	1,165	469	1,165	100.00	1,156	1,165
BH CAPITAL, a.s., Prostějov	3,667,041	11	293	71.89	483	408
		714				
Allowance for impairment (Note 11)		(88)				
		626				

Note: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2005, unless stated otherwise.

1) The company's financial statements were not available.

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At 31 December 2004

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
PRISKO a.s., Praha	794,760	–	795	100.00	1,251	795
Konpo, s.r.o., Praha	–	–	–	100.00	–	–
Česká finanční, s.r.o., Praha	–	–	–	100.00	2,877	–
IPB REAL INVESTMENT, a.s., Praha	50	–	50	100.00	(478)	50
Autoklub Bohemia Assistance, a.s., Praha	828	112	83	69.00	91	120
CRF Praha, a.s., v likvidaci	602,466	–	434	100.00	–	434
První východní, a.s., Praha	50	30	5	100.00	6	5
Global investment, a.s., Praha	744	115	744	100.00	51	744
TCHECOMALT GROUP, a.s., Prostějov	136	–	399	99.93	(748)	400
ARTA REAL, k.s., Praha	–	1,630	2,900	100.00	165	2,900
CZ CREDIT REAL, k.s., Praha	–	1,032	2,900	100.00	51	2,900
IMOB, a.s., Praha ¹⁾	25,000	–	–	11.36	37	2
Explosia, a.s., Pardubice	1,165	469	1,165	100.00	1,127	1,165
BH CAPITAL, a.s., Prostějov	3,667,041	402	733	71.89	1,016	1,020
		3,790				
Allowance for impairment (Note 11)		(2,627)				
		1,163				

1) The company is a subsidiary of the Agency through its managerial rights.

Changes of participation in subsidiaries

Subsidiaries	(CZK m)
As at 31 December 2004	1,163
Sale of participation	
– Autoklub Bohemia Assistance, a.s.	(67)
– ARTA REAL, k.s.	(113)
– CZ CREDIT REAL, k.s.	(41)
Purchase of participation	
– IMOB a.s.	23
Other movements (capital reduction)	(339)
As at 31 December 2005	626

8 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS**(a) Long term intangible fixed assets**

	Software (CZK m)
At 1 January 2004	
Cost	288
Accumulated amortisation and impairment	(262)
Net book amount	26
Year ended 31 December 2004	
Opening net book amount	26
Additions	4
Amortisation charge	(11)
Closing net book amount	19
At 31 December 2005	
Cost	290
Accumulated amortisation and impairment	(271)
Net book amount	19
Year ended 31 December 2005	
Opening net book amount	19
Additions	–
Amortisation charge	(9)
Closing net book amount	10
At 31 December 2005	
Cost	280
Accumulated amortisation and impairment	(270)
Net book amount	10

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(b) Long term operating tangible fixed assets

	Land (CZK m)	Buildings (CZK m)	Equipment (CZK m)	Total (CZK m)
At 1 January 2004				
Cost	31	687	282	1,000
Accumulated depreciation and impairment	–	(176)	(231)	(407)
Net book amount	31	511	51	593
Year ended 31 December 2004				
Opening net book amount	31	511	51	593
Additions	–	1	5	6
Disposals	–	–	(1)	(1)
Depreciation charge	–	(24)	(19)	(43)
Closing net book amount	31	488	36	555
At 31 December 2004				
Cost	31	688	267	986
Accumulated depreciation and impairment	–	(200)	(231)	(431)
Net book amount	31	488	36	555
At 31 December 2005				
Opening net book amount	31	488	36	555
Additions	–	–	1	1
Disposals	–	(15)	–	(15)
Depreciation charge	–	(24)	(11)	(35)
Closing net book amount	31	449	26	506
At 31 December 2005				
Cost	31	671	257	959
Accumulated depreciation and impairment	–	(222)	(231)	(453)
Net book amount	31	449	26	506

(c) Long term non-operating fixed assets

	Land (CZK m)	Buildings (CZK m)	Equipment (CZK m)	Total (CZK m)
At 1 January 2004				
Cost	68	142	7	217
Accumulated depreciation and impairment	–	(12)	(7)	(19)
Net book amount	68	130	–	198
Year ended 31 December 2004				
Opening net book amount	68	130	–	198
Disposals	(23)	–	–	(23)
Impairment change	(5)	–	–	(5)
Depreciation charge	–	(53)	–	(53)
Closing net book amount	40	77	–	117
At 31 December 2004				
Cost	45	91	6	142
Accumulated depreciation and impairment	(5)	(14)	(6)	(25)
Net book amount	40	77	–	117
Year ended 31 December 2005				
Opening net book amount	40	77	–	117
Disposals	–	(22)	–	(22)
Impairment change	–	–	–	–
Depreciation charge	–	(5)	–	(5)
Closing net book amount	40	50	–	90
At 31 December 2005				
Cost	45	59	–	104
Accumulated depreciation and impairment	(5)	(9)	–	(14)
Net book amount	40	50	–	90

The Agency did not hold assets under finance lease contracts as at 31 December 2005 and at 31 December 2004.

Movable fixed assets that were pledged to the Agency as collateral for granted loans, assets under charge as security over its liabilities or liabilities of third parties were not recognised as at 31 December 2005 and at 31 December 2004.

9 OTHER ASSETS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Receivable from State due to loss of the Agency for the year 2002	28,031	58,031
Receivable from State due to loss of the Agency for the year 2003	5,224	5,224
Receivable from State due to loss of the Agency for the year 2004	1,319	1,319
Receivables from State due to loss – total	34,574	64,574
Receivable from Konpo (overpayment of loss coverage advances)	1,792	–
Receivable from NPF (Konpo – coverage of losses)	–	462
Receivable from ČF (based on year 2004 profit)	–	448
Receivable from ČF – anticipated receivable	431	–
Receivables from unsettled securities transactions	1,853	1,913
Operating advances granted	11	19
Settlement clearance accounts – debit balances	487	483
Other anticipated receivables	14	13
Other receivables	23	63
Derivatives (Note 28 (c))	52	97
Inventories	1	1
	39,238	68,073
Allowances for impairment (Note 11)	(395)	(429)
	38,843	67,644

The Agency reported profit of CZK 1,418 million for the year 2005. The result for the year 2005 included expenses from specified receivables written off or otherwise settled of CZK 2,962 million to be covered after the current year end by the special purpose reserve fund (Note 17) and expenses of CZK 420 million which should be covered by NPF (MF ČR as a successor).

The reported loss of the Agency for the year 2004 of CZK 3,451 million was partly covered by the Agency's reserve fund of CZK 2,036 million (Note 17) and by the NPF CZK 96 million.

The loss of the Agency incurred in 2003 of CZK 5,224 million and a remaining part of the loss of the Agency of CZK 28,031 million incurred in 2002, gives rise to the receivable from the State (MF ČR), which should be settled by the proceeds from an issue of State bonds under the State bond programme for coverage of the Agency's loss. No decision has been made yet about the settlement of Agency's receivable from the State (MF ČR) for 2004 in the amount of CZK 1,319 million.

Receivables from the State and the NPF for payment of losses do not bear interest and are not discounted to net present value because it is not possible to determine their maturity (Note 29).

10 PREPAYMENTS AND ACCRUED INCOME

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Prepayments	1	2

11 ALLOWANCES PROVISIONS AND WRITE OFFS

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

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Provisions		
Specific provisions for loans (Note 5)	–	2,176
Specific provisions for guarantees (Note 18)	356	410
	356	2,586
Allowances		
Receivables from clients (Note 5) ¹⁾	53,533	69,206
Investments in subsidiaries and associates (Note 7)	1,888	4,549
Other assets (Note 9)	395	429
Land (Note 8 (c))	5	5
	55,821	74,189

1) Includes allowances for impaired loans provided to related parties (Note 5 (c)).

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The movements in provisions can be analysed as follows:

	Provisions for overdue receivables (CZK m)	Provisions for “ring fenced” assets guarantees – ČS (CZK m)	Provisions for “black” and “other” assets (CZK m)	Provision for transfer of receivables from health insurance companies ¹⁾ (CZK m)	Total (CZK m)
1 January 2004	2,321	778	20	884	4,003
Creation	–	–	–	–	–
Usage	(145)	–	–	–	(145)
Release	–	(368)	(20)	(884)	(1,272)
31 December 2004	2,176	410	–	–	2,586
Creation	–	–	–	–	–
Usage	(747)	(54)	–	–	(801)
Release	(1,429)	–	–	–	(1,429)
31 December 2005	–	356	–	–	356

1) Receivables of Health insurances were transferred to the Agency and recorded in the balance sheet as at 31 December 2004. Provisions created for these assets have been released. These receivables are covered by allowances (Note 5).

On 1 March 2000 the Bank signed a restructuring and guarantee agreement relating to the transfer of the credit risk associated with the low-quality balance sheet and off-balance sheet assets of Česká Spořitelna a.s. and the companies CORFINA a.s., CORFINA TRADE, s.r.o. and CF Danube Leasing, s.r.o. (hereinafter “ČS group”). During the year 2001 Česká spořitelna, a.s. exercised a put option with the Agency.

In 2005 selected assets from ČS group were transferred to the Agency amounting to CZK 46.5 million (2004: CZK 189 million) in accordance with the above agreement. The Agency has paid CZK 6.8 million (2004: CZK 19 million) as refinance interest for this transfer (Note 20). The Agency created allowances for the transferred assets amounting to CZK 39.9 million (2004: CZK 180 million) which are included in allowances for impaired loans and released provisions for the same amount. Provisions for guarantees relating to other transfers expected from Česká spořitelna, a.s. amounted to CZK 356 million as at 31 December 2005 (31 December 2004: CZK 410 million).

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The movements in allowances can be analysed as follows:

	Classified loans to customers (CZK m)	Investments in subsidiaries and associates (CZK m)	Land (CZK m)	Other assets (CZK m)	Total (CZK m)
At 1 January 2004	73,316	8,475	–	2,062	83,853
Additions	7,088	338	5	429	7,860
Usage	(7,223)	(3,912)	–	–	(11,135)
Release	(3,731)	(352)	–	(2,062)	(6,145)
Write backs ¹⁾	(244)	–	–	–	(244)
At 31 December 2004	69,206	4,549	5	429	74,189
Additions	7,605	127	–	–	7,732
Usage	(17,295)	(2,601)	–	–	(19,896)
Release	(5,934)	(187)	–	(34)	(6,155)
Write backs ¹⁾	(49)	–	–	–	(49)
At 31 December 2005	53,533	1,888	5	395	55,821

1) The written back allowances for classified loans of CZK 49 million for the year 2005 (2004: CZK 244 million) represent the difference between nominal and purchase cost of loans recorded as allowances when originated in accordance with the existing methodology.

Creation of allowances

The amount of allowances created is based upon the identified risk taking into consideration both the realisable value of collateral accepted and a special-purpose reserve fund (Note 17). Allowances are created against securities and investments on an individual basis.

Release of allowances and provisions for loans and guarantees, income from receivables already written off

	2005 (CZK m)	2004 (CZK m)
Release of provisions for receivables and guarantees	1,429	–
Release of allowances for receivables and guarantees	5,934	5,794
Release of allowances for other assets	34	–
Income from receivables already written off due from clients	4	33
	7,401	5,827

Write offs, additions and utilisation of allowances and provisions for loans and guarantees

	2005 (CZK m)	2004 (CZK m)
Receivables written off due from clients	(2,406)	(4,726)
Losses from transferred receivables from clients	(19,145)	(5,082)
Additions to provisions and allowances for receivables and guarantees	(7,605)	(7,517)
Utilisation of provisions and allowances for receivables and guarantees	18,096	8,675
	(11,060)	(8,650)

Bad debts are written off against established allowances, special purpose reserve fund or directly expensed in the case that management of the Agency asserts their chance of recoverability as being remote.

12 DUE TO BANKS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Due to central banks	–	8,752
Due to other banks	22,050	40,511
	22,050	49,263

13 DUE TO CUSTOMERS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Amounts due to governmental entities repayable on demand	3	607
Amounts due to private customers repayable on demand	614	1,009
Amounts due to governmental entities	50	5,542
Amounts due to private customers	117	4,465
	784	11,623

Deposits from related parties

	31 December 2004 (CZK m)	Decrease (CZK m)	31 December 2005 (CZK m)
Subsidiary undertakings	2,147	(2,147)	–
	2,147	(2,147)	–

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

14 LIABILITIES FROM DEBT SECURITIES

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Valued at amortised cost:		
Debt securities issued	15,220	30,254
Less: Own debt securities held	–	(200)
Own T-bills issued	–	4,972
Promissory notes and bills of exchange	5,291	5,448
	20,511	40,474

As at 31 December 2005 the Agency had outstanding short-term debt securities issued (deposit bills) redeemable within one year of CZK nil (31 December 2004 CZK 426 million) and T-bills issued redeemable within one year of CZK nil (31 December 2004: CZK 4,972 million). Debt securities issued comprise:

Issue	Notional amount (CZK m)	Maturity	Interest rate
4.	5,000	10 June 2007	5.05% p.a.
6.	5,000	5 November 2010	4.00% p.a.
7.	5,000	17 September 2007	4.00% p.a.
	15,000		

15 OTHER LIABILITIES

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Payable to NPF (Konpo – overpayment of loss coverage advances)	1,792	–
Payable to NPF due to ČF profit	–	448
Payables to subsidiaries for the settlement of losses	–	462
Estimated payables	6	923
Derivative financial instruments (Note (28 (c)))	186	135
Social institutions clearance account	10	7
Miscellaneous payables	182	141
	2,176	2,116

In 2004 the Agency recorded a liability to the NPF and a receivable from a subsidiary (Notes 9 and 15) in accordance with the agreements concluded with the NPF on covering expenses and losses of subsidiaries. This transaction had no impact on the results of the Agency.

Other liabilities as at 31 December 2005 and as at 31 December 2004 do not include any overdue liabilities for social insurance, contribution to the state employment policy or liabilities for health insurance.

16 ACCRUALS AND DEFERRED INCOME

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Accruals	114	45
Deferred income	1	1
	115	46

17 EQUITY AND PROFIT DISTRIBUTION**Share capital**

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Issued and paid	5,950	5,950

Czech law requires that the State guarantees the Agency's liabilities and thus pays losses incurred by the Agency.

The claim for settling the loss of the current period is recorded as a receivable from the State against the Capital fund and consequently total assets are increased. The settlement of the loss from the Capital fund is recorded in the following accounting period.

The Bank that was the legal predecessor of the Agency, received an official interpretation of the relevant accounting legislation from the MF ČR (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of the Agency. In accordance with this interpretation, the Agency has set aside, within the statutory reserve fund that forms part of the equity of the Agency an amount of CZK 4,230 million (31 December 2004: CZK 7,192 million) to cover expected losses on certain specific loans and no allowances have been separately reflected for these expected losses. This reserve fund was contributed by the NPF. This interpretation was reconfirmed to the Agency by the Ministry of Finance on 27 October 2003. The Agency released an amount of CZK 2,962 million to cover losses related to the old block of loans in 2005 (in the year 2004: CZK 2,036 million). The reported loss from the old block loans (Note 2 (o)) for the period will be covered by the released part from the reserve fund.

Revaluation reserve

Fair value of the cash flow hedging instruments is deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income (Note 28 (c)).

18 CONTINGENCIES AND COMMITMENTS

Contingent assets and liabilities include:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Guarantees granted on behalf of:		
ČS group clients	356	410
Other clients	–	97
Total guarantees granted	356	507
Provisions for guarantees granted (Note 11)	(356)	(410)
Net value of guarantees granted	–	97
Guarantees received		
From the State	1,209	2,066
From NPF	–	13,664
From other entities	69	151
	1,278	15,881
Irrevocable loan commitments accepted	15,119	38,995

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Assets placed in custody		
Shares	117	458
Assets in safe		
Shares	82	155
Assets placed under custody		
Other	–	433

On 18 February 2002 the Agency signed an Agreement on selected items with ČSOB in line with an Agreement on the restructuring plan signed between its legal predecessor, the Bank, ČSOB and the MF ČR. As a result a contingent liability of up to CZK 119 million exists as at 31 December 2005 (31 December 2004: 227 million).

19 INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 (CZK m)	2004 (CZK m)
Inter-bank transactions	256	58
Receivables from customers and state	2,376	3,638
Debt securities	–	114
	2,632	3,810

An estimated amount of CZK 1,598 million representing income on classified receivables was included in 2005 (for the year 2004: CZK 2,663 million). Overdue penalty interest of CZK 15,713 million for impaired receivables as at 31 December 2005 (as at 31 December 2004: CZK 21,282 million) was not recorded in revenues. The penalty interest is legally enforceable and has not been forgiven.

Based on the Supreme Court decision from 24 March 2004, sp. Zn. 35 Odo 101/2002 penalty interest on overdue interest cannot be accounted for unless there is a contractual agreement between a creditor and a debtor establishing that the overdue interest is capitalised to principal. This ruling is contrary to a previous Supreme Court decision on this matter. The legal interpretation (e.g. from when this ruling should be applied amongst other issues) of the impact of this ruling is still being considered by the Agency and banking sector. Therefore the Agency has continued to account for penalty interest on overdue interest for the years ended 31 December 2005 and 2004. It is possible that the legal interpretation of the above decision, when available, would require adjustments resulting from this ruling, which could be applied retrospectively. However, the management of the Agency does not expect any material impact on the equity at 31 December 2005 and 2004 or the results for the years then ended.

20 INTEREST PAYABLE AND SIMILAR EXPENSE

	2005 (CZK m)	2004 (CZK m)
Inter-bank transactions	1,495	2,990
Deposits from customers and state	144	185
Debt securities in issue	1,153	1,508
	2,792	4,683

21 INCOME FROM SHARES AND OTHER INTERESTS

	2005 (CZK m)	2004 (CZK m)
Associated undertakings	63	24
Subsidiary undertakings	2,923	2
Shares and other interests	–	7
	2,986	33

Česká finanční, s.r.o. distributed dividend to the Agency of CZK 2,500 million in 2005.

22 FEE AND COMMISSION INCOME

	2005 (CZK m)	2004 (CZK m)
Domestic and foreign system of payment	1	4
Other	61	19
	62	23

23 FEE AND COMMISSION EXPENSES

	2005 (CZK m)	2004 (CZK m)
Credit activities	5	17
Operations with securities	14	21
	19	38

24 GAINS OR LOSSES FROM FINANCIAL TRANSACTIONS

	2005 (CZK m)	2004 (CZK m)
Trading with securities	321	241
Trading with foreign currency	91	(177)
Trading with derivatives	(6)	(1)
Other transactions	122	413
	528	476

25 OTHER OPERATING INCOME

	2005 (CZK m)	2004 (CZK m)
Gains from transferred receivables from clients	2,349	698
Gains from transfer of participations	44	97
Income from transfer of tangible and intangible fixed assets	2	68
Other operating income	224	613
	2,619	1,476

The Agency recognised income from transfer of the receivable due from J. Ring, a.s., v likvidaci of CZK 1,349 million in the year 2005 paid by ČSOB based on the outcome of the legal proceeding between the Agency and ČSOB.

26 OTHER OPERATING EXPENSES

	2005 (CZK m)	2004 (CZK m)
Expenses from transfer of tangible and intangible fixed assets	37	70
Other operating expenses	237	765
	274	835

27 ADMINISTRATIVE EXPENSES

	2005 (CZK m)	2004 (CZK m)
Staff costs	416	416
Rent and lease charges	1	8
Audit, tax and legal advisory services	41	75
of which paid to Auditor:		
– audit	5	5
– other advisory	2	2
Other administration expenses	218	307
	676	806

Staff costs can be analysed as follows:

	2005 (CZK m)	2004 (CZK m)
Salaries and emoluments	303	306
Emoluments of Supervisory Board	7	7
Social security and other social costs	106	103
	416	416

Emoluments of the Board of Directors of CZK 27 million plus CZK 3 million of compensation for other benefits not taken in kind (2004: CZK 37 million¹⁾) are included in salaries and emoluments. The Board remuneration for 2004 of CZK 37 million includes CZK 12 million of compensation for other benefits not taken in kind (of which: compensation payments totalling CZK 10 million were paid to former Board members).

¹⁾ The difference in Emoluments of the Board of Directors in 2004 of CZK 4 million compared to disclosed amount in 2004 financial statements results from bonuses approved after the release of 2004 financial statements and 2004 annual report.

Staff statistics

	2005	2004
Average number of employees	359	467
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	9	9

28 FINANCIAL RISKS**(a) Strategy in using financial instruments**

Based on the Agency's specific status, its financial risk management function focuses on developing procedures, establishing methods and setting limits, and monitoring the Agency's adherence to the policies.

Furthermore, regular reports connected to financial risk management are prepared for the Board of Directors and other advisory bodies of the Board of Directors. The control over financial risk management is reviewed by internal audit.

(b) Credit risk

The Agency's credit risk management policy is based on the Agency's internal rating system, one of the two methodologies recommended by the Basel Committee for bank supervision.

Through the use of internal ratings, the Agency can assess the degree of credit risk associated with clients. The rating is determined by the subject's ability to meet its obligations. Monitoring of clients' financial situation is an essential element of the Agency's credit risk management.

Geographical segmentation (at 31 December 2005)

Assets	Domestic (CZK m)	European union (CZK m)	Other Europe (CZK m)	Other (CZK m)	Total (CZK m)
Cash	2	–	–	–	2
Due from banks	19	–	–	–	19
Due from customers	16,433	3	11	–	16,447
Securities available-for-sale	3,352	–	–	–	3,352
Participation interests	4,357	–	–	–	4,357
Other assets	39,450	–	–	–	39,450
Total assets	63,613	3	11	–	63,627

Geographical segmentation (at 31 December 2004)

Assets	Domestic (CZK m)	European union (CZK m)	Other Europe (CZK m)	Other (CZK m)	Total (CZK m)
Cash	3	–	–	–	3
Due from banks	521	8	–	1	530
Due from customers	40,926	27	10	–	40,963
Securities available-for-sale	6,093	–	–	–	6,093
Participation interests	5,096	–	–	–	5,096
Other assets	68,337	–	–	–	68,337
Total assets	120,976	35	10	1	121,022

Business segmentation (at 31 December 2005)

Assets	Private subjects (CZK m)	State institutions (CZK m)	Municipalities (CZK m)	Other (CZK m)	Total (CZK m)
Cash	2	–	–	–	2
Due from banks	19	–	–	–	19
Due from customers	15,200	1,227	20	–	16,447
Securities available-for-sale	3,352	–	–	–	3,352
Participation interests	4,357	–	–	–	4,357
Other assets	4,876	34,574	–	–	39,450
Total assets	27,806	35,801	20	–	63,627

Business segmentation (at 31 December 2004)

Assets	Private subjects (CZK m)	State institutions (CZK m)	Municipalities (CZK m)	Other (CZK m)	Total (CZK m)
Cash	3	–	–	–	3
Due from banks	530	–	–	–	530
Due from customers	38,887	2,038	38	–	40,963
Securities available-for-sale	6,093	–	–	–	6,093
Participation interests	5,096	–	–	–	5,096
Other assets	3,763	64,574	–	–	68,337
Total assets	54,372	66,612	38	–	121,022

(c) Derivative financial instruments

The Agency has outstanding derivative contracts which can be analysed as follows:

Assets	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Trading agreements	–	–
Cash flow hedging agreements	52	97
Positive fair value of financial derivatives (Note 9)	52	97

Liabilities	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Trading agreements	5	–
Cash flow hedging agreements	181	135
Negative fair value financial derivatives (Note 15)	186	135

	31 December 2005			31 December 2004		
	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Trading agreements						
Currency forward	222	–	5	–	–	–

Change of the fair value of trading derivatives is recognised in the income statement.

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

	31 December 2005			31 December 2004		
	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Cash flow hedging agreements						
Interest rate derivatives						
Interest rate swaps	10,000	52	181	10,000	97	135

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Fair value gains and losses of the above qualifying cash flow hedging instruments are deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income.

The tables above provide a detailed breakdown of the nominal or notional amounts and the fair value of the Agency's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Agency to transfer, modify or reduce its foreign exchange and interest rate risks.

The nominal or notional amounts provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Agency's exposure to credit or price risk.

(d) Currency risk

The Agency takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates especially EUR and USD. Monetary position in individual currency (difference between assets and liabilities) represents the Agency's exposure to movements of currency exchange rates. The exposure is actively managed through dealing operations, which are included in off-balance sheet long and short positions. The Agency actively monitors its limits for managing its currency risk.

The table below summarises the Agency's currency exposure. Included in the table are the Agency's assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2005

	CZK (CZK m)	EUR (CZK m)	USD (CZK m)	Other (CZK m)	Total (CZK m)
Assets					
Cash in hand	2	–	–	–	2
Due from banks	17	2	–	–	19
Due from customers	16,303	–	144	–	16,447
Securities available-for-sale	3,352	–	–	–	3,352
Participation interests	4,051	–	–	306	4,357
Other assets	39,450	–	–	–	39,450
	63,175	2	144	306	63,627
Liabilities					
Due to banks	22,050	–	–	–	22,050
Due to customers	644	–	140	–	784
Liabilities from debt securities	20,511	–	–	–	20,511
Provisions	356	–	–	–	356
Other liabilities	2,291	–	–	–	2,291
	45,852	–	140	–	45,992
Balance sheet net	17,323	2	4	306	17,635
Net off-balance sheet assets/(liabilities)	–	–	222	(222)	–
Net open currency position	17,323	2	226	84	17,635

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As at 31 December 2004

	CZK (CZK m)	EUR (CZK m)	USD (CZK m)	Other (CZK m)	Total (CZK m)
Assets					
Cash in hand	3	–	–	–	3
Due from banks	87	294	147	2	530
Due from customers	40,701	70	192	–	40,963
Securities available-for-sale	6,020	–	73	–	6,093
Participation interests	4,791	–	–	305	5,096
Other assets	68,337	–	–	–	68,337
	119,939	364	412	307	121,022
Liabilities					
Due to banks	49,109	–	154	–	49,263
Due to customers	11,035	352	236	–	11,623
Liabilities from debt securities	40,474	–	–	–	40,474
Provisions	2,586	–	–	–	2,586
Other liabilities	2,162	–	–	–	2,162
	105,366	352	390	–	106,108
Balance sheet net	14,573	12	22	307	14,914
Net off-balance sheet assets/(liabilities)	–	–	–	–	–
Net open currency position	14,573	12	22	307	14,914

(e) Interest rate risk

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

Limits for the management of interest rate risk have been set. The Agency monitors portfolio sensitivity to changes in interest rates using GAP analysis.

The table below summarises the Agency's exposure to interest rate risk. Included in the table are the Agency's interest bearing assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates. Non-interest bearing financial assets and liabilities are classified as not specified.

As at 31 December 2005

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash	2	–	–	–	–	2
Due from banks	19	–	–	–	–	19
Due from customers	5,592	2,031	149	7,678	997	16,447
Debt securities	–	456	–	–	–	456
Other assets	518	1,473	–	482	44,230	46,703
	6,131	3,960	149	8,160	45,227	63,627
Liabilities						
Due to banks	9,997	12,053	–	–	–	22,050
Due to customers	784	–	–	–	–	784
Liabilities from debt securities	–	1,011	19,500	–	–	20,511
Provisions	–	–	–	–	356	356
Other liabilities	490	9	–	–	1,792	2,291
	11,271	13,073	19,500	–	2,148	45,992
Balance sheet net	(5,140)	(9,113)	(19,351)	8,160	43,079	17,635

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As at 31 December 2004

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash	3	–	–	–	–	3
Due from banks	530	–	–	–	–	530
Due from customers	22,918	1,512	260	8,656	7,617	40,963
Debt securities	–	–	442	73	–	515
Other assets	518	1,952	934	–	75,607	79,011
	23,969	3,464	1,636	8,729	83,224	121,022
Liabilities						
Due to banks	24,944	23,419	900	–	–	49,263
Due to customers	10,280	1,343	–	–	–	11,623
Liabilities from debt securities	9,814	10,659	15,001	5,000	–	40,474
Provisions	–	–	–	–	2,586	2,586
Other liabilities	1,579	448	–	–	135	2,162
	46,617	35,869	15,901	5,000	2,721	106,108
Net assets / (liabilities)	(22,648)	(32,405)	(14,265)	3,729	80,503	14,914

(f) Liquidity risk

The Agency prepares a statement of actual and residual maturities of its assets and liabilities and monitors the limits for the purposes of liquidity risk management.

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

As at 31 December 2005

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash	2	–	–	–	–	2
Due from banks	19	–	–	–	–	19
Due from customers	450	2,279	977	7,838	4,903	16,447
Debt securities	–	456	–	–	–	456
Other assets	518	3,265	34,574	482	7,864	46,703
	989	6,000	35,551	8,320	12,767	63,627
Liabilities						
Due to banks	4,997	12,053	5,000	–	–	22,050
Due to customers	784	–	–	–	–	784
Liabilities from debt securities	–	1,011	19,500	–	–	20,511
Provisions	–	–	–	–	356	356
Other liabilities	490	1,801	–	–	–	2,291
	6,271	14,865	24,500	–	356	45,992
Net assets / (liabilities)	(5,282)	(8,865)	11,051	8,320	12,441	17,635

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As at 31 December 2004

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash	3	–	–	–	–	3
Due from banks	530	–	–	–	–	530
Due from customers	15,230	5,173	3,361	8,907	8,292	40,963
Debt securities	–	–	442	73	–	515
Other assets	518	1,952	65,508	–	11,033	79,011
	16,281	7,125	69,311	8,980	19,325	121,022
Liabilities						
Due to banks	8,926	10,766	20,881	8,690	–	49,263
Due to customers	9,720	1,342	561	–	–	11,623
Liabilities from debt securities	9,814	10,659	15,001	5,000	–	40,474
Provisions	–	–	–	–	2,586	2,586
Other liabilities	1,579	448	–	–	135	2,162
	30,039	23,215	36,443	13,690	2,721	106,108
Net assets / (liabilities)	(13,758)	(16,090)	32,868	(4,710)	16,604	14,914

29 TOTAL DIRECT EXPOSURE TO STATE AND NPF

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Guarantees from State (Note 17)	1,209	2,066
Receivable from State due to repayment of losses (Note 9)	34,574	64,574
Total exposure to State	35,783	66,640
Guarantees issued by NPF (Note 17)	–	13,664
Payable to NPF due to overpayment of loss coverage advances of Konpo (Note 15)	1,792	–
Receivable from NPF due to repayment of losses of Konpo (Note 9)	–	462
Loan granted to NPF	–	–
Total exposure to NPF	–	14,126

With respect to the termination of the NPF as at 31 December 2005, the obligations of NPF have been assured by MF ČR.

30 CONTINGENCY LIABILITIES

As at 31 December 2005, there were 49 legal cases raised against the Agency in total amount of CZK 4,800 million. No provisions have been recorded as management and legal counsel of the Agency do not expect any significant losses to arise from the stated legal litigations.

31 SUBSEQUENT EVENTS

(a) Replacement of Cabrice Holdings B.V. promissory note

A promissory note of Cabrice Holdings in nominal value of CZK 2 billion was replaced by the underlying asset i.e. 68.97% share on equity of Galileo Real, k.s. on 10 February 2006. There was no net profit or loss impact from this transaction. The Agency is now the Sole owner.

(b) Sale of receivables of Kostelecké uzeniny, a.s.

In March 2006 receivables of Kostelecké uzeniny a.s. of nominal value CZK 636 million were sold for CZK 550 million based on a government decision. There was not a significant net profit or loss realised from these sales.

(c) Sale of receivables of Setuza a.s.

In February 2006 receivables of Setuza a.s. of nominal value CZK 2,306 million were sold for CZK 465 million to Podpůrný a garanční lesnický a rolnický fond. There was not a significant net profit or loss realised from these sales.

(d) Realised sale of receivables and shares

The Agency has realised several sales of receivables and shares in 2006 up to the date of approval of these financial statements. There was not a significant net profit or loss realised from these sales.

(e) Planned sale of receivables and shares

The Agency has formal plan for the sale of number of receivables and shares. The management of the Agency expects these sales will have no significant net profit or loss impact.

These financial statements have been approved for submission to the Supervisory Board by the Board of Directors and have been signed on their behalf by:

Date	Signature of the statutory representative
31 March 2006	Ing. Petr Goldman Ing. Mojmír Hampl, MSc., Ph.D.

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2005**
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005 – ASSETS

Assets	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Cash and deposits with central banks	3	336	68
Due from banks	4	2,927	3,294
a) repayable on demand		2,677	172
b) other receivables		250	3,122
Due from customers	5	16,806	40,189
of which: other receivables		16,806	40,189
Debt securities	6	1,467	515
a) issued by government institutions		278	–
b) issued by other entities		1,189	515
Shares, mutual shares and other equity interests	6	3,505	5,740
Participation reflected under the equity method	7	2,168	1,532
Unconsolidated equity investments	8	1,455	2,341
Long-term intangible fixed assets	9	35	55
Long-term tangible fixed assets	9	1,504	3,501
of which: land and buildings for operating activities		1,331	2,726
Other assets	10	39,436	71,196
Prepayments and accrued income	11	14	59
Total assets		69,653	128,490

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005 – LIABILITIES

Liabilities	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Due to banks	13	26,104	54,407
of which: other payables		26,104	54,407
Due to customers	14	784	9,477
a) repayable on demand		617	1,256
b) other payables		167	8,221
Liabilities from debt securities	15	20,511	40,048
of which: issued debt securities		20,511	40,048
Other liabilities	17	2,443	3,007
Accruals and deferred income	18	119	96
Provisions	12	360	2,594
a) provisions for taxes		4	8
b) other provisions		356	2,586
Share capital paid up (without minority interest)	19	5,950	5,950
Capital reserves (without minority interest)		696	1,720
Reserve funds and revenue reserves (without minority interest)		17,675	13,547
a) statutory reserve funds		16,724	13,374
b) other reserve funds		934	155
c) other revenue reserves		17	18
Revaluation reserve	19	889	4
a) revaluation differences on hedging derivatives		(61)	4
b) revaluation differences on assets and liabilities		950	–
Accumulated profits from previous periods (without minority interest)		1,851	2,209
Loss for the accounting period (without minority interest)		(7,729)	(5,412)
a) loss for the accounting period without minority interest on loss from equity method consolidation		(7,922)	(5,644)
b) share on profit from equity method consolidation		193	232
Minority interest		–	843
a) minority share capital		–	897
b) minority capital funds		–	27
c) minority funds from profit including retained earnings		–	4
d) minority loss for the accounting period		–	(85)
Total liabilities		69,653	128,490

CONSOLIDATED OFF-BALANCE SHEET AS AT 31 DECEMBER 2005

Off-balance sheet assets	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Commitments and guarantees given	20	356	2,154
Collaterals given		–	1,746
Receivables from spot transactions		–	9
Receivables from term instruments	31	10,222	10,000
a) interest instruments		10,000	10,000
b) currency instruments		222	–
Receivables written-off		21,635	16,411
Securities in custody	20	199	613
Total off-balance sheet assets		32,412	30,933
Off-balance sheet liabilities	Note	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Commitments and guarantees received	20	19,753	60,689
a) commitments		15,119	38,995
b) guarantees and collaterals		4,634	21,692
c) guarantees from bills of exchange		–	2
Collaterals received and pledges	5	1,886	3,964
a) real estate pledges		1,133	3,888
b) other		753	76
Payables from spot transactions		–	9
Payables from term instruments	31	10,222	10,000
a) interest instruments		10,000	10,000
b) currency instruments		222	–
Assets under custody	20	–	433
Total off-balance sheet liabilities		31,861	75,095

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2005

	Note	2005 (CZK m)	2004 (CZK m)
Interest receivable and similar income	21	2,605	3,820
of which: interest income from debt securities		–	114
Interest payable and similar expense	22	(2,911)	(4,754)
of which: interest expense on debt securities		(1,147)	(1,485)
Income from shares and other interests	23	428	33
a) unconsolidated income from participating interests with significant influence		31	24
b) unconsolidated income from participating interest with controlling influence		397	2
c) other income from shares and interests		–	7
Fee and commission income	24	68	25
Fee and commission expense	25	(19)	(39)
Gains less losses from financial transactions	26	382	77
Other operating income	27	8,646	6,547
of which: negative goodwill		–	651
Other operating expense	28	(2,383)	(3,757)
of which: positive goodwill		–	(185)
Administrative expense	29	(2,193)	(2,411)
of which: a) staff costs		(1,030)	(1,068)
of which: aa) wages and salaries		(767)	(798)
ab) social and health insurance		(263)	(270)
b) other administrative expenses		(1,163)	(1,343)
Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets	9	(204)	(279)
Release of provisions for long-term tangible and intangible fixed assets	9	8	16
Release of provisions for loans and guarantees, income from receivables already written-off	12	7,485	12,500
Write-offs, additions and utilisation of provisions for loans and guarantees	12	(19,642)	(17,613)
Release of provisions for participating interest with significant and controlling influence	12	999	413
Loss from transfer of participating interest with significant and controlling influence, additions and release of allowances for participating interest with significant and controlling influence		(1,172)	(274)

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Additions and utilisation of other specific provisions	12	4	(40)
Income tax	30	(9)	(7)
Share on gains from equity method consolidation		193	232
Minority (profit) / loss for the year		(14)	85
Loss for the year without minority interest		(7,729)	(5,412)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2005

	Share capital (CZK m)	Reserve funds and other funds from profit (CZK m)	Capital funds (CZK m)	Revaluation reserve (CZK m)	Accumulated losses (CZK m)	Total equity (CZK m)
Balance as at 1 January 2004	5,950	26,663	6,316	90	(19,409)	19,610
Covering 2003 loss from the Capital fund	–	–	(6,014)	–	6,014	–
Covering 2003 loss from the Reserve fund	–	(15,678)	–	–	15,678	–
Contribution to the reserve fund – NPF, ČNB	–	74	–	–	(74)	–
Revaluation differences on hedging derivatives	–	–	–	(86)	–	(86)
No consideration acquisition of securities	–	–	3	–	–	3
Drawings from social fund	–	(6)	–	–	–	(6)
Loss for the year 2004	–	–	–	–	(5,412)	(5,412)
Claim for payments to cover 2004 loss – State, NPF	–	2,124	1,415	–	–	3,539
Claim for payments to cover 2004 loss – ČNB	–	370	–	–	–	370
Balance as at 31 December 2004	5,950	13,547	1,720	4	(3,203)	18,018
Effect of change in consolidation scope for the Group (deconsolidation)	–	(58)	(32)	–	90	–
Effect of change in consolidation scope for the Group (consolidation)	–	58	–	–	(748)	(690)
Covering 2004 loss from the Capital fund	–	–	(1,415)	–	1,415	–
Covering 2004 loss from the Reserve fund	–	(4,530)	–	–	4,530	–
Contribution to the reserve fund – NPF, ČNB	–	233	–	–	(233)	–
Revaluation differences on hedging derivatives	–	–	–	(65)	–	(65)

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Revaluation differences on available-for-sale securities	–	–	–	950	–	950
No consideration acquisition of securities	–	–	3	–	–	3
Drawings from social fund	–	(5)	–	–	–	(5)
Loss for the year 2005	–	–	–	–	(7,729)	(7,729)
Claim for payments to cover 2005 loss – State, NPF, including coverage of loss from specific transactions for the year 2005 (Note 10)	–	7,895	420	–	–	8,315
Claim for payments to cover 2005 loss – ČNB	–	535	–	–	–	535
Balance as at 31 December 2005	5,950	17,675	696	889	(5,878)	19,332

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 GENERAL INFORMATION

The ČKA Group (hereafter “the Group”) consisted of five companies and employed 1,135 people at 31 December 2005. The parent company of the Group is Česká konsolidační agentura (hereafter “the Agency” or “ČKA”). The fully consolidated companies are Česká finanční, s.r.o. (hereafter “Česká finanční” or “ČF”), Konpo, s.r.o. (hereafter “Konpo”), PRISKO a.s. (hereafter “PRISKO”), and Explosia a.s. (hereafter “Explosia”).

(a) Agency

The Agency was incorporated on 1 September 2001 in accordance with the Act No. 239/2001 on Česká konsolidační agentura as the legal successor of Konsolidační banka Praha, a State financial institution (hereafter “the Bank”).

The main activities of the Agency are administration and realization of non performing receivables accepted and purchased, as per the government's decisions, from commercial banks and companies under difficult financial situations. Other activities of the Agency are restructuring programmes, the funding and supporting of projects, which are determined by a decision of the government.

The Agency retains a number of original activities of the Bank, however, it does not retain the status of a bank. In compliance with Art 1 para 3 of Act No. 239/2001 Col. on Česká konsolidační agentura, liabilities of the Agency are fully guaranteed by the State.

According to Act No. 239/2001 Col. the Agency will cease to exist by 31 December 2007 without liquidation. The legal successor of the Agency will be the state as represented by the Ministry of Finance of the Czech Republic.

The Agency as the sole shareholder at the general meeting assigned the Česká finanční's and Konpo's statutory representatives on 6 December 2005 to discuss the intention to terminate activities of Česká finanční and Konpo in the year 2006 by merger with the sole shareholder, the Agency. The intention of the merger was also discussed at the MF ČR and submitted to the Czech government for approval. As a result, it is probable that Česká finanční and Konpo will not continue as a going concern throughout 2006.

(b) Česká finanční

Česká finanční was entered in the Commercial Register held by the City court in Prague, section C, no. 47185 on 2 July 1992 and its registered office is located at V Jámě 1263/6, Prague 1, 111 21.

ČF's core activity is the administration of assets (i.e. loan receivables, securities and equity interests) taken over by ČF within the Programme of stabilising the banking sector in the Czech Republic, as approved on 16 October 1996 by Czech Government Resolution No. 539 (hereafter referred to as “the Stabilisation Programme”), and the Programme declared by the Czech National Bank (hereafter “ČNB”), primarily in connection with the mergers of smaller banks (hereinafter referred to as “the Consolidation Programme”).

Stabilisation Programme

Within the scope of the Stabilisation Programme ČF bought assets at their book values from the participating banks. The participation of individual banks in the programme was approved by the ČNB. The banks accepted the obligation to buy these assets back within the next 7 years (i.e. in 2004 – 2005). Guarantees in favour of ČF or other collaterals have been issued by each of the individual banks.

The Programme is funded by the Agency, the legal successor of the Bank. Final coverage of losses from the Stabilisation Programme are ensured by NPF (MF ČR as a successor)

(Note 32) in accordance with the agreements signed by the Česká Finanční and the Bank on 19 February 2001 ("Agreement on settlement of expenses and coverage of losses relating to realization of programme aiming for fortification of the banking sector"). Losses were settled quarterly. Since 2003 there has been no need for advances to be paid.

Consolidation Programme

The Consolidation Programme is financed by the ČNB. The losses generated within this Programme exceeding ČF's share capital are covered by the ČNB on the basis of an Agreement from 29 June 2000 concluded between both parties ("Agreement on the repayment of the costs from operating activities and settlement of losses within the Consolidation Programme").

(c) KONPO

Konpo was incorporated on 25 January 2000 and has its registered office at Prague 1, Na Příkopě 390/3, 111 21.

Konpo's core activity is the administration of assets (i.e. loan receivables, securities and equity interests) taken over from Komerční banka, a.s. (hereafter "KB") based on the Czech Government Resolution No. 187 from 16 February 2000.

All losses of Konpo are covered by the Agency based on an Agreement concluded between the Bank and Konpo. The agreement covers items including the payment of costs and coverage of losses incurred by Konpo in relation to KB's asset restructuring operations performed in connection with the privatisation of KB. All losses of Konpo are ultimately covered by NPF (MF ČR as a successor) (Note 32).

(d) PRISKO

PRISKO was incorporated on 1 October 1992, and has its registered office at Janovského 438/2, 170 06 Praha 7. PRISKO's business activity is the management and settlement of assets and liabilities relating to the privatised assets of Škoda Mladá Boleslav.

(e) EXPLOSIA

Explosia was registered in the commercial register on 21 July 1998 and has its registered office at Pardubice – Semtín, 532 17. Explosia's business activities consist principally of research, development and production of propellants and explosives.

2 ACCOUNTING PROCEDURES FOR CONSOLIDATED FINANCIAL STATEMENTS

(a) Basis of preparation

The consolidated financial statements of the Group, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on Accounting, the applicable accounting rules set by MF ČR and Czech accounting standards for financial institutions. Accounts of consolidated subsidiaries, which are based on the Chart of accounts and accounting procedures for non-financial institutions, have been adjusted for material differences to comply with the Chart of accounts and accounting rules for banks and other financial institutions. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values.

The consolidated financial statements of the Group are prepared for the year ended 31 December 2005 and include the accounts of the Agency, all subsidiaries controlled by the Agency, and associated undertakings owned by the Agency and its subsidiaries, other than those excluded because of the reasons listed below.

The amounts are rounded to millions of Czech Crowns ("CZK million" or "CZK m") unless stated otherwise.

In compliance with Czech accounting legislation, the Group did not perform full consolidation of certain subsidiary companies or equity consolidation of certain associated companies for the year ended 31 December 2005 for the following reasons:

- Businesses in bankruptcy proceedings or in liquidation: H-SYSTEM a.s., 1. českoamerická realitní společnost, a.s. in liquidation, CRF Praha a.s. in liquidation, TCHECOMALT GROUP, a.s., Českomoravská lékárnická platebna, a.s. in liquidation., První východní, a.s. in liquidation;
- Companies for which the management of the Group expects the shares to be transferred, or a sale process has already been initiated or will commence during 2006: AERO Vodochody, a.s.;
- Companies below minimum statutory limit for consolidation: BH CAPITAL, a.s., BRNO INN, a.s., INTEGRA, a.s., IMOB, a.s., Global Investment, a.s., Českomoravská nemovitostní, a.s.

Subsidiary companies included in the Group consolidation are fully consolidated within the rules defined for banks and other financial institutions. In accordance with the Czech rules for full consolidation, the following steps have been taken:

- Items in the separate financial statements of the consolidated companies were combined on a line-by-line basis in the consolidated financial statements;
- Items treated differently in consolidated subsidiaries were reclassified in accordance with the defined consolidation rules so as to be in accordance with the Agency's accounting policies;
- Consolidated subsidiaries' recognition, measurement and disclosure policies which are materially different to the Agency's accounting policies were adjusted on consolidation;
- Unrealised surpluses and deficits on transactions between Group companies have been eliminated;
- All significant intergroup balances and transactions were eliminated.

Associated companies included in the Group consolidation are reflected using the equity method within the rules defined for banks and other financial institutions.

Equity of the Group as of 1 January of the year in which the associate exceeds the threshold for equity accounting is adjusted for the difference between carrying amount and share of equity of the associate at that date.

(b) Foreign currency

Financial assets and liabilities of the Group denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by CNB effective at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions except when deferred in equity as qualifying cash flow hedges, net investment hedges and equity securities in the available-for-sale portfolio.

(c) Fair value of securities

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

- the net present value of expected cash flows for equities and mutual fund units; or
- the risk adjusted net present value of cash flows for debt securities and notes.

(d) Securities at fair value through profit or loss

Securities at fair value through profit or loss have two subcategories. Securities held for trading, which were acquired for generating profit from short-term fluctuations in prices or from dealers' margins or included in a portfolio in which a pattern of short-term profit taking exists, and securities designated at fair value through profit or loss at inception. Any security that is a financial asset or liability can be designated at fair value through profit or loss at inception except for participation interests that are not publicly traded and the fair value of which cannot be reliably measured and securities issued by the Group.

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as Gains less losses from financial transactions. Trading securities as at 31 December 2004 are included in securities at fair value through profit or loss with the effect from 1 January 2005.

(e) Securities held-to-maturity

Securities held-to-maturity are securities with a fixed maturity where the Group has both the intent and the ability to hold them to maturity. They are measured at amortised cost.

(f) Available-for-sale securities

Available-for-sale securities are neither securities at fair value through profit or loss nor securities held-to-maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are initially recognized at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value. Since 1 January 2005 subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement. In 2004, changes in the fair value of available-for-sale securities were recognized in the income statement. Comparative figures were not restated as required by Czech accounting rules. Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognized in the income statement. Foreign exchange differences on equity securities are recognized in the revaluation reserve in equity. As at 1 January 2005, the Group was allowed to transfer securities from available-for-sale securities to securities at fair value through profit or loss (Note 6).

(g) Debt securities purchased in primary issues and not held for trading

Unquoted debt securities purchased in primary issues and not held for trading are recognised in Receivables due from customers or banks and are measured at amortised cost. Quoted debt securities purchased in primary issues not held for trading are recognised in securities at fair value through profit or loss, available-for-sale securities or securities held to maturity.

(h) Transfers between portfolios

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

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

(i) Investments in subsidiary and associated undertakings

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

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and, once such subsidiaries have been consolidated, are no longer consolidated from the date of disposal. Certain companies have not previously been consolidated and are still not consolidated, since they are in bankruptcy proceedings, in liquidation, immaterial from the Group prospective or a sale process has been initiated or expected to be initiated during 2006 (Note 2 (a)).

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries and associated undertakings is fully amortised upon acquisition.

Investments of the Group in subsidiary and associated undertakings not meeting the criteria for full consolidation or equity accounting (for reasons of non-consolidation refer to the Note 2 (a)) are measured at the lower of cost and the Group's share of the net equity of the unconsolidated subsidiary or associated undertakings. Provisions for any impairment arising are recorded.

(j) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio.

The underlying cashflows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on the settlement date.

Securities received in reverse repo agreements that are sold to third parties are recorded at fair value as a trading liability. Trading liabilities with debt and equity securities are included in Liabilities from debt securities and Other liabilities respectively.

(k) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps and other derivative financial instruments are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

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

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Group designates prospectively certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecasted transaction. Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) the derivative is in compliance with the Group's risk management strategy;
- (ii) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;

- (iii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- (iv) the hedge is effective on an ongoing basis; and
- (v) the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity and transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(l) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments except securities at fair value through profit or loss on an accrual basis using the effective yield method based on the acquisition cost.

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 flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group 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 paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The linear method is used as an approximation of the effective interest method for securities with remaining maturity shorter than 1 year at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

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

(m) Revenue recognition for goods and services

Sales of goods are recognised upon delivery of products and customer acceptance and recorded net of discounts and Value Added Tax.

Revenues from rendering of services are recognised if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenues and costs can be measured reliably.

(n) Penalty interest

Penalty interest income, which is suspended or forgiven, is excluded from interest income until received. Amounts previously recognised as income are not reversed.

(o) Dividend income

Dividend income is recognised at the date the claim becomes effective.

(p) Provisions and allowances

Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

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

Provisions are set aside in the currency in which settlement is expected to be made.

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral or guarantee arising from the agreements if the Group has the intention to exercise the guarantee in the future. The market in the Czech Republic for many types of collateral is at an early stage of development and there is a low level of liquidity for certain types of assets. As a result, the realisable value on foreclosure may differ from the value described in estimating allowances.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses connected with the decrease of assets, in the income statement. Release of allowances in case they are no longer necessary is recognised as income.

Allowances for assets denominated in a foreign currency are created in that foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from the related asset.

In the estimation of impairment and related allowances, the Group takes into account the net value of various covenants, guarantees and loss compensation arrangements provided by third parties. When creating allowances for loans for working capital finance (hereinafter “the old block of loans”¹⁾, the partial coverage provided by the special-purpose reserve fund is taken into consideration (Note 19).

¹⁾ “The old block of loans” represents loans taken over by the Bank from commercial banks. The loans were granted by commercial banks prior to November 1989.

(q) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives resulting in the following annual rates:

Buildings and constructions	30 years
Hardware and equipment	4 years
Furniture and fittings	6 years
Motor vehicles	4 years
Software	4 years

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

(r) Taxation

The tax payable of the Group is stated in compliance with the relevant legislation of the Czech Republic. The Agency’s income is exempted from corporate income tax, therefore, deferred and current taxes are not recognised by the Agency.

(s) Deferred taxation

Deferred tax liability of the Group is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised. The Agency does not recognise deferred tax due to its exemption from corporate income tax, however deferred tax is recognised on other Group companies where relevant.

The approved tax rate for the period in which the Group expects to utilise the asset is used for the deferred taxation calculation.

(t) Staff costs, pensions and social fund

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

The Group makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Group are accounted directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

The Group creates a social fund to finance the social needs of its employees and employees' programme. In compliance with the Czech accounting requirements the allocation to the social fund is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund is not recognised in the income statement but as a decrease of the fund. The social fund forms a component of equity and is not shown as a liability.

(u) Related parties

Related parties are defined as follows:

- board members;
- senior management of companies included in the Group, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the statutes of companies included in the Group ("senior management of companies included in the Group");
- relatives (direct family members) of board members and senior management of the companies included in the Group;
- entities in which board members of the companies included in the Group or senior management of the companies included in the Group hold at least a 10% shareholding;
- non-consolidated subsidiaries and associated companies of the Group.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 5.

(v) Subsequent events

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

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

In accordance with the Czech consolidation rules, the consolidation of the Group was prepared based on the statutory accounts of consolidated companies. In particular, as

a result, no account is taken of subsequent events which occurred after the date of preparation of the holding company's financial statements.

(w) Extraordinary items and changes in accounting policy

Extraordinary items include effects of changes in accounting policies.

3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Cash on hand	3	5
Deposits with central bank	333	63
	336	68

4 DUE FROM BANKS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Current accounts with banks	2,677	172
Term deposits with banks	250	534
Other due from banks	–	2,588
	2,927	3,294

5 DUE FROM CUSTOMERS

(a) Receivables by type of debtor

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Standard loans to companies and individuals	155	2,019
Impaired loans to companies and individuals	59,637	83,518
Standard loans to housing co-operatives ¹⁾	7,668	8,547
Impaired loans to housing co-operatives ¹⁾	11	13
Standard loans to governmental entities	2,405	2,008
Impaired loans to governmental entities	18	2,070
Standard loans to municipalities	7	19
Impaired loans to municipalities	79	84
Other receivables from customers	3,901	20,758
Loans within the Consolidation and Stabilisation Programmes	1,234	11,612
	75,115	130,648
Allowance for impaired loans (Note 12) ²⁾	(58,309)	(90,459)
	16,806	40,189

1) In its portfolio the Agency has loans granted to housing co-operatives. These loans were acquired from Investiční a Poštovní banka, a.s. (hereinafter "IPB"). The difference between the funding cost and interest income is compensated by MF ČR

2) In addition to the allowances for watch and impaired receivables the Agency has reflected a specific provision for receivables of CZK 2,176 million as of 31 December 2004 in liabilities as required by Czech accounting regulations (Note 12). No such specific provisions were recognised as of 31 December 2005. All specific provisions were released into income and allowances for watch and impaired loans were created in the same amount.

A statutory reserve fund is used to cover expected losses of CZK 4,230 million (31 December 2004: CZK 7,192 million) from the old block of loans. In 2005 the losses of CZK 2,962 million from assigned and written off exposures from the old block of loans were covered by the reserve fund (2004: CZK 2,036 million (Note 19)).

(b) Quality of receivables portfolio

In accordance with the definitions issued by the CNB, the receivables due from clients can be analysed as follows:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Standard	10,235	12,593
Watch	14	607
Impaired: – substandard	31	899
– doubtful	2,243	7,100
– loss	62,592	109,449
	75,115	130,648

The forced sale value ascribed to assets received as collateral for receivables from customers can be analysed as follows:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Land and buildings	1,133	3,888
Other fixed assets	753	76
	1,886	3,964

In addition to the above assets received as collateral, the Group records guarantees received of CZK 4,634 million (31 December 2004: CZK 21,692 million).

Other receivables include the principal and also interest of the loans transferred to ČF under the Stabilisation and Consolidation Programme.

In 2004 correction of the calculation of interest income from loan receivables was made in ČF so that interest income is reflected based on the underlying loan agreements and other loan documentation other than the terms of the Stabilisation and Consolidation Programme.

Other receivables under the Consolidation programme are covered by a guarantee of ČNB. Allowances of 100.00% were created for other receivables included in the Stabilisation Programme as of 31 December 2005 to reflect their expected net realizable value.

(c) Loans to unconsolidated related parties

	31 December 2004 (CZK m)	Disposals (CZK m)	31 December 2005 (CZK m)
Unconsolidated subsidiary undertakings:			
Loans to subsidiaries	3,326	(2,849)	477
Allowance for impaired loans	(3,326)	2,849	(477)
	–	–	–
Unconsolidated associated undertakings:			
Loans to associated parties	125	(125)	–
Allowance for impaired loans	(125)	125	–
	–	–	–
Total receivables from related parties	–	–	–

All loans to unconsolidated 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. Based on certain Government decisions, loans were also granted to selected companies in order to improve their financial position.

6 SECURITIES

	Debt securities at 31 December		Shares, mutual shares and other equity interests at 31 December	
	2005 (CZK m)	2004 (CZK m)	2005 (CZK m)	2004 (CZK m)
At fair value through profit or loss	949	–	–	–
Available-for-sale	456	515	3,505	5,740
Held-to-maturity	62	–	–	–
	1,467	515	3,505	5,740

Securities at fair value through profit or loss as at 31 December 2005 include state treasury bills in amount of CZK 278 million.

(a) At fair value through profit or loss

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Trading securities	949	–
	949	–

Debt securities including state treasury bills

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Main or auxiliary market of recognised stock exchanges	278	–
Free market of stock exchanges	37	–
Unquoted	634	–
	949	–

(b) Securities available-for-sale

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Debt securities		
Unquoted	456	515
	456	515
Shares, mutual shares and other equity interests		
Main or auxiliary market of stock exchanges	–	130
Unquoted	3,505	5,610
	3,505	5,740

(c) Securities held-to-maturity

Debt securities including state treasury bills

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Unquoted	62	–
Net book value	62	–
Fair value	62	–

7 PARTICIPATIONS REFLECTED UNDER THE EQUITY METHOD**At 31 December 2005**

Name, registered office	At cost (CZK m)	Nominal value (CZK m)	Share capital (CZK m)	Share (%)	Share of net equity under equity method (CZK m)	Share of profits under equity method (CZK m)
České aerolinie, a.s., Praha	2,053	946	2,736	34.59	752	115
Galileo Real, k.s., Praha	1,032	900	2,900	31.03	205	7
VZLÚ, a.s., Praha	290	357	751	47.55	403	2
KORADO, a.s., Česká Třebová	86	288	841	34.22	323	21
První česko-ruská banka, s.r.o., Moskva	467	417	3,003	13.87	485	48
					2,168	193

At 31 December 2004

Name, registered office	At cost (CZK m)	Nominal value (CZK m)	Share capital (CZK m)	Share (%)	Share of net equity under equity method (CZK m)	Share of profits under equity method (CZK m)
České aerolinie, a.s., Praha	2,053	946	2,736	34.59	638	0
AERO Vodochody, a.s., Odolena Voda	1,602	1,256	2,692	46.65	0	0
KORADO, a.s., Česká Třebová	86	288	841	34.22	302	117
První česko-ruská banka, s.r.o., Moskva	440	392	2,829	13.87	436	70
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	117	117	688	16.97	156	45
					1,532	232

8 UNCONSOLIDATED EQUITY INVESTMENTS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Subsidiary undertakings:		
Cost	245	3,635
Allowances for diminution in value (Note 12)	(88)	(2,628)
Net	157	1,007
Associated undertakings:		
Cost	2,139	2,207
Allowances for diminution in value (Note 12)	(841)	(873)
Net	1,298	1,334
	1,455	2,341

(a) Investments in unconsolidated subsidiary undertakings**At 31 December 2005**

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
IPB REAL INVESTMENT, a.s., Praha	50	–	50	100.00	(461)	50
INTEGRA, a.s., Praha	838,992	50	3	100.00	52	3
CRF Praha, a.s., v likvidaci	602,466	–	434	100.00	–	434
První východní, a.s., Praha ¹⁾	50	30	5	100.00	n/a	5
Global investment, a.s., Praha ¹⁾	744	115	744	100.00	n/a	744
TCHECOMALT GROUP, a.s., Prostějov	136	–	399	99.93	(532)	400
Českomoravská nemovitostní, a.s., Praha	2,000	16	2	100.00	16	2
IMOB, a.s., Praha	220,000	23	2	100.00	31	2
BH CAPITAL, a.s., Prostějov	3,667,041	11	293	71.89	483	408
		245				
Allowance for impairment (Note 12)		(88)				
		157				

Note: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2005, unless stated otherwise.

1) The company's financial statements were not available.

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At 31 December 2004

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
IPB REAL INVESTMENT, a.s., Praha	50	–	50	100.00	(478)	50
Autoklub Bohemia Assistance, a.s., Praha	828	112	83	69.00	91	120
CRF Praha, a.s., v likvidaci	602,466	–	434	100.00	–	434
První východní, a.s., Praha	50	30	5	100.00	6	5
Global investment, a.s., Praha	744	115	744	100.00	51	744
TCHECOMALT GROUP, a.s., Prostějov	136	–	399	99.93	(748)	400
ARTA REAL, k.s., Praha	–	1,630	2,900	100.00	165	2,900
CZ CREDIT REAL, k.s., Praha	–	1,032	2,900	100.00	51	2,900
IMOB, a.s., Praha ¹⁾	25,000	–	–	11.36	37	2
BH CAPITAL, a.s., Prostějov	3,667,041	402	733	71.89	1,016	1,020
Synpo, a.s., Pardubice	26,851	12	27	52.58	71	51
Epispol, a.s., Ústí nad Labem	3,000	300	300	100.00	290	300
Spolchemie, a.s., Ústí nad Labem	10	1	1	100.00	1	1
Ostalak, a.s., v konkurzu, Ústí nad Labem ²⁾	10	1	1	100.00	n/a	1
		3,635				
Allowance for impairment (Note 12)		(2,628)				
		1,007				

1) IMOB, a.s. is an associated company through its managerial rights.

2) The company's financial statements were not available.

Changes of participation in subsidiaries

Subsidiaries	(CZK m)
As at 31 December 2004	1,007
Change in the Group (Spolek)	
– Spolek	(313)
Sale of participation	
– Autoklub Bohemia Assistance, a.s.	(67)
– ARTA REAL, k.s.	(113)
– CZ CREDIT REAL, k.s.	(41)
Purchase of participation	
– IMOB, a.s.	23
Other movements (capital reduction)	(339)
As at 31 December 2005	157

(b) Investments in unconsolidated associated undertakings**At 31 December 2005**

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
AERO Vodochody, a.s., Odolena Voda	1,712,830	1,602	1,256	46.66	(6,440)	2,692
Českomor. lék. platebna, a.s., v likvidaci ²⁾	1,715	0	17	28.58	–	60
1. česko-americká realitní společnost, a.s., v likvidaci, Praha ¹⁾	9,900	99	99	21.37	–	–
H-SYSTÉM, a.s., v konkurzu, Praha I)	433	438	433	24.89	–	–
		2,139				
Allowance for impairment (Note 12)		(841)				
		1,298				

Note: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2005, unless stated otherwise.

1) The company's financial statements were not available, the company has been in liquidation or in bankruptcy proceedings.

2) The company's financial statements were not available.

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At 31 December 2004

Name, registered office	Number of shares (pieces)	At cost (CZK m)	Nominal value (CZK m)	Shareholding (%)	Total for company	
					Equity (CZK m)	Share capital (CZK m)
Výzkumný a zkušební letecký ústav, a.s., Praha	357,086	291	357	47.55	843	751
BRNO INN, a.s.	6,200	24	62	25.83	161	240
GALILEO REAL, k.s., Praha	–	1,032	900	31.03	661	2,900
INTEGRA, a.s., Praha	171,230	32	171	20.41	354	839
Lesní společnost Hradec Králové, a.s.	21,134	38	143	21.13	680	679
Jihočeské lesy České Budějovice, a.s., Nové Hrady	174,668	38	255	36.36	716	700
Jihočeské papírny, Větřní, a.s.	950,403	94	176	38.89	1,011	452
Českomor. lék. platebna, a.s., v likvidaci	1,715	–	17	28.58	–	60
Výzkumný ústav pivovarnický a sladovnický, a.s., Praha	22,740	8	23	32.93	49	69
1. česko-americká realitní společnost, a.s., v likvidaci, Praha ¹⁾	9,900	99	99	21.37	n/a	463
H-SYSTÉM, a.s., v konkurzu, Praha ¹⁾	432,760	438	433	24.89	n/a	1,738
H-SYSTÉM Luxus, a.s., Praha ¹⁾	10,900	113	109	24.78	n/a	440
		2,207				
Allowance for impairment (Note 12)		(873)				
		1,334				

1) The company's financial statements were not available, the company has been in liquidation or in bankruptcy proceeding.

Changes of participation in affiliates

Affiliates	(CZK m)
As at 31 December 2004	1,334
Sale of participation	
– Lesní společnost Hradec Králové, a.s.	(39)
– Jihočeské lesy České Budějovice, a.s.	(38)
– Výzkumný ústav piv. a slad., a.s.	(8)
– BRNO INN, a.s.	(24)
– Jihočeské papírny, a.s.	(14)
– H-System Luxus, a.s.	(113)
Purchase of participation:	–
Other movements	
– Release of provisions on GALILEO REAL, k.s.	8
– Release of provisions on Jihočeské papírny, a.s.	(41)
– Decrease of capital Integra, a.s.	(31)
– AERO VODOCHODY, a.s. (excluded from the Group in 2005)	760
– GALILEO REAL, k.s. (included in the Group in 2005)	(205)
– VZLÚ, a.s. (included in the Group in 2005)	(291)
As at 31 December 2005	1,298

9 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

Long term intangible fixed assets

	Software (CZK m)	Other (CZK m)	Total (CZK m)
At 1 January 2004			
Cost	336	206	542
Accumulated depreciation and impairment	(302)	(190)	(492)
Net book amount	34	16	50
Year ended 31 December 2004			
Opening net book amount	34	16	50
Change in the Group (Note 1)	–	28	28
Additions	6	3	9
Disposals	–	(8)	(8)
Amortisation charge	(15)	(9)	(24)
Closing net book amount	25	30	55
At 31 December 2004			
Cost	338	235	573
Accumulated depreciation and impairment	(313)	(205)	(518)
Net book amount	25	30	55
Year ended 31 December 2005			
Opening net book amount	25	30	55
Change in the Group (Note 1)	–	(3)	(3)
Additions	–	–	–
Disposals	–	(1)	(1)
Amortisation charge	(12)	(4)	(16)
Closing net book amount	13	22	35
At 31 December 2005			
Cost	294	39	333
Accumulated depreciation and impairment	(281)	(17)	(298)
Net book amount	13	22	35

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Long term operating tangible fixed assets

	Land (CZK m)	Buildings (CZK m)	Equipment (CZK m)	Other (CZK m)	Total (CZK m)
At 1 January 2004					
Cost	498	2,467	2,565	240	5,770
Accumulated depreciation and impairment	–	(1,118)	(2,162)	(9)	(3,289)
Net book amount	498	1,349	403	231	2,481
Year ended 31 December 2004					
Opening net book amount	498	1,349	403	231	2,481
Change in the Group (Note 1)	252	643	31	4	930
Additions	–	95	117	721	933
Disposals	(2)	(22)	(6)	(721)	(751)
Impairment charge	–	(2)	–	–	(2)
Depreciation charge	–	(85)	(121)	(1)	(207)
Closing net book amount	748	1,978	424	234	3,384
At 31 December 2004					
Cost	748	3,191	2,632	243	6,814
Accumulated depreciation and impairment	–	(1,213)	(2,208)	(9)	(3,430)
Net book amount	748	1,978	424	234	3,384
Year ended 31 December 2005					
Opening net book amount	748	1,978	424	234	3,384
Change in the Group (Note 1)	(465)	(866)	(350)	(223)	(1,904)
Additions	1	5	22	34	62
Disposals	–	–	–	(31)	(31)
Impairment charge	(8)	(4)	–	–	(12)
Depreciation charge	–	(58)	(27)	–	(85)
Closing net book amount	276	1,055	69	14	1,414
At 31 December 2005					
Cost	284	1,340	348	11	1,972
Accumulated depreciation and impairment	(8)	(285)	(276)	–	(569)
Net book amount	276	1,055	72	11	1,414

Long term non-operating tangible fixed assets

	Land (CZK m)	Buildings (CZK m)	Equipment (CZK m)	Total (CZK m)
At 1 January 2004				
Cost	68	142	7	217
Accumulated amortisation and impairment	–	(12)	(7)	(19)
Net book amount	68	130	–	198
Year ended 31 December 2004				
Opening net book amount	68	130	–	198
Disposals	(23)	–	–	(23)
Impairment charge	(5)	–	–	(5)
Depreciation charge	–	(53)	–	(53)
Closing net book amount	40	77	–	117
At 31 December 2004				
Cost	45	91	6	142
Accumulated amortisation and impairment	(5)	(14)	(6)	(25)
Net book amount	40	77	–	117
Year ended 31 December 2005				
Opening net book amount	40	77	–	117
Depreciation charge	–	(27)	–	(27)
Closing net book amount	40	80	–	90
At 31 December 2005				
Cost	45	59	–	104
Accumulated amortisation and impairment	(5)	(9)	–	(14)
Net book amount	40	50	–	90

The Group has assets under finance lease contracts with a cost of CZK 4 million as at 31 December 2005 (2004: CZK 6 million).

Moveable fixed assets that were pledged to the Group as collateral for granted loans, assets under charge as security over its liabilities or liabilities of third parties were not recognised as at 31 December 2005 and 31 December 2004.

10 OTHER ASSETS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Receivable from State due to loss of the Agency for the year 2002	28,031	58,031
Receivable from State due to loss of the Agency for the year 2003	5,224	5,224
Receivable from State due to loss of the Agency for the year 2004	1,319	1,319
Receivables from State due to loss – total	34,574	64,574
Receivable from NPF due to loss of Group companies	–	462
Receivables from unsettled securities transactions	1,853	1,968
Operating advances granted	14	39
Settlement clearance accounts – debit balances	487	483
Estimated receivables	14	22
Other receivables	5,288	5,512
Derivatives (Note 31 (c))	52	97
Inventories	190	602
	42,472	73,759
Allowances for impairment (Note 12)	(3,036)	(2,563)
	39,436	71,196

The Agency reported profit of CZK 1,418 million for the year 2005. The result for the year 2005 included expenses from specified receivables written off or otherwise settled of CZK 2,962 million to be covered after the current year end by the special purpose reserve fund (Note 19) and expenses of CZK 420 million which should be covered by NPF (MF ČR as a successor).

The reported loss of the Agency for the year 2004 of CZK 3,451 million was partly covered by the Agency's reserve fund of CZK 2,036 million (Note 19) and by the NPF CZK 96 million.

The loss of the Agency incurred in 2003 of CZK 5,224 million and a remaining part of the loss of the Agency of CZK 28,031 million incurred in 2002, gives rise to the receivable from the State (MF ČR), which should be settled by the proceeds from an issue of State bonds under the State bond programme for coverage of the Agency's loss. No decision has been made yet about the settlement of the Agency's receivable from the State (MF ČR) for 2004 in the amount of CZK 1,319 million.

Receivables from the State and the NPF for payment of losses do not bear interest and are not discounted to net present value because it is not possible to determine their maturity (Note 32).

11 PREPAYMENTS AND ACCRUED INCOME

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Prepayments	14	18
Accrued income	–	41
	14	59

12 ALLOWANCES, PROVISIONS AND WRITE OFFS

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

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Provisions		
Provisions for loans (Note 5)	–	2,176
Provisions for guarantees (Note 20)	356	410
Provisions for taxes	4	8
	360	2,594
Allowances		
Impaired loans to customers (Note 5) 1)	58,309	90,459
Unconsolidated equity investments (Note 8)	929	3,501
Other assets (Note 10)	3,036	2,563
Land (Note 9)	5	5
	62,279	96,528

1) Includes allowances for impaired loans provided to related parties (Note 5 (b)).

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The movements in provisions can be analysed as follows:

	Provisions for overdue receivables (CZK m)	Provisions for "ring fenced" assets guarantees – ČS (CZK m)	Provisions for "black" and "other" assets (CZK m)	Provision for transfer of receivables from health insurance companies ¹⁾ (CZK m)	Other provisions (CZK m)	Total (CZK m)
1 January 2004	2,321	778	20	884	3	4,006
Creation	–	–	–	–	6	6
Usage	(145)	–	–	–	–	(145)
Release	–	(368)	(20)	(884)	(1)	(1,273)
31 December 2004	2,176	410	–	–	8	2,594
Change in the Group	–	–	–	–	(8)	(8)
Creation	–	–	–	–	4	4
Usage	(747)	(54)	–	–	–	(801)
Release	(1,429)	–	–	–	–	(1,429)
31 December 2005	–	356	–	–	4	360

1) Receivables of health insurance companies were transferred to the Agency and recorded in the balance sheet as at 31 December 2004. Provisions created for these assets have been released. These receivables are covered by allowances (Note 5).

On 1 March 2000 the Bank signed a restructuring and guarantee agreement relating to the transfer of the credit risk associated with the low-quality balance sheet and off-balance sheet assets of Česká spořitelna, a.s. and the companies CORFINA, a.s., CORFINA TRADE, s.r.o. and CF Danube Leasing, s.r.o. (hereafter "ČS group"). During the year 2001, Česká spořitelna, a.s. exercised a put option with the Group.

In 2005 selected assets from ČS group were transferred to the Group amounting to CZK 46.5 million (2004: CZK 189 million) in accordance with the above agreement. The Group has paid CZK 6.8 million (2004: CZK 19 million) as motivation fees for this transfer. The Group created allowances for the transferred assets amounting to CZK 39.9 million (2004: CZK 180 million) which are included in allowances for impaired loans and released specific provisions for the same amount. Specific provisions for guarantees relating to other transfers expected from Česká spořitelna, a.s. amounted to CZK 356 million as at 31 December 2005 (31 December 2004: CZK 410 million).

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The movements in allowances can be analysed as follows:

	Impaired loans to customers (CZK m)	Investments in subsidiaries and associates (CZK m)	Lands and buildings (CZK m)	Other assets (CZK m)	Total (CZK m)
At 1 January 2004	95,309	7,552	2	6,454	109,317
Additions	11,601	274	5	839	12,719
Usage	(12,315)	(3,912)	(2)	(2,641)	(18,870)
Release	(3,892)	(413)	–	(2,089)	(6,394)
Write backs ¹⁾	(244)	–	–	–	(244)
At 31 December 2004	90,459	3,501	5	2,563	96,528
Change in the Group	–	(1)	–	(468)	(469)
Additions	17,059	127	–	1,062	18,248
Usage	(34,630)	(1,699)	–	–	(36,329)
Release	(14,530)	(999)	–	(121)	(15,650)
Write backs ¹⁾	(49)	–	–	–	(49)
At 31 December 2005	58,309	929	5	3,036	62,279

1) The written back allowances for classified loans of CZK 49 million for the year 2005 (2004: CZK 244 million) represent the difference between nominal and purchase cost of loans recorded as allowances when originated in accordance with the existing methodology.

Creation of allowances

The amount of allowances created against loans is based upon the identified risk taking into consideration both the realisable value of collateral accepted and a special-purpose reserve fund (Note 19). Allowances are also created against securities and investments on an individual basis.

Release of allowances and provisions for loans and guarantees, income from receivables already written off

	2005 (CZK m)	2004 (CZK m)
Release of provisions for receivables and guarantees	1,429	368
Release of allowances for receivables and guarantees	5,871	10,007
Release of allowances for other assets	121	2,089
Income from receivables already written off due from clients	64	36
	7,485	12,500

Write offs, additions and utilisation of allowances and provisions for loans and guarantees

	2005 (CZK m)	2004 (CZK m)
Receivables written off due from clients	(4,583)	(9,688)
Losses from transferred receivables from clients	(33,431)	(8,784)
Additions to provisions and allowances for receivables and guarantees	(17,059)	(11,601)
Utilisation of provisions and allowances for receivables and guarantees	35,431	12,460
	(19,642)	(17,613)

Bad debts are written off against established allowances, special purpose reserve fund or directly expensed in the case that management of the Agency asserts their chance of recoverability as being remote.

13 DUE TO BANKS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Due to central bank	4,054	13,179
Due to other banks	22,050	41,228
	26,104	54,407

14 DUE TO CUSTOMERS

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Amounts due to governmental entities repayable on demand	3	607
Amounts due to private customers repayable on demand	614	649
Term accounts due to governmental entities	50	5,542
Term accounts due to private customers	–	2,428
Other short-term payables to clients	117	251
	784	9,477

15 LIABILITIES FROM DEBT SECURITIES

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Valued at amortised cost:		
Debt securities issued	15,220	30,254
Less: Own debt securities held	–	(200)
Own T-bills issued	–	4,972
Promissory notes and bills of exchange	5,291	5,022
	20,511	40,048

As at 31 December 2005 the Group had outstanding short-term debt securities issued (deposit bills) redeemable within one year of CZK nil (31 December 2004 CZK 426 million) and T-bills issued redeemable within one year of CZK nil (31 December 2004: CZK 4,972 million). Debt securities issued comprise:

Issue	Notional amount (CZK m)	Maturity	Interest rate
4.	5,000	10 June 2007	5,05% p.a.
6.	5,000	5 November 2010	4,00% p.a.
7.	5,000	17 September 2007	4,00% p.a.
	15,000		

16 SUBORDINATED LIABILITIES

The Group had no subordinated debt as at 31 December 2005 and as at 31 December 2004.

17 OTHER LIABILITIES

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Payable to NPF	–	448
Other payables	2,145	1,403
Estimated payables	48	947
Tax payable	2	10
Deferred tax liability	42	38
Social institutions clearance account (due)	20	26
Derivative financial instruments (Note 31 (c))	186	135
	2,443	3,007

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The Group records a receivable (liability) from the NPF (Note 10) in accordance with the agreements concluded with the NPF on covering expenses and losses of subsidiaries. This transaction has no impact on the results of the Group.

Other liabilities of the Group as at 31 December 2005 and as at 31 December 2004 do not include any overdue liabilities for social insurance, contribution to the state employment policy or liabilities for health insurance.

18 ACCRUALS AND DEFERRED INCOME

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Accruals	118	56
Deferred income	1	40
	119	96

19 EQUITY AND PROFIT DISTRIBUTION

Share capital

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Issued and paid	5,950	5,950

Czech law requires that the State guarantees the Agency's liabilities and thus pays losses incurred by the Agency.

The claim for settling the loss of the current period is recorded as a receivable from the State against the Capital fund, and consequently total assets are increased. The settlement of the loss from the Capital fund is recorded in the following accounting period.

The Bank, the legal predecessor of the Agency, has received an official interpretation of the relevant accounting legislation from the MF ČR (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of the Agency. In accordance with this interpretation, the Group has set aside, within the statutory reserve fund that forms part of the equity of the Group, an amount of CZK 4,230 million (at 31 December 2004: CZK 7,192 million) to cover expected losses on certain specific loans and no allowances have been separately reflected for these expected losses. This reserve fund was contributed to by the NPF. This interpretation was reconfirmed to the Group by the Ministry of Finance on 27 October 2003. The Group released an amount of CZK 2,962 million (in the year 2004: CZK 2,036 million) to cover losses related to the old block of loans. The disclosed loss from the old block loans (Note 2 (p)) for the period will be covered by the release from the reserve fund.

Revaluation reserve

Fair value of the cash flow hedging instruments is deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income (Note 31 (c)).

20 CONTINGENCIES AND COMMITMENTS

Contingent assets and liabilities include:

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Guarantees granted:		
On behalf of clients of the Group	–	1,744
On behalf of ČS group clients	356	410
Total guarantees granted	356	2,154
Provisions for guarantees granted (Note 12)	(356)	(410)
Net value of guarantees granted	–	1,744
Collaterals given	–	1,746
Guarantees received		
From the State	1,209	2,066
From NPF	1,877	15,428
From other entities	1,548	4,198
	4,634	21,692
Irrevocable loan commitments accepted	15,119	38,995

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Assets placed in custody		
Shares	117	458
Assets in safe		
Shares	82	155
Assets under custody		
Other	–	433

On 18 February 2002 the Agency signed an Agreement on selected items with ČSOB in line with an Agreement on the restructuring plan signed between its legal predecessor, the Bank, ČSOB and the MF ČR. As a result a contingent liability of up to CZK 119 million exists as at 31 December 2005 (31 December 2004: CZK 227 million).

21 INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 (CZK m)	2004 (CZK m)
Inter-bank transactions	568	58
Receivables from customers and state	1,955	3,412
Debt securities	–	114
Other financial transactions	82	236
	2,605	3,820

An estimated amount of CZK 2,060 million representing interest income on impaired loans was included in 2005 (for the year 2004: CZK 3,336 million). Overdue penalty interest of CZK 16,891 million for classified loans as at 31 December 2005 (as at 31 December 2004: CZK 26,378 million) was not recorded in revenues. The penalty interest is legally enforceable and has not been forgiven.

Based on the Supreme Court decision from 24 March 2004, sp. Zn. 35 Odo 101/2002 penalty interest on overdue interest cannot be accounted for unless there is a contractual agreement between a creditor and a debtor establishing that the overdue interest is capitalised to principal. This ruling is contrary to a previous Supreme Court decision on this matter. The legal interpretation (i.e. from when this ruling should be applied amongst other issues) of the impact of this ruling is still being considered by the Group and banking sector. Therefore the Group has continued to account for penalty interest on overdue interest for the year ended 31 December 2005. It is possible that the legal interpretation of the above decision, when available, would require adjustments resulting from this ruling, which could be applied retrospectively. However, the management of the Group does not expect any material impact on the equity at 31 December 2005 and 2004 or the results for the years then ended.

22 INTEREST PAYABLE AND SIMILAR EXPENSE

	2005 (CZK m)	2004 (CZK m)
Inter-bank transactions	1,620	3,084
Deposits from customers and state	144	185
Debt securities in issue	1,147	1,485
	2,911	4,754

23 INCOME FROM SHARES AND OTHER INTERESTS

	2005 (CZK m)	2004 (CZK m)
Income from unconsolidated associated undertakings	31	24
Income from unconsolidated subsidiaries	397	2
Income from shares and other interests	0	7
	428	33

24 FEE AND COMMISSION INCOME

	2005 (CZK m)	2004 (CZK m)
Domestic and foreign system of payment	1	4
Contractual penalties	29	10
Fees for services – loans	24	4
Other	14	7
	68	25

25 FEE AND COMMISSION EXPENSES

	2005 (CZK m)	2004 (CZK m)
Credit activities	5	17
Operations with securities	14	22
	19	39

26 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2005 (CZK m)	2004 (CZK m)
Trading with securities	89	(160)
Trading with foreign currency	94	(172)
Trading with derivatives	(6)	(1)
Other transactions	205	410
	382	77

27 OTHER OPERATING INCOME

	2005 (CZK m)	2004 (CZK m)
Gains from transferred receivables	3,409	813
Gains from transfer of participations	44	97
Income from transfer of tangible and intangible fixed assets	4	724
Sales of own products and services	2,453	3,481
Other operating income	2,736	1,432
	8,646	6,547

28 OTHER OPERATING EXPENSES

	2005 (CZK m)	2004 (CZK m)
Expenses from transfer of tangible and intangible fixed assets	41	71
Material and energy consumption	1,649	2,707
Other operating expenses	693	979
	2,383	3,757

29 ADMINISTRATIVE EXPENSES

	2005 (CZK m)	2004 (CZK m)
Staff costs	1,030	1,068
Rent and lease charges	18	38
Services consumed	212	306
Audit, tax and legal advisory services	62	111
– audit	7	11
– tax advisory	–	–
– other advisory	2	2
Other administration expenses	861	875
	2,193	2,411

Staff costs can be analysed as follows:

	2005 (CZK m)	2004 (CZK m)
Salaries and emoluments	754	785
Social security and other social costs	263	270
Emoluments of Supervisory Board	13	13
	1,030	1,068

Emoluments of Board of Directors and statutory representatives of the Group for their executive role of CZK 49 million (for year 2004: CZK 47 million¹⁾) are included in salaries and emoluments. The Board remuneration for 2004 of CZK 47 million includes CZK 12 million of compensation for other benefits not taken in kind (of which: compensation payments totalling CZK 10 million were paid to former Board members).

¹⁾ The difference in Emoluments of the Board of Directors in 2004 of CZK 4 million compared to disclosed amount in 2004 consolidated financial statements results from bonuses approved after the release of 2004 consolidated financial statements and 2004 annual report.

Staff statistics:

	2005	2004
Average number of employees of the Group	1,135	2,351
Number of members of the Board of Directors of the Group and statutory representatives	17	22
Number of members of the Supervisory Board of the Group	32	42

30 INCOME TAX

There was no tax liability of the Group in 2005. A deferred tax asset of the Group of CZK 2,315 million (at 31 December 2004: CZK 6,929 million) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised.

31 FINANCIAL RISKS**(a) Strategy in using financial instruments and risk management**

Based on the Group's specific status, its financial risk management function focuses on developing procedures, establishing methods and setting limits, and monitoring the Group's adherence to the policies.

The Group's independent analysis of individual clients, guarantors and discussions of business cases is carefully considered in developing and updating the financial risk procedures.

Furthermore, reports connected to financial risk management are prepared. The control of financial risk management is reviewed by internal audit.

(b) Credit risk

The Group's credit risk management policy is based on the Group's specific asset structure.

Through the use of internal ratings, the Group can assess the degree of credit risk associated with clients. The rating is determined by the subject's ability to meet its short term and long term obligations. Monitoring of clients' and their guarantors' financial situation is an essential element of the Group's credit risk management.

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Geographical segmentation (at 31 December 2005)

Assets	Domestic (CZK m)	European union (CZK m)	Other Europe (CZK m)	Other (CZK m)	Total (CZK m)
Cash and cash deposits with central banks	336	–	–	–	336
Due from banks	2,927	–	–	–	2,927
Due from customers	16,792	3	11	–	16,806
Securities at fair value through profit or loss	315	82	351	201	949
Securities available-for-sale	3,961	–	–	–	3,961
Securities held-to-maturity	–	62	–	–	62
Participation interests	3,623	–	–	–	3,623
Other assets	40,989	–	–	–	40,989
Total assets	68,943	147	362	201	69,653

Geographical segmentation (at 31 December 2004)

Assets	Domestic (CZK m)	European union (CZK m)	Other Europe (CZK m)	Other (CZK m)	Total (CZK m)
Cash and cash deposits with central banks	68	–	–	–	68
Due from banks	3,285	8	–	1	3,294
Due from customers	40,152	27	10	–	40,189
Securities available-for-sale	6,255	–	–	–	6,255
Participation interests	3,873	–	–	–	3,873
Other assets	74,495	271	33	12	74,811
Total assets	128,128	306	43	13	128,490

Business segmentation (at 31 December 2005)

Assets	Private subjects (CZK m)	State institutions (CZK m)	Municipalities (CZK m)	Other (CZK m)	Total (CZK m)
Cash and cash deposits with central banks	–	336	–	–	336
Due from banks	2,927	–	–	–	2,927
Due from customers	15,559	1,227	20	–	16,806
Securities at fair value through profit or loss	671	278	–	–	949
Securities available-for-sale	3,961	–	–	–	3,961
Securities held-to-maturity	62	–	–	–	62
Participation interests	3,623	–	–	–	3,623
Other assets	8,638	32,351	–	–	40,989
Total assets	35,441	34,192	20	–	69,653

Business segmentation (at 31 December 2004)

Assets	Private subjects (CZK m)	State institutions (CZK m)	Municipalities (CZK m)	Other (CZK m)	Total (CZK m)
Cash and cash deposits with central banks	5	–	–	–	5
Due from banks	3,105	252	–	–	3,357
Due from customers	36,203	2,038	38	1,910	40,189
Securities available-for-sale	6,255	–	–	–	6,255
Participation interests	3,873	–	–	–	3,873
Other assets	8,126	66,685	–	–	74,811
Total assets	57,567	68,975	38	1,910	128,490

(c) Derivative financial instruments

The Group has outstanding trading derivative contracts, which can be analysed as follows:

Assets	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Trading agreements	–	–
Cash flow hedging agreements	52	97
Positive fair value of financial derivatives (Note 10)	52	97

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Liabilities	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Trading agreements	5	–
Cash flow hedging agreements	181	135
Negative fair value financial derivatives (Note 17)	186	135

	31 December 2005			31 December 2004		
	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Trading agreements						
Currency forward	222	–	5	–	–	–

Change of the fair value of trading derivatives is recognised in the income statement.

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

	31 December 2005			31 December 2004		
	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)	Nominal value (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Cash flow hedging agreements						
Interest rate derivatives						
Interest rate swaps	10,000	52	181	10,000	97	135

Fair value gains and losses of the above qualifying cash flow hedging instruments are deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income.

The tables above provide a detailed breakdown of the nominal and notional amounts and the fair value of the Group's derivative financial instruments outstanding at the year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group to transfer, modify or reduce its foreign exchange and interest rate risks.

The nominal or notional amounts provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Group's exposure to credit or price risk.

(d) Currency risk

The Group takes on limited exposure resulting from fluctuations in the prevailing foreign currency exchange rates, particularly EUR and USD. The net asset or liability represents the Group's exposure to movements in the exchange rate of each foreign currency and the Czech Crown. The exposure is actively managed through FX swaps. The Group actively monitors its limits for managing its currency risk.

The table below summarises the Group's currency exposure. Included in the table are the Group's assets, liabilities and equity stated at their carrying amounts, categorised by currency.

As at 31 December 2005

	CZK (CZK m)	EUR (CZK m)	USD (CZK m)	Other (CZK m)	Total (CZK m)
Assets					
Cash and cash deposits with central banks	336	–	–	–	336
Due from banks	2,925	2	–	–	2,927
Due from customers	16,662	–	144	–	16,806
Securities at fair value through profit or loss	949	–	–	–	949
Securities available-for-sale	3,961	–	–	–	3,961
Securities held-to-maturity	62	–	–	–	62
Participation interests	3,623	–	–	–	3,623
Other assets	40,989	–	–	–	40,989
	69,507	2	144	–	69,653
Liabilities					
Due to banks	26,104	–	–	–	26,104
Due to customers	644	–	140	–	784
Liabilities from debt securities	20,511	–	–	–	20,511
Provisions	360	–	–	–	360
Other liabilities	2,562	–	–	–	2,562
	50,181	–	140	–	50,321
Balance sheet net	19,326	2	4	–	19,332
Net off-balance sheet assets / (liabilities)	–	–	222	(222)	–
Net open currency position	19,326	2	226	(222)	19,332

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As at 31 December 2004

	CZK (CZK m)	EUR (CZK m)	USD (CZK m)	GBP (CZK m)	Other (CZK m)	Total (CZK m)
Assets						
Cash in hand	5	–	–	–	–	5
Due from banks	2,880	322	153	2	–	3,357
Due from customers	39,920	77	192	–	–	40,189
Securities available-for-sale	6,182	–	73	–	–	6,255
Participation interests	3,568	–	–	–	305	3,873
Other assets	74,523	263	24	1	–	74,811
	127,078	662	442	3	305	128,490
Liabilities						
Due to banks	54,109	144	154	–	–	54,407
Due to customers	8,889	352	236	–	–	9,477
Liabilities from debt securities	40,048	–	–	–	–	40,048
Provisions	2,594	–	–	–	–	2,594
Other liabilities	2,818	275	10	–	–	3,103
	108,458	771	400	–	–	109,629
Balance sheet net	18,620	(109)	42	3	305	18,861
Net off-balance sheet assets / (liabilities)	–	–	–	–	–	–
Net open currency position	18,620	(109)	42	3	305	18,861

(e) Interest rate risk

The Group takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as the result of such changes, but they may decrease or result in losses in the event of unexpected movements.

Limits for the management of interest rate risk have been set up. The Group monitors portfolio sensitivity to changes in interest rates using GAP analysis.

The table below summarises the Group's exposure to interest rate risk. Included in the table are the Group's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual, re-pricing or maturity dates. Non-interest bearing financial assets and liabilities are classified as not specified.

As at 31 December 2005

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	336	–	–	–	–	336
Due from banks	2,927	–	–	–	–	2,927
Due from customers	5,620	2,031	149	7,678	1,328	16,806
Debt securities	–	1,386	81	–	–	1,467
Other assets	518	1,472	32,351	482	13,294	48,117
	9,401	4,889	32,581	8,160	14,622	69,653
Liabilities						
Due to banks	9,997	16,107	–	–	–	26,104
Due to customers	784	0	–	–	–	784
Liabilities from debt securities	0	1,011	19,500	–	–	20,511
Provisions	–	–	–	–	360	360
Other liabilities	2,368	9	–	–	185	2,562
	13,149	17,127	19,500	–	545	50,321
Balance sheet net	(3,748)	(12,238)	13,081	8,160	14,077	19,332

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As at 31 December 2004

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	5	–	–	–	–	5
Due from banks	3,324	–	–	–	33	3,357
Due from customers	11,033	1,512	400	8,684	18,560	40,189
Debt securities	–	–	442	73	–	515
Other assets	1,056	1,956	64,029	–	17,383	84,424
	15,418	3,468	64,871	8,757	35,976	128,490
Liabilities						
Due to banks	25,661	27,846	900	–	–	54,407
Due to customers	8,494	983	–	–	–	9,477
Liabilities from debt securities	9,814	10,233	15,001	5,000	–	40,048
Provisions	–	–	–	–	2,594	2,594
Other liabilities	2,037	448	132	–	486	3,103
	46,006	39,510	16,033	5,000	3,080	109,629
Net assets / (liabilities)	(30,588)	(36,042)	48,838	3,757	32,896	18,861

(f) Liquidity risk

The Agency prepares a statement of actual and residual maturities of its assets and liabilities and monitors the limits for the purposes of liquidity risk management.

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

As at 31 December 2005

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	336	–	–	–	–	336
Due from banks	2,084	–	–	–	843	2,927
Due from customers	478	2,279	977	7,838	5,234	16,806
Debt securities	–	1,405	62	–	–	1,467
Other assets	518	3,264	31,351	482	12,502	48,117
	3,416	6,948	32,390	8,320	18,579	69,653
Liabilities						
Due to banks	4,997	16,107	5,000	–	–	26,104
Due to customers	784	–	–	–	–	784
Liabilities from debt securities	–	1,011	19,500	–	–	20,511
Provisions	–	–	–	–	360	360
Other liabilities	575	1,800	–	–	187	2,562
	6,356	18,918	24,500	–	547	50,321
Net assets / (liabilities)	(2,940)	(11,970)	7,890	8,320	18,032	19,332

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As at 31 December 2004

	Within 3 months (CZK m)	3 – 12 months (CZK m)	1 – 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	5	–	–	–	–	5
Due from banks	925	2,399	–	–	33	3,357
Due from customers	3,345	5,173	3,501	8,935	19,235	40,189
Debt securities	–	–	442	73	–	515
Other assets	1,047	1,956	65,412	–	16,009	84,424
	5,322	9,528	69,355	9,008	35,277	128,490
Liabilities						
Due to banks	9,632	15,193	20,881	8,690	11	54,407
Due to customers	7,934	982	561	–	–	9,477
Liabilities from debt securities	9,814	10,233	15,001	5,000	–	40,048
Provisions	–	–	–	–	2,594	2,594
Other liabilities	2,499	467	–	–	137	3,103
	29,879	26,875	36,443	13,690	2,742	109,629
Net assets / (liabilities)	(24,557)	(17,347)	32,912	(4,682)	32,535	18,861

32 TOTAL DIRECT EXPOSURE TO STATE AND NPF

	31 December 2005 (CZK m)	31 December 2004 (CZK m)
Guarantees from State (Note 20)	1,209	2,066
Receivable from State due to repayment of losses (Note 10)	34,574	64,574
Total exposure to State	35,783	66,640
Guarantees issued by NPF (Note 20)	1,877	15,428
Payable to NPF due to overpayment of loss coverage advances of Konpo (Note 10)	–	462
Total exposure to NPF	1,877	15,890

With respect to the termination of the NPF as at 31 December 2005, the obligations of NPF have been assumed by MF ČR.

33 SUBSEQUENT EVENTS

(a) Replacement of Cabrice Holdings B.V. promissory note

A promissory note of Cabrice Holdings in nominal value of CZK 2 billion was replaced by the underlying asset i.e. 68.97% share on equity of Galileo Real, k.s. on 10 February 2006. There was no net profit or loss impact from this transaction. The Agency is now the sole owner.

(b) Sale of receivables of Kostelecké uzeniny, a.s.

In March 2006 receivables of Kostelecké uzeniny a.s. of nominal value CZK 636 million were sold for CZK 550 million based on a government decision. There was not a significant net profit or loss realised from these sales.

(c) Sale of receivables of Setuza a.s.

In February 2006 receivables of Setuza a.s. of nominal value CZK 2,306 million were sold for CZK 465 million to Podpůrný a garanční lesnický a rolnický fond. There was not a significant net profit or loss realised from these sales.

(d) Česká finanční sold 14.73% stake in Spolek pro chemickou a hutní výrobu, a.s.

On 2 January 2006, Česká finanční took advantage of the mandatory offering to take over Spolek pro chemickou a hutní výrobu, a.s. securities, which had been made by the majority shareholder – Via Chem Group, a.s. (14.73% share was held within the Consolidation Programme as at 31 December 2005).

(e) Terminated arbitration against Komerční banka, a.s.

On 21 April 2006 the Agency received CZK 705 million as a result of successful arbitration proceedings against Komerční banka, a.s. The collection of money implies a liability of Agency to transfer amount of CZK 679 million to the Ministry of Finance of Czech Republic as NPF successor and thus this transaction did not have a significant net profit or loss impact.

(f) Investigation of alleged fraud in Galileo Real k.s.

There is an ongoing investigation of alleged fraud in Galileo Real k.s., one of the associates of the Agency. The Agency held 31.03% stake as at 31 December 2005. The allegation of fraud came to light on 28 April 2006 and the Agency's management estimates a potential maximum loss of CZK 500 million in Galileo Real, k.s., which could have a maximum negative impact of CZK 155 million to the Agency's consolidated financial statements as at 31 December 2005. Since the investigation is at an early stage, the final outcome cannot be reliably estimated and therefore no adjustment in this respect has been reflected in these financial statements.

(g) Realised sale of receivables and shares

The Agency has realised several sales of receivables and shares in 2006 up to the date of approval of these financial statements. There was not a significant net profit or loss realised from these sales.

(h) Planned sale of receivables and shares

The Group has a formal plan for the sale of a number of receivables and shares in 2006. The management of the Group expects these sales will have no significant net profit or loss impact.

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These financial statements have been approved for submission to the Supervisory Board by the Board of Directors and have been signed on their behalf by:

Date	Signature of the statutory representative
27 April 2006	Ing. Petr Goldman Ing. Mojmír Hampl, MSc., Ph.D.

Events after date of approval of consolidated annual report of ČKA for the year 2005

Ing. Mojmír Hampl was dismissed from the position of a member of the Board of Directors on 10 May 2006.

Ing. Jiří Jurán was dismissed from the position of a member of the Board of Directors on 10 May 2006.

Ing. Radka Kafková was dismissed from the position of a member of the Board of Directors on 1 August 2006.

Mgr. Andrzej Martynek became a member of the Board of Directors with the effect as of 27 July 2006.

REPORT OF INDEPENDENT AUDITORS TO THE BOARD OF DIRECTORS AND
SUPERVISORY BOARD OF ČKA



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REPORT OF INDEPENDENT AUDITORS

**TO THE BOARD OF DIRECTORS AND SUPERVISORY BOARD
OF ČESKÁ KONSOLIDAČNÍ AGENTURA**

We have audited the accompanying consolidated balance sheet of Česká konsolidační agentura and its subsidiaries (hereinafter referred to as “the Group”) as at 31 December 2005, the related consolidated statements of income and changes in equity and consolidated notes for the year then ended presented in the annual report (“the consolidated financial statements”). The consolidated financial statements are the responsibility of the Board of Directors of Česká konsolidační agentura. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Explosia, a.s., a wholly owned subsidiary, which statements reflect total assets of CZK 1,371 million of the related consolidated totals as at 31 December 2005 and total revenues of CZK 641 million of the related consolidated totals for the year then ended. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Explosia, a.s., is based solely on the report of the other auditor.

The accompanying consolidated financial statements are not intended to present the assets, liabilities, equity and the results of its operations and its changes in equity in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Czech Republic. Accordingly the accompanying consolidated financial statements are not designed for those who are not informed about Czech accounting principles, procedures and practices.

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

In our opinion, based on our audit and the report of the other auditor, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Group as at 31 December 2005, and the results of its

operations and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

Without qualifying our opinion, we draw attention to Note 19 to the consolidated financial statements, which explains that Konsolidační banka Praha, s. p. ú. the legal predecessor of Česká konsolidační agentura, has received an official interpretation of the relevant accounting legislation by the Ministry of Finance (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of Česká konsolidační agentura. In accordance with this interpretation, the Group has set aside within the statutory reserve fund, which forms part of the equity of the Group, an amount of CZK 4,230 million (31 December 2004: CZK 7,192 million) to cover expected losses on certain specific loans and no provision has been separately reflected for these expected losses. This interpretation was reconfirmed to Česká konsolidační agentura by the Ministry of Finance on 27 October 2003.

We have examined whether the supplementary financial information included in the consolidated annual report of the Group, which does not form part of the consolidated financial statements for the year ended 31 December 2005, is consistent with the audited consolidated financial statements of the Group. In our opinion, all other supplementary information included in the annual report is consistent with the audited consolidated financial statements in all material respects.

The maintenance and integrity of Česká konsolidační agentury'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.

31 August 2006

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by



Paul Cunningham
Partner



Petr Kříž
Auditor, Licence No. 1140