Komerční banka, a.s.

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2006

Table of Contents

INDEPENDENT AUDITORS' REPORT FOR THE SHAREHOLDERS OF KOMERČNÍ BANKA, a.s.

Consolidated Profit and Loss Statement

Year ended 31 December 2006

	Note	**Year ended 31 December 2006**	Year ended 31 December 2005
		CZKm	CZKm
Interest income	5	26,010	21,195
Interest expense	5	(9,855)	(6,552)
Net interest income		**16,155**	14,643
Net fees and commissions	6	8,769	8,736
Net profit/(loss) on financial operations	7	1,273	1,238
Other income	8	105	(115)
Net banking income		**26,302**	24,502
Personnel expenses	9	(5,213)	(5,032)
General administrative expenses	10	(5,544)	(5,302)
Depreciation, impairment and disposal of fixed assets	11	(1,661)	(1,801)
Total operating expenses		**(12,418)**	(12,135)
Profit/(loss) attributable to exclusion of companies from consolidation	12	(1)	95
Income from share of associated undertakings	12	184	106
Profit before provision for loan and investment losses, other risk and income taxes		**14,067**	12,568
Provision for loan losses		(1,536)	(797)
Provisions for impairment of securities		6	(179)
Provisions for other risk expenses		(260)	505
Cost of risk	13	**(1,790)**	(471)
Profit or loss on unconsolidated equity investments		0	14
Share of profit of pension scheme beneficiaries		(462)	(546)
Profit/(loss) before income taxes		**11,815**	11,565
Income taxes	14	(2,695)	(2,654)
Net profit/(loss)		**9,120**	8,911
Profit attributable to the Bank's equity holders		9,123	8,960
Minority profit/(loss)		(3)	(49)
Earnings/(loss) per share (in CZK)	16	**240.13**	234.44

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As of 31 December 2006

	Note	**31 December 2006 CZKm**	31 December 2005 CZKm
Assets			
Cash and current balances with central banks	17	15,000	9,328
Amounts due from banks	18	208,696	246,785
Financial assets at fair value through profit or loss	19	14,697	7,593
Positive fair value of financial derivative transactions	44	11,115	11,240
Loans and advances to customers, net	20	252,505	189,212
Securities available for sale	21	72,150	30,208
Investments held to maturity	22	3,300	3,438
Prepayments, accrued income and other assets	23	5,350	3,402
Income taxes receivable	14	169	618
Assets held for sale	24	613	826
Investment property	25	223	239
Goodwill	26	2,903	162
Intangible fixed assets, net	27	2,383	2,155
Tangible fixed assets, net	28	8,017	7,627
Investments in associates and unconsolidated subsidiaries, net	29	434	1,023
Total assets		**597,555**	513,856
Liabilities			
Amounts due to banks	30	14,594	32,824
Amounts due to customers	31	480,107	388,431
Negative fair value of financial derivative transactions	44	6,034	4,317
Securities issued	32	24,349	22,672
Accruals and other liabilities	33	12,814	10,312
Provisions	34	2,273	3,488
Income taxes payable	14	1	5
Deferred tax liability	35	783	480
Subordinated debt	36	6,002	0
Total liabilities		**546,957**	462,529
Shareholders' equity			
Share capital	37	19,005	19,005
Share premium and reserves		31,013	32,298
Minority equity		580	24
Total shareholders' equity		**50,598**	51,327
Total liabilities and shareholders' equity		**597,555**	513,856

The accompanying notes are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 27 February 2007.

Signed on behalf of the Board of Directors:

Laurent Goutard — Chairman of the Board of Directors and CEO

Philippe Rucheton — Vice-Chairman of the Board of Directors and Deputy CEO

Consolidated Statement of Changes in Shareholders' Equity

Year ended 31 December 2006

	Share capital CZKm	Capital and reserve funds and undistributed profit* CZKm	Hedging instruments CZKm	Revaluation gains or losses CZKm	Revaluation of available-for-sale securities CZKm	Total CZKm	Minority interest CZKm	Total, including minority interest CZKm
Balance at 31 December 2004	**19,005**	**22,401**	**2,813**	**(31)**	**553**	**44,741**	**73**	**44,814**
Cash flow hedging								
- net fair value, net of tax	0	0	3,048	0	0	3,048	0	3,048
- transfer to net profit, net of tax	0	0	(1,705)	0	0	(1,705)	0	(1,705)
Currency translation from foreign investments	0	0	0	(7)	0	(7)	0	(7)
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	66	66	0	66
Gains or losses on available-for-sale securities - associates, net of tax	0	7	0	0	0	7	0	7
Treasury shares, other	0	(6)	0	0	0	(6)	0	(6)
Dividends	0	(3,801)	0	0	0	(3,801)	0	(3,801)
Business combinations	0	0	0	0	0	0	0	0
Net profit for the period	0	8,960	0	0	0	8,960	(49)	8,911
Balance at 31 December 2005	**19,005**	**27,561**	**4,156**	**(38)**	**619**	**51,303**	**24**	**51,327**
Cash flow hedging								
- net fair value, net of tax	0	0	358	0	0	358	0	358
- transfer to net profit, net of tax	0	0	(1,667)	0	0	(1,667)	0	(1,667)
Currency translation from foreign investments	0	0	0	(19)	0	(19)	0	(19)
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	571	571	0	571
Gains or losses on available-for-sale securities - associates, net of tax	0	(3)	0	0	0	(3)	0	(3)
Treasury shares, other	0	(146)	0	0	0	(146)	0	(146)
Dividends	0	(9,502)	0	0	0	(9,502)	0	(9,502)
Business combinations	0	0	0	0	0	0	559	559
Net profit for the period	0	9,123	0	0	0	9,123	(3)	9,120
Balance at 31 December 2006	**19,005**	**27,033**	**2,847**	**(57)**	**1,190**	**50,018**	**580**	**50,598**

Note:/ Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit and retained earnings.*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Year ended 31 Dec 2006 CZKm	**Year ended 31 Dec 2006 CZKm**	Year ended 31 Dec 2005 CZKm	Year ended 31 Dec 2005 CZKm
Cash flows from operating activities				
Interest receipts	23,556		20,753	
Interest payments	(8,824)		(6,322)	
Commission and fee receipts	9,894		9,757	
Commission and fee payments	(1,104)		(863)	
Other income receipts	115		2,036	
Cash payments to employees and suppliers, and other payments	(10,350)		(9,185)	
Operating cash flow before changes in operating assets and operating liabilities	**13,287**		16,176	
Due from banks	38,153		(12,270)	
Loans and advances to customers	(38,204)		(31,531)	
Securities held for trading	(7,196)		1,969	
Other assets	(693)		(462)	
Total (increase)/decrease in operating assets	**(7,940)**		(42,294)	
Amounts due to banks	(22,816)		11,681	
Amounts due to customers	36,058		11,923	
Other liabilities	2,112		1,730	
Total increase/(decrease) in operating liabilities	**15,354**		25,334	
Net cash flow from operating activities before taxes	20,701		(784)	
Income taxes paid	(1,931)		(4,101)	
Net cash flows from operating activities		**18,770**		(4,885)
Cash flows from investing activities				
Dividends received	139		55	
Purchase of investments held to maturity	0		(1,155)	
Maturity of investments held to maturity *	127		108	
Purchase of securities available for sale	(17,303)		(13,768)	
Sale of securities available for sale*	9,885		9,580	
Purchase of tangible and intangible fixed assets	(1,695)		(1,538)	
Sale of tangible and intangible fixed assets	157		879	
Purchase of investments in subsidiaries and associates	(4,048)		(2)	
Sale of investments in subsidiaries and associates	6		670	
Net cash flow from investing activities		**(12,732)**		(5,171)
Cash flows from financing activities				
Paid dividends	(9,425)		(3,780)	
Securities issued	3,593		13,778	
Securities redeemed*	(996)		(639)	
Subordinated debt	6,000		0	
Increase in capital – minority interest	560		0	
Net cash flow from financing activities		**(268)**		9,359
Net (decrease) increase in cash and cash equivalents	**5,770**		(697)	
Cash and cash equivalents at beginning of year	**8,107**		8,804	
Cash and cash equivalents at end of year (see Note 38)		**13,877**		8,107

Note: / The amount also includes received and paid coupons.*

The accompanying notes are an integral part of these consolidated financial statements.

TABLE OF CONTENTS

1 Principal activities

The Financial Group of Komerční banka, a.s. (the 'Group') consists of Komerční banka, a.s. (the 'Bank') and 9 subsidiaries and associated undertakings. The parent company of the Group is the Bank which is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

I. Providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its subsidiary Komerční banka Bratislava, a. s. and in Belgium through its subsidiary Bastion European Investment S. A.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2005: 60.35 percent) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as of 31 December 2006

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Penzijní fond Komerční banky, a. s.	100.0	100.0	Pension fund	Prague
Komerční banka Bratislava, a. s.	100.0	100.0	Banking services	Bratislava
Modrá pyramida stavební spořitelna, a. s.	100.0	100.0	Building society	Prague
Factoring KB, a. s.	100.0	100.0	Factoring	Prague
ALL IN REAL ESTATE LEASING, a. s.	100.0	100.0	Support banking services	Prague
Bastion European Investment S. A.	99.98	99.98	Financial services	Brussels
ESSOX, s. r. o.	50.9	50.9	Consumer loans, leases	České Budějovice

The main activities of associated companies of the Bank as of 31 December 2006

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a. s.	49.0	49.0	Insurance	Prague
CBCB - Czech Banking Credit Bureau, a. s.	20.0	20.0	Data collection for credit risk assessments	Prague

2 Events for the year ended 31 December 2006

The Bank's dividend in respect of the year ended 31 December 2005

At the General Meeting of the Bank held on 26 April 2006, the shareholders approved a dividend for the year ended 31 December 2005 of CZK 250 per share before tax. The dividend was declared in the aggregate amount of CZK 9,502 million in respect of the net profit of CZK 8,691 million generated for the year ended 31 December 2005 and retained earnings of CZK 811 million.

Changes in the Group

In July 2006 the Bank increased the equity of Bastion European Investment S. A. (Belgium) by EUR 134 million (CZK 3,812 million). The Bank's investment in this entity increased to 99.98 percent (2005: 99.84 percent) and the nominal value of the shares was changed from EUR 100 to EUR 1.

On 7 September 2006 the Bank and BHW Holding AG ("BHW") and Česká pojišťovna, a.s. ("ČP") entered into contracts for the sale of shares of Modrá pyramida stavební spořitelna, a.s. The Bank acquired 50 percent and 10 percent of the shares from BHW and ČP, respectively, for an aggregate purchase consideration (purchase cost) of EUR 144 million (CZK 4,061 million). The cost includes the stated purchase cost, costs associated with a foreign currency hedge of the transaction of CZK 29 million and other direct costs incurred in respect of the acquisition of these investments of CZK 13 million. The transaction was completed on 13 October 2006 and the Bank became the sole shareholder of Modrá pyramida stavební spořitelna, a. s. As a result, the Group changed the consolidation methods in 2006 from the equity method to the full method of consolidation. Goodwill arising from the above mentioned acquisition is presented in accordance with IFRS 3 using the provisional accounting methodology.

In November 2006, ESSOX s.r.o. increased its share capital from CZK 245 million to CZK 1,385 million. The Bank's contribution amounted to CZK 580 million and its equity investment remained unchanged.

The process of liquidation of Komercni Finance B. V. (Netherlands) was completed in 2006.

3 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of accounting

The consolidated statutory financial statements are prepared in accordance and comply with International Financial Reporting Standards ('IFRS') and IFRS as adopted by the European Union, applicable for consolidated financial statements for the year ended 31 December 2006. As of the date of issuance of these consolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The consolidated financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The consolidated financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements containing accounting policies and explanatory disclosures.

The consolidated financial statements are largely prepared under the historical cost convention, as modified by the fair value remeasurement of available-for-sale financial assets, financial assets and financial liabilities held for trading and all derivative contracts at the balance sheet date. Available-for-sale non-financial assets are stated at the lower of the amount before classification in this category and the estimated selling price less costs to sell. Assets that are not remeasured at fair value and suffered impairment are stated at net recoverable amount.

Assets and liabilities are not offset unless expressly permitted by IFRS.

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

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

(b) Basis of consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions have been eliminated.

Investments in unconsolidated subsidiaries are recognised in the consolidated balance sheet at cost less any provisions.

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

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

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

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

The Group remeasures derivative instruments at fair value from the purchase trade date to the settlement date, that is, delivery of the last related cash flow.

The Group recognises and derecognises financial liabilities at the date on which all related risks and costs attributable to the specific liability are transferred.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are reported in the financial statements in CZK. At each balance sheet date:

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

Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the accounting system of the Group and are therefore reported in the financial statements at the official exchange rate prevailing as of the date of the transaction.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in '*Net profit/(loss) on financial operations*'.

(e) Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose. Cash equivalents are presented in the relevant balance sheet lines according to their type.

In preparing its cash flow statement for the period, the Group includes in cash and cash equivalents at the beginning and end of the period cash and balances with the central bank and current amounts due from and to banks.

(f) Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to a borrower are categorised as loans originated by the Group and are stated at amortised cost.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The provision is reduced or reversed if objective reasons for loan impairment cease to exist or when the loan is sold or written off. Provisions are used when loans are sold or written off. The Group recognises provisions against loan receivables only on an individual basis. The portfolio approach would be applied if the Group identified impairment of loans at the portfolio level. Further details about provisioning are set out in Note 44 to these financial statements.

The Group charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Group's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Penalty interest is accounted for on a cash basis in '*Interest income*'.

The Group writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of these loans. Subsequent recoveries are credited to the profit and loss statement in '*Provision for loan losses*' if previously written off.

(g) Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. The Group has allocated securities to the 'At fair value through profit or loss' portfolio, the 'Available for sale' portfolio and the 'Held to maturity' portfolio. The 'Loans and receivables' portfolio includes only non-traded securities not held for trading. These securities are reported together with provided loans.

All securities held by the Group are initially recognised at fair value at the acquisition date which is typically equal to cost reflecting direct transaction costs, if any, associated with the acquisition of securities.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions.

All purchases and sales of securities that do not meet the ‘regular way’ settlement criterion in the concerned securities marketplace are treated as financial derivatives and are recognised on the face of the balance sheet at fair value upon settlement.

The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income includes the accrued coupon adjusted for the accrued difference between the nominal value of the security and its cost.

Dividend income arising from securities is recorded when the dividends are declared and is included as a receivable in the balance sheet line ‘*Prepayments, accrued income and other assets*’ and in ‘*Net profit/(loss) on financial operations*’ in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

Transactions with treasury shares that are settled on a gross basis by the delivery of treasury shares have
a direct impact on the Group’s equity.

The Group assesses on a regular basis whether securities may be impaired. A financial asset is impaired if there is objective evidence of impairment or if its carrying amount is greater than its estimated recoverable amount. When an impairment of assets is identified, the Group recognises provisions through the profit and loss statement line ‘*Provision for impairment of securities’*.

Securities at fair value through profit or loss

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

Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line ‘*Net profit/(loss) on financial operations’.*

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest method.

The estimated recoverable amount of investments held to maturity is equal to the present value of the expected future cash flows discounted at the financial instrument’s original effective interest rate.

Loans and receivables

The category of loans and receivables consists of debt securities that are not quoted in an active market and the Group has not designated them as held-for-trading. These securities are valued on the same basis as investments held to maturity and are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

Available for sale securities

Available for sale securities are those financial assets that are not classified as securities at fair value through profit or loss, loans and receivables or held-to-maturity investments. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Securities available for sale are accounted for and stated at fair value.

Accrued interest income is recognised through the profit and loss statement. Unrealised gains or losses from the fair value remeasurement of securities are included in the *'Revaluation of available-for-sale securities'* in equity until their sale, maturity or impairment. Fair value changes arising from changes in foreign exchange rates are presented in equity and changes in the amortised cost arising from changes in foreign exchange rates are included in the profit and loss statement.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

The estimated recoverable amount of equity securities available for sale is equal to the current fair value of equity securities. The estimated recoverable amount of equity securities, for which the fair value cannot be reliably determined, and all debt securities is equal to the present value of the expected future cash flows discounted at the current market interest rate for similar financial instruments.

If equity securities cannot be measured using the methods referred to above or on any other valuation basis they are carried at cost.

(h) Assets held for sale

An asset is classified as 'held for sale' under IFRS 5 if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition, must be actively marketed for sale at a price that is reasonable in relation to its current fair value and its sale must be highly probable, that is, a plan to sell leading to the location of a buyer has been initiated. The sale of assets should be completed within one year from the date of classification of assets as 'held for sale'.

Non-current assets designated as 'Held for sale' are reported in the balance sheet line *'Assets held for sale'* and are no longer depreciated.

The Group recognises an impairment loss on assets held for sale if their selling price less costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either in accordance with IFRS 5 or IAS 36.

(i) Investment property

Investment property is property held to earn rentals or for capital appreciation. Investment property is stated at cost less accumulated depreciation and impairment provisions. Investment property is depreciated on a straight line basis over its useful life and the related depreciation and provisioning charges are recognised in the profit and loss statement line *'Other income'* together with income from investment property. Investment property is depreciated over 40 - 45 years.

(j) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. These assets are depreciated indirectly through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost of tangible and intangible assets over their estimated useful economic lives and is reported in the profit and loss statement line *'Depreciation, impairment and disposal of fixed assets'*.

The Group specifically does not depreciate land, works of art, tangible and intangible assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.

The Group has applied the component approach to buildings and their technical improvements that were acquired subsequent to 1 January 2005.

During the reporting periods, the Group used the following estimated useful economic lives in years:

	2006	**2005**
Machinery and equipment, computers and vehicles	4	4
Fixtures, fittings and equipment	6	6
ATMs and miscellaneous equipments of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures - selected components:		
- Heating, air-conditioning, windows, doors	20	20
- Lift, electro-installation	25	25
- Roof, façade	30	30
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Right of use – software	4	4
Other rights of use	According to contract	According to contract

In accordance with IAS 38, the Group adds to the cost of intangible assets generated internally as part of internal projects external expenses and internal personnel costs incurred in developing intangible fixed assets. The Group does not capitalise expenses incurred in research.

The Group periodically tests its assets for indications of impairment, such as a change in their utilisation or worsened economic conditions. Where indications of impairment are identified and the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as useless, management of the Group determines a provision for asset impairment by reference to the selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs.

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

Goodwill arising on the acquisition of a subsidiary is the excess of the acquisition cost for the interest acquired by the Group over the net fair value of acquired assets, liabilities and contingent liabilities at the acquisition date. Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of impairment write-downs.

The Group recognises goodwill in accordance with IFRS 3 which facilitates the accounting for a business combination using provisional values in circumstances where the fair values of identifiable assets, liabilities, contingent liabilities and the cost of the combination are determined only provisionally. Any adjustments to those provisional values must be recognised within twelve months of the acquisition date.

The Group tests goodwill for impairment on an annual basis or more frequently if there are indications that the goodwill may be impaired. If the recoverable value of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying amount, the Bank recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or pro-rata).

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

(k) Leases

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

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

Payments made under operating leases are charged to the profit and loss statement on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable, assets are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income. Lease income is recognised over the term of the lease reflecting a constant periodic rate of return.

(l) Provisions

In accordance with IFRS, the Group recognises a provision when, and only when:

- It has a present obligation (legal or constructive) as a result of a past event;
- It is probable that the settlement of the obligation will cause an outflow of resources embodying economic benefits; and
- A reliable estimate can be made of the amount of the obligation.

In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments and approved overdraft loans.

Specific provisions are made for estimated losses on these commitments on the same basis as set out in Note 3(f).

(m) Employment benefits

The Group provides its employees with loyalty benefits, retirement benefits and disability benefits.

The employees are entitled to claim loyalty benefits in circumstances where they are employed with the Group for a defined period of time. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or are entitled to receive a disability pension and were employed with the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, discount rate).

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred.

(n) Securities issued

Securities issued by the Group are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of the Group's own securities is included in the profit and loss statement line *'Interest expense'*.

In the event of the repurchase of its own debt securities, the Group derecognises these securities so as to reflect the economic substance of the transaction as a repayment of the Group's commitment and decreases its liabilities in the balance sheet line *'Securities issued'*. Gains and losses arising as a result of the repurchase of the Group's own debt securities are included in *'Net profit/(loss) on financial operations'*.

(o) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. Penalty interest is accounted for and included in interest income on a cash basis. Loan origination fees are included in the effective interest rate and are therefore reported in '*Interest income*'. Other fees and commissions are recognised in the period to which they relate on an accruals basis.

(p) Income taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and other jurisdictions in which the Group operates, based on the profit recognised in the profit and loss statement net of the effects of IFRS. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly taken to equity.

Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Deferred tax related to cash flow hedges where fair value changes are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss statement together with the deferred gain or loss.

(q) Repurchase agreements

Under repurchase agreements (‘repos’), the Group only provides securities held in the ‘At fair value through profit or loss’ portfolio as collateral. These securities are recorded as assets in the balance sheet line ‘*Financial assets at fair value through profit or loss*’ and the counterparty liability arising from the received loan is included in ‘*Amounts due to banks*’ or ‘*Amounts due to customers*’ as appropriate.

Securities purchased under reverse repurchase agreements (‘reverse repos’) are recorded off balance sheet where they are remeasured to fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the balance sheet line ‘*Due from banks*’ or ‘*Loans and advances to customers*’ as appropriate.

The Group’s off balance sheet accounts also reflect securities obtained under reverse repos and provided as collateral at fair value.

The difference between the sale and repurchase price in respect of repo and reverse repo transactions is treated as interest and accrued evenly to expenses/income over the life of the agreement using the effective interest rate.

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

(r) Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts for derivative financial instruments. At the conclusion of the derivative financial contract, the Group designates derivative instruments as either trading or hedging. The Group also acts as an intermediary provider of these instruments to certain clients.

The derivative financial instruments used by the Group as trading instruments include interest rate and currency forwards, swaps, securities based derivatives, and options. The values of these instruments change pursuant to the fluctuations in interest rates, commodity prices, exchange rates, market values of securities and similar market parameters.

Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *‘Net profit/(loss) on financial operations’* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes reported in the profit and loss statement. In such cases, the financial derivative is separated from the host contract and is accounted for separately.

The Group uses certain derivative financial instruments to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out in IFRS are met at the designation date.

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

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

Hedging derivatives are accounted for according to the type of hedging relationship which can be either (i) a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge); or (iii) a hedge of an investment in a foreign operation.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement line ‘*Net profit/(loss) on financial operations*.’ On this basis, the Group hedges the selected portfolios of foreign currency assets and a selected loan portfolio. The effectiveness of the hedge is regularly tested on a quarterly basis.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the ‘*Hedging instruments’* in shareholders’ equity. Amounts deferred in equity are transferred to the profit and loss statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement. The ineffective element of the hedge is charged directly to the profit and loss statement line ‘*Net profit/(loss) on financial operations*. On this basis, the Group hedges the interest rate risk associated with selected portfolios of assets or liabilities or individual assets or liabilities. The effectiveness of the hedge is tested through prospective and retrospective tests performed at the end of each quarter.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries, Komerční banka Bratislava, a.s. and Bastion European Investment S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from their retranslation are included in the '*Hedging of a foreign currency investment in a subsidiaries'.*

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to the maturity of the hedged item.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 44.

Certain derivative transactions, while providing economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with the related fair value gains and losses reported in the profit and loss statement line '*Net profit/(loss) on financial operations*'.

(s) Regulatory requirements

The banks within the Group are subject to the regulatory requirements of the respective national central banks. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with clients, liquidity, interest rate and foreign currency position.

Similarly, other Group companies are subject to regulatory requirements specifically in relation to insurance and retirement benefit schemes.

(t) Fiduciary activities

Where the Group acts as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the consolidated financial statements.

(u) Share capital and treasury shares

Where the Group purchases its own share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are recorded in equity.

(v) Contingent assets and contingent liabilities

In addition to transactions giving rise to the recognition of assets and liabilities in the balance sheet, the Group enters into transactions under which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities off balance sheet as off-balance sheet items. The Group monitors these transactions as they represent a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging on-balance sheet assets and liabilities).

A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, bid bonds and warrants.

The Group recognises issued guarantees in accordance with IAS 39. The guarantee is initially recognised at fair value and is subsequently measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Off-balance sheet items also consist of interest rate and foreign currency instruments, including swaps, options and futures.

(w) Changes of accounting policies arising from the implementation of new IFRSs and revised IASs effective from 1 January 2007

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

- IFRS 7 ‘Financial Instruments: Disclosures’ (effective 1 January 2007); and
- Amendments to IAS 1 ‘Presentation of Financial Statements’ on capital disclosures (effective 1 January 2007).

The Group has undertaken a detailed analysis of the revised standards in order to identify and implement the relevant changes. All the new IFRSs and revisions of the extant IASs are implemented with effect from 1 January 2007. The adoption of these standards in future periods is not expected to have a material impact on the Group’s profit or equity.

4 Source of income and expenses

Set out below is a business segment analysis:

	Universal banking		Investment banking		Total	
	2006	2005	**2006**	2005	**2006**	2005
	CZKm	CZKm	**CZKm**	CZKm	**CZKm**	CZKm
External income (out-of-segment)	16,302	17,347	10,000	7,155	26,302	24,502
Income from other segments	8,645	6,141	(8,645)	(6,141)	0	0
Total income	**24,947**	23,488	**1,355**	1,014	**26,302**	24,502
External expenses	(11,909)	(11,635)	(509)	(500)	(12,418)	(12,135)
Segment result	**13,038**	11,853	**846**	514	**13,884**	12,367
Unallocated expenses					(2,069)	(802)
Profit/(loss) before taxation					**11,815**	11,565
Taxation					(2,695)	(2,654)
Profit					**9,120**	8,911
Assets by segment	**396,970**	270,836	**199,982**	241,379	**596,952**	512,215
Investments in associates and unconsolidated subsidiaries	**434**	1,023	**0**	0	**434**	1,023
Unallocated assets					**169**	618
Total consolidated assets					**597,555**	513,856
Liabilities by segment	**345,595**	219,941	**200,578**	242,103	**546,173**	462,044
Unallocated liabilities					**784**	485
Total consolidated liabilities					**546,957**	462,529
Acquisition of assets	**1,649**	1,332	**0**	35	**1,649**	1,367
Depreciation and amortisation	**1,678**	1,694	**36**	34	**1,714**	1,728

The recognition and release of provisions during the current and previous periods related only to the ‘Universal banking’ segment for all groups of assets that suffered impairment.

Subsidiaries that do not meet the criteria of IAS 14 for inclusion in a standalone segment are presented within universal banking.

The Group’s income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5 Net interest income

Net interest income comprises:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Interest income		
- Loans and advances to financial institutions	12,153	10,026
- Loans and advances to customers	11,905	9,729
- Bonds and treasury bills	1,952	1,440
Total interest income	**26,010**	21,195
Interest expense		
- Amounts owed to financial institutions	(4,112)	(2,623)
- Amounts owed to customers	(5,060)	(3,535)
- Securities issued	(683)	(394)
Total interest expense	**9,855**	(6,552)
Total net interest income	**16,155**	14,643

Interest income on loans and advances to customers reflects interest on substandard, doubtful and loss amounts of CZK 588 million (2005: CZK 454 million) due from customers. Interest income on bonds includes income of CZK 1 million (2005: CZK 1 million) on securities that have suffered impairment.

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 6,226 million (2005: CZK 4,832 million) and accrued interest expense from hedging financial derivatives of CZK 4,062 million (2005: CZK 2,490 million). Net interest income from these derivatives amounts to CZK 2,164 million (2005: CZK 2,342 million).

The gain on the fair value of interest rate swaps to hedge against interest rate risk of CZK 95 million (2005: CZK nil) is included in '*Interest income on loans and advances to customers*'. This amount matches the amount of the revaluation loss on hedged loan receivables reported in the same line.

6 Net fees and commissions

Net fees and commissions comprise:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Net fees and commission from services and transactions	7,170	7,123
Net gain from foreign exchange commissions from clean payments	1,056	1,004
Net gain from foreign exchange commissions from other transactions	543	609
Total net fees and commissions	**8,769**	8,736

Net fees and commissions also comprise foreign exchange commissions from clean and documentary payments and client cash exchange and conversion transactions as equal to the difference between the purchase/sale rate of foreign currencies determined by the Group and the official exchange rates as promulgated by central banks used in re-translating transactions denominated in foreign currencies. The Group includes foreign exchange commissions in '*Net fees and commissions*' because these revenues represent significant recurring income from payment and exchange transactions effected with the Group's customers.

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Net realised gains/(losses) on securities	228	604
Net unrealised gains/(losses) on securities	157	131
Dividend income on securities held for trading and available for sale	139	54
Net realised and unrealised gains/(losses) on security derivatives	198	(5)
Net realised and unrealised gains/(losses) on interest rate derivatives	128	(182)
Net realised and unrealised gains/(losses) on trading commodity and other derivatives	5	9
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	418	627
Total net profit/(loss) on financial operations	**1,273**	1,238

'*Net realised gains/(losses) on securities*' include CZK 117 million in total net loss on securities held for trading (2005: a net gain of CZK 169 million).

The line '*Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities*' shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net loss of CZK 1,556 million in 2006 (2005: a net loss of CZK 96 million).

A gain of CZK nil (2005: CZK 19 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities'*. This amount matches the loss arising from the retranslation of hedged foreign currency receivables and payables reported in the same line.

8 Other income

The Group recognises an amount of CZK 105 million (2005: a loss of CZK 115 million) in *'Other income'*. For the year ended 31 December 2006, other income is predominantly composed of property rental income (2005: the creation of life insurance technical provisions).

9 Personnel expenses

Personnel expenses comprise:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Wages, salaries and bonuses	3,779	3,632
Social security costs	1,434	1,400
Total personnel expenses	**5,213**	5,032
Physical number of employees at the period-end	8,305	7,750
Average recalculated number of employees during the period	8,266	7,713
Average cost per employee (CZK)	**630,656**	652,405

‘*Social security costs*’ include costs of CZK 81 million (2005: CZK 88 million) paid by the Group to the employees’ retirement pension insurance scheme and costs of CZK 41 million (2005: CZK 32 million) incurred in contributing to the employees’ capital life insurance scheme.

10 General administrative expenses

General administrative expenses comprise:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Insurance of deposits and transactions	417	368
Marketing and entertainment costs	535	554
Costs of sale and banking products	1,227	1,185
Staff costs	282	302
Property maintenance charges	1,260	1,109
IT support	839	895
Office equipment and other consumption	81	87
Telecommunications, post and other services	295	294
External advisory services	482	541
Other expenses	126	(33)
Total general administrative expenses	**5,544**	5,302

‘Other expenses’ for the year ended 31 December 2005 included write-offs and provisioning for receivables arising from internal transactions and supplier arrangements of CZK 18 million which are reported in *‘Provisions for other risk expenses*’.

‘*Insurance of deposits and transactions*’ shown as a component of ‘*General administrative expenses*’ includes an estimated balance of payments to the Deposit Insurance Fund of CZK 330 million (2005: CZK 298 million).

'Other expenses' included the release of technical life insurance provisions for the year ended 31 December 2005.

11 Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Depreciation of tangible and intangible fixed assets	1,714	1,728
Provisions for assets and net gain on the sale of assets	(53)	73
Total depreciation, impairment and disposal of fixed assets	**1,661**	1,801

12 Profit/(loss) attributable to exclusion of companies from consolidation, income from share of associated undertakings

At the end of 2006, the Group excluded Komercni Finance, B.V. from the consolidated results because its liquidation was completed. The aggregate loss arising from exclusion of this entity from consolidation amounted to CZK 1 million.

13 Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

	2006 CZKm	2005 CZKm
Balance at 1 January	(7,765)	(6,873)
Balance of provisions of a subsidiary upon its inclusion in consolidation	(366)	0
Net provisioning for loan losses	(1,536)	(797)
Impact of loans written off and transferred	193	116
Exchange rate differences attributable to provisions	(379)	(211)
Balance at 31 December	**(9,095)**	(7,765)

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

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Specific provisions for loans to customers (refer to Note 20)	(8,298)	(6,584)
Provisions for other loans to customers	(31)	(36)
Provisions for guarantees and other credit related commitments (refer to Note 34)	(766)	(1,145)
Total	**(9,095)**	(7,765)

Provisions for securities

The balance of provisions for securities was CZK 33 million as of 31 December 2006 (2005: CZK 33 million). The Group revised the methodology used in identifying impairment of financial assets – equity tranches whereby the Group considers repayments of equity tranches as interest income because these tranches do not have a defined amount of cash flow. As such, it is not appropriate to recognise impairment for these tranches. This change resulted in the reassessment of the impairment recognised as a provision in the past and its treatment as accelerated amortisation with a direct charge against costs. All of these securities are held in the available-for-sale securities portfolio which is disclosed in Note 21.

Provisions for unconsolidated investments in subsidiaries and associates

The balance of provisions for unconsolidated investments in subsidiaries and associates recognised on the face of the profit and loss statement comprises the following:

	2006 CZKm	2005 CZKm
Balance at 1 January	(35)	(35)
Creation of provisions	0	0
Release and use of provisions	0	0
Balance at 31 December	**(35)**	(35)

Provisions for other risk expenses

The balance of '*Provisions for other risk expenses*' principally consists of the charge for provisions of CZK 155 million (2005: CZK 1,155 million) and the release of provisions of CZK 799 million (2005: CZK 1,704 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 718 million (2005: CZK 26 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 162 million (2005: CZK 18 million). The latter item was reported within '*General administrative expenses*' in 2005. Additional information about the provisions for other risk expenses is provided in Note 34.

14 Income taxes

The major components of corporate income tax expense are as follows:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Tax payable - current year, reported in profit or loss	(2,554)	(3,125)
Tax paid - prior year	206	(13)
Deferred tax	(395)	484
Hedge of a deferred tax asset against foreign currency risk	48	0
Total income taxes	**(2,695)**	(2,654)
Tax payable - current year, reported in equity	**(2)**	13
Total tax expense	**(2,697)**	(2,641)

The items explaining the difference between the theoretical and Group's effective tax rate are as follows:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
Pre-tax profit (current tax rate)	**11,815**	11,562
Pre-tax profit (special tax rate)	0	3
Pre-tax profit	**11,815**	11,565
Theoretical tax liability calculated at a tax rate of 24% (26%)	2,836	3,006
Tax on pre-tax profit adjustments	11	0
Non-taxable income	(1,068)	(514)
Expenses not deductible for tax purposes	963	795
Use of tax losses carried forward	(32)	(35)
Tax allowance	(3)	(3)
Tax credit	(52)	0
Tax on a standalone tax base	1	0
Hedge of a deferred tax asset against foreign currency risk	(48)	0
Movement in deferred tax	395	(484)
Unconsolidated tax losses	38	35
Impact of various tax rates of subsidiary undertakings	(96)	(132)
Tax effect of share of profits of associated undertakings	(44)	(27)
Income tax expense	**2,901**	2,641
Prior period tax expense	(206)	13
Total income taxes	**2,695**	2,654
Tax payable on securities reported in equity *	2	(13)
Total income tax	**2,697**	2,641
Effective tax rate	22.81 %	22.95 %

** This amount represents the tax paid on unrealised gains from the revaluation of securities available for sale which are revalued through equity under IFRS.*

Non-taxable income primarily includes dividends, non-taxable interest income and the release of non-taxable provisions and reserves. Expenses not deductible for tax purposes include the tax effect of permanent and temporary differences, specifically the recognition of reserves and non-tax deductible operating expenses. Tax on pre-tax profit adjustments represents tax on effective hedging. Tax credit arises from bonds issued by EU states. Tax on a standalone tax base principally represents the tax on the liquidation share of Komercni Finance B.V.

In 2006, the Group reported a reduction in the tax liability of CZK 206 million in the line '*Prior period tax expense*' which was attributable to the filing of additional tax returns for prior periods.

The corporate tax rate for the year ended 31 December 2006 is 24 percent (2005: 26 percent). The Group's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 35.

15 Distribution of profits/Allocation of losses

The Group generated a net profit of CZK 9,120 million for the year ended 31 December 2006. Distribution of profits and settlement of losses for the year ended 31 December 2006 will be approved by the general meetings of the Group companies.

16 Earnings per share

Earnings per share of CZK 240.13 (2005: CZK 234.44 per share) have been calculated by dividing the net profit of CZK 9,120 million (2005: a profit of CZK 8,911 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average value of treasury shares held during the period.

17 Cash and current balances with central banks

Cash and current balances with banks comprise:

	31 December 2006	31 December 2005
	CZKm	CZKm
Cash and cash equivalents	7,233	5,840
Balances with central banks	7,767	3,488
Total cash and current balances with central banks	**15,000**	9,328

Balances with central banks represent obligatory minimum reserves and other deposits with central banks. The obligatory minimum reserves bear interest. The obligatory minimum reserves with the Czech National Bank bore interest at 2.5 percent and 2 percent as of 31 December 2006 and 2005, respectively. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.5 percent and 1.5 percent as of 31 December 2006 and 2005, respectively.

18 Amounts due from banks

Balances due from banks comprise:

	31 December 2006	31 December 2005
	CZKm	CZKm
Deposits with banks (current accounts)	280	885
Loans and advances to banks	4,503	9,171
Debt securities of banks acquired under initial offerings not designated for trading	15,256	16,619
Advances due from central banks (reverse repo transactions)	133,074	168,702
Term placements with other banks	55,584	51,409
Total	**208,697**	246,786
Provisions	(1)	(1)
Total amounts due from banks	**208,696**	246,785

Advances due from central banks and other banks under reverse repo transactions are collateralised by treasury bills issued by central banks and other debt securities with fair value:

	31 December 2006 CZKm	31 December 2005 CZKm
Treasury bills	127,909	165,518
Debt securities issued by state institutions	2,325	10,252
Debt securities issued by other institutions	29	110
Shares	673	346
Total	**130,936**	176,226

Securities acquired as loans and receivables

As of 31 December 2006, the Group maintains in its portfolio bonds at an amortised cost of CZK 15,256 million (2005: CZK 16,619 million) and a nominal value of CZK 15,079 million (2005: CZK 16,410 million), of which CZK 13,669 million represents bonds issued by the parent company Société Générale S. A. (2005: CZK 15,000 million) which the Group acquired under initial offerings and normal market conditions in 2002 and 2006. The bond of CZK 10,000 million (2005: CZK 15,000 million) is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. The bond of CZK 3,669 million (2005: CZK nil) is denominated in EUR, bears floating interest and will mature in 2026. The Group additionally carries in this portfolio two issues of securities placed by financial institutions with an aggregate nominal value of CZK 1,410 million. During 2006, the Group decided to sell back, under normal market conditions, the bond issued by the parent company Société Générale S. A. with a nominal value of CZK 5,000 million. This transaction had a positive impact on the Group's profit and loss statement of CZK 34 million which is reported in '*Net profit/(loss) on financial operations'.*

19 Financial assets at fair value through profit or loss

As of 31 December 2006 and 2005, financial assets at fair value through profit or loss included only trading securities. Upon initial recognition, the Group has not designated any other type of financial assets as at fair value through profit or loss.

Trading securities comprise:

	31 December 2006 Fair value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Fair value CZKm	31 December 2005 Cost CZKm
Shares and participation certificates	**95**	**86**	68	67
Emission allowances	**21**	**34**	0	0
Fixed income debt securities	8,746	8,728	6,195	6,174
Variable yield debt securities	273	273	85	85
Bills of exchange	0	0	150	150
Treasury bills	5,562	5,559	1,095	1,096
Total debt securities	**14,581**	**14,560**	7,525	7,505
Total trading securities	**14,697**	**14,680**	7,593	7,572

The Group's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 5,562 million (2005: CZK 1,095 million).

As of 31 December 2006, the portfolio of trading securities includes securities at a fair value of CZK 8,994 million (2005: CZK 6,348 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 5,703 million (2005: CZK 1,245 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Shares and participation certificates		
- Czech crowns	95	68
Total trading shares and participation certificates	**95**	68

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

Trading shares and participation certificates issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- Other entities in the Czech Republic	0	60
- Other foreign entities	95	8
Total trading shares and participation certificates	**95**	68

Emission allowances held for trading at fair value comprise:

Emission allowances	**31 December 2006 CZKm**	31 December 2005 CZKm
- Other currencies	21	0
Total emission allowances held for trading	**21**	0

Emission allowances held for trading at fair value, allocated by issuer, comprise:

Emission allowances held for trading issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- Foreign state institutions	21	0
Total emission allowances held for trading	**21**	0

Debt trading securities at fair value comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Variable yield debt securities		
- Czech crowns	273	85
Total variable yield debt securities	**273**	85
Fixed income debt securities (including bills of exchange and treasury bills)		
- Czech crowns	13,383	5,953
- Other currencies	925	1,487
Total fixed income debt securities	**14,308**	7,440
Total trading debt securities	**14,581**	7,525

Debt trading securities at fair value, allocated by issuer, comprise:

Debt trading securities issued by:	**31 December 2006** **CZKm**	31 December 2005 CZKm
- State institutions in the Czech Republic	12,623	5,226
- Foreign state institutions	926	1,487
- Financial institutions in the Czech Republic	170	24
- Foreign financial institutions	537	548
- Other entities in the Czech Republic	185	208
- Other foreign entities	140	32
Total trading debt securities	**14,581**	7,525

Of the debt securities issued by state institutions in the Czech Republic, CZK 12,355 million (2005: CZK 4,476 million) represents securities eligible for refinancing with the Czech National Bank.

20 Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2006 **CZKm**	31 December 2005 CZKm
Loans to customers	258,920	194,270
Bills of exchange	758	614
Forfaits	1,026	771
Other amounts due from customers	116	177
Total gross loans and advances to customers	**260,820**	195,832
Provisions for loans to customers	(8,298)	(6,584)
Provisions for other amounts due from customers	(17)	(36)
Total loans and advances to customers, net	**252,505**	189,212

Loans and advances to customers include interest due of CZK 1,127 million (2005: CZK 732 million), of which CZK 638 million (2005: CZK 411 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as of 31 December 2006 amounting to CZK 2,400 million (2005: CZK 267 million) are collateralised by securities with fair values of CZK 2,401 million (2005: CZK 330 million).

The loan portfolio of the Group as of 31 December 2006 (net of other amounts due from customers) comprises the following breakdown by classification:

	Gross receivable CZKm	**Collateral applied CZKm**	**Net exposure CZKm**	**Provisions CZKm**	**Carrying value CZKm**	**Provisions %**
Standard	234,409	93,963	140,446	0	234,409	0 %
Watch	14,796	6,372	8,424	(657)	14,139	8 %
Substandard	3,070	1,352	1,718	(795)	2,275	46 %
Doubtful	1,465	416	1,049	(672)	793	64 %
Loss	6,964	336	6,628	(6,174)	790	93 %
Total	**260,704**	**102,439**	**158,265**	**(8,298)**	**252,406**	

Loans classified as loss include amounts of CZK 4,462 million (2005: CZK 3,730 million), on which interest is not being accrued.

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

	2006 CZKm	2005 CZKm
Agriculture, forestry and mining	9,867	7,687
Processing industry	38,503	36,568
Distribution and production of energy	4,831	6,804
Construction	8,470	6,954
Trade, catering, transport and communication	44,116	42,133
Insurance, banking	17,554	11,989
Other	137,363	83,520
Total loans to clients	**260,704**	195,655

Set out below is an analysis by category of customers:

	2006 CZKm	2005 CZKm
Retail customers	100,136	57,893
Corporate customers	145,701	126,650
Public sector	14,867	11,112
Total	**260,704**	195,655

The majority of loans were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of types of collateral underlying on balance sheet loans and advances to customers:

	Total client loan collateral 31 December 2006 CZKm	**Discounted client loan collateral value 31 December 2006 CZKm**	**Applied client loan collateral value 31 December 2006 CZKm**	Total client loan collateral 31 December 2005 CZKm	Discounted client loan collateral value 31 December 2005 CZKm	Applied client loan collateral value 31 December 2005 CZKm
Guarantees of state and governmental institutions	6,520	6,109	5,548	6,654	6,199	5,828
Bank guarantee	14,631	13,060	11,303	8,832	7,478	6,919
Guaranteed deposits	2,977	693	2,778	813	813	608
Issued debentures in pledge	120	120	0	364	266	0
Pledge of real estate	145,569	84,049	63,640	116,510	69,106	45,318
Pledge of movable assets	6,974	1,548	1,411	7,646	1,153	1,064
Guarantee by legal entity	14,620	5,958	4,804	7,180	4,181	3,501
Guarantee by individual (physical entity)	4,516	645	1,446	3,138	601	516
Pledge of receivables	33,526	13,808	10,267	33,462	13,279	10,083
Insurance of credit risk	1,164	1,101	1,087	865	813	812
Other	3,534	265	155	412	198	186
Total nominal value of collateral	**234,151**	**127,356**	**102,439**	**185,876**	**104,087**	**74,835**

Pledges on industrial real-estate represent 16 percent of total pledges on real estate (2005: 20 percent).

Loans and advances to customers - leasing

	2006 CZKm	2005 CZKm
Due less than 1 year	504	11
Due from 1 to 5 years	198	242
Due over 5 years	10	30
Total	**712**	283

Within the Group, ESSOX, s.r.o. engages in providing lease services. Assets leased under lease arrangements primarily include used passenger and utility vehicles with an average lease instalment period of 42 months (2005: 40 months), new passenger and utility vehicles with an average lease instalment period of 62 months (2005: 51 months), technology with an average lease instalment period of 33 months (2005: 32 months) and consumer goods with an average lease instalment period of 10 months (2005: 10 months). As of 31 December 2006, future interest (the difference between the gross and net leasing investment) on lease contract amounts to CZK 54 million (2005: CZK 59 million) and the provisions recognised against uncollectible lease receivables amount to CZK 213 million (2005: CZK 158 million).

Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group.

As of 31 December 2006, on balance sheet loans to this client included an amount of CZK 1,414 million (2005: CZK 1,664 million) that was fully provided for. The year-on-year decrease in the balance arises from a foreign exchange rate difference. The Group did not report any off balance sheet receivables from this client in 2006 and 2005.

The Group is continuing to take action in all relevant jurisdictions to recover its funds.

21 Securities available for sale

Securities available for sale comprise:

	31 December 2006 Fair value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Fair value CZKm	31 December 2005 Cost CZKm
Shares and participation certificates	**1,377**	**584**	420	326
Fixed income debt securities	68,566	69,259	25,900	25,793
Variable yield debt securities	2,207	2,307	3,888	4,203
Total debt securities	**70,773**	**71,566**	29,788	29,996
Total securities available for sale	**72,150**	**72,150**	30,208	30,322

As of 31 December 2006, the available-for-sale portfolio includes securities at a fair value of CZK 70,858 million (2005: CZK 27,607 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,292 million (2005: CZK 2,601 million) that are not publicly traded.

Shares and participation certificates at fair value comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Shares and participation certificates		
- Czech Crowns	1,375	418
- Other currencies	2	2
Total shares and participation certificates	**1,377**	420

Shares and participation certificates at fair value, allocated by issuer, comprise:

Shares and participation certificates available for sale issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- Banks in the Czech Republic	845	60
- Foreign banks	34	60
- Non-banking entities in the Czech Republic	413	261
- Non-banking foreign entities	85	39
Total shares and participation certificates available for sale	**1,377**	420

Debt securities available for sale at fair value comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Variable yield debt securities		
- Czech Crowns	1,816	2,497
- Other currencies	391	1,391
Total variable yield debt securities	**2,207**	3,888
Fixed income debt securities		
- Czech Crowns	58,701	21,125
- Other currencies	9,865	4,775
Total fixed income debt securities	**68,566**	25,900
Total debt securities available for sale	**70,773**	29,788

Shares and participation certificates available for sale issued by banks in the Czech Republic include the Group's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Given that this shareholding is not tradable on public markets, the Group reported it at purchase cost until 2005 which the Group considered represented the best estimate of the fair value of the investment. In 2006, the Group concluded that the dividends that have been paid out on this investment for a number of years represents a sufficient basis for making a reliable estimate of its fair value and revalued the investment on the basis of its estimate of probable future cash flows. As a result, the value of the investment increased by CZK 785 million.

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

Debt securities available for sale issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- State institutions in the Czech Republic	44,667	16,276
- Foreign state institutions	10,470	4,493
- Financial institutions in the Czech Republic	13,382	3,998
- Foreign financial institutions	102	102
- Other entities in the Czech Republic	794	1,462
- Other foreign entities	1,358	3,457
Total debt securities available for sale	**70,773**	29,788

Of the debt securities issued by state institutions in the Czech Republic, CZK 43,942 million (2005: CZK 15,468 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

The Group maintains a portfolio of asset backed securities (ABS) denominated in USD which are carried as available for sale. The Group establishes the value of these securities using a model which facilitates the simulation of future cash flows from these securities by modelling the development of the credit quality of underlying assets. The carrying value of these securities as of 31 December 2006, net of remeasurement, is CZK 413 million (2005: CZK 2,508 million).

In 2006, the Group's exposure to ABS decreased primarily as a result of the redemption of the nominal values of these securities of USD 67 million (CZK 1,401 million). In accordance with its strategy to reduce its exposure to ABS the Group also sold a security from the ABS portfolio with an aggregate nominal value of USD 20 million (CZK 413 million) and a positive impact on the profit or loss of CZK 17 million. The result of these transactions is that the ABS portfolio held by the Group as of 31 December 2006 consists of ABS carrying A+ or higher ratings at a carrying amount of USD 19 million (CZK 390 million) and non-rated ABS at a carrying amount of USD 1 million (CZK 23 million).

As of 31 December 2006, the Group recognised a positive revaluation of ABS of CZK 21 million (2005: a positive revaluation of CZK 23 million) arising from a change in the market parameters. The Group reported no provisions for impairment of these securities. Additional information about the assessment of the value of securities is provided in Note 3. Management of the Group considers that the recognised amount of ABS represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio.

Other debt securities

During the year ended 31 December 2006, the Group acquired Government bonds with a nominal value of CZK 540 million, EUR 163 million and USD 59 million. In 2006, the Group also acquired securities issued by financial institutions with an aggregate nominal value of CZK 3,160 million. During the year ended 31 December 2006, debt securities (with the exception of ABS) with an aggregate nominal value of CZK 300 million were redeemed at maturity.

22 Investments held to maturity

Investments held to maturity comprise:

	31 December 2006 Carrying value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Carrying value CZKm	31 December 2005 Cost CZKm
Fixed income debt securities	3,300	3,299	3,438	3,438
Total investments held to maturity	**3,300**	**3,299**	3,438	3,438

As of 31 December 2006, investments held to maturity include bonds of CZK 3,300 million (2005: CZK 3,438 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Fixed income debt securities		
- Czech Crowns	1,357	1,346
- Other currencies	1,943	2,092
Total fixed income debt securities	**3,300**	3,438
Total debt securities held to maturity	**3,300**	3,438

Investments held to maturity, allocated by issuer, comprise:

Debt securities held to maturity issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- State institutions in the Czech Republic	1,357	1,346
- Foreign state institutions	1,943	2,092
Total debt securities held to maturity	**3,300**	3,438

Of the debt securities issued by state institutions, CZK 1,373 million (2005: CZK 1,346 million) represents securities eligible for refinancing with central banks.

No transactions within this portfolio took place during the year ended 31 December 2006. The year-on-year decrease in the value is attributable to the premium or discount amortisation, accruals for coupons and foreign exchange rate differences.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Prepayments and accrued income	804	875
Settlement balances	679	538
Receivables from securities trading	234	155
Other assets	3,633	1,834
Total prepayments, accrued income and other assets	**5,350**	3,402

'Other assets' reflect a provision of CZK 152 million (2005: CZK 152 million) charged for the decrease in the carrying amount of prepaid building rentals.

'Other assets' reflected an estimated asset in respect of the sale of a building amounting to CZK 707 million in the year ended 31 December 2005.

24 Assets held for sale

As of 31 December 2006, the Group reported assets held for sale at a carrying amount of CZK 613 million (2005: CZK 826 million) comprising buildings and land owned by the Group which management of the Group decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated. The difference between the amounts as of 31 December 2006 and 2005 arises from the sale of these assets and reclassification of buildings and land of CZK 185 million that do not meet the criteria for recognition as assets held for sale back to *'Tangible fixed assets'*.

25 Investment property

The movements in investment property during the year ended 31 December 2006 are as follows:

	Investment property CZKm
Cost	
31 December 2005	293
Additions	0
Disposals/transfers	(6)
31 December 2006	**287**
Accumulated depreciation and provisions	
31 December 2005	**54**
Additions	10
Disposals	0
Impairment charge	0
31 December 2006	**64**
Net book value	
31 December 2005	239
31 December 2006	**223**
Fair value at 31 December 2005	175
Fair value at 31 December 2006	**167**

Net rental proceeds arising from investment property for the year ended 31 December 2006 amounted to CZK 10 million (2005: CZK 12 million), of which revenues of CZK 11 million (2005: CZK 13 million) and direct charges (including repair and maintenance) of CZK 1 million (2005: CZK 1 million).

26 Goodwill

The movements in goodwill during the year ended 31 December 2006 are as follows:

	Goodwill CZKm
Cost	
31 December 2005	196
Additions	2,741
Disposals/transfers	23
31 December 2006	**2,914**
Accumulated depreciation and provisions	
31 December 2005	34
Additions	0
Disposals	23
Impairment charge	0
31 December 2006	**11**
Net book value	
31 December 2005	162
31 December 2006	**2,903**

The goodwill addition is represented by the acquisition of Modrá pyramida stavební spořitelna, a. s. Further details are set out in Notes 2, 3(j) and 39.

27 Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2006 are as follows:

	Internally generated assets CZKm	Software CZKm	Other intangible assets CZKm	Assets under construction CZKm	Total CZKm
Cost					
31 December 2005	3,405	1,345	551	483	5,784
Additions	774	455	16	1,064	2,309
Disposals/transfers	0	13	23	1,002	1,038
31 December 2006	**4,179**	**1,787**	**544**	**545**	**7,055**
Accumulated amortisation and provisions					
31 December 2005	2,183	1,002	443	1	3,629
Additions	647	334	57	0	1,038
Disposals	(14)	11	17	0	14
Impairment charge	0	0	0	19	19
31 December 2006	**2,844**	**1,325**	**483**	**20**	**4,672**
Net book value					
31 December 2005	1,222	343	108	482	2,155
31 December 2006	**1,335**	**462**	**61**	**525**	**2,383**

During the year ended 31 December 2006, the Group invested CZK 125 million (2005: CZK 121 million) in research and development through a charge to operating expenses.

The movement table is influenced by the acquisition of Modrá pyramida stavební spořitelna, a. s..

28 Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2006 are as follows:

	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
Cost					
31 December 2005	159	9,598	6,920	352	17,029
Reallocation from assets held for sale	8	255	0	0	263
Additions	129	631	729	585	2,074
Disposals/transfers	1	52	708	715	1,476
31 December 2006	**295**	**10,432**	**6,941**	**222**	**17,890**
Accumulated depreciation and provisions					
31 December 2005	0	3,644	5,755	3	9,402
Reallocation of accumulated depreciation of assets held for sale	0	75	0	0	75
Additions	0	411	714	0	1,125
Disposals	0	29	691	0	720
Impairment charge	0	2	(8)	(3)	(9)
31 December 2006	**0**	**4,103**	**5,770**	**0**	**9,873**
Net book value					
31 December 2005	159	5,954	1,165	349	7,627
31 December 2006	**295**	**6,329**	**1,171**	**222**	**8,017**

As of 31 December 2006, the net book value of assets held by the Group under finance lease agreements was CZK 10 million (2005: CZK 27 million).

As of 31 December 2006, the Group recognised provisions against tangible assets of CZK 71 million (2005: CZK 70 million). In 2006, these provisions primarily included provisions charged in respect of leasehold improvements.

The movement table is influenced by the acquisition of Modrá pyramida stavební spořitelna, a. s.

29 Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Investments in subsidiary undertakings	4	13
Investments in associated undertakings	430	1,010
Total investments in subsidiaries and associates	**434**	**1,023**

Subsidiaries	**Group's ownership interest %**	**31 December 2006 CZKm Cost of investment**	**31 December 2006 CZKm Net book value**	31 December 2005 CZKm Cost of investment	31 December 2005 CZKm Net book value
ALL IN REAL ESTATE LEASING, a.s.	100.00	39	4	39	4
Bastion European Investment S. A.*	-	x	x	2	2
Komercni Finance, B. V.**	-	x	x	1	7
Total subsidiaries		**39**	**4**	42	13

/ Bastion European Investment is fully consolidated in 2006.*

*/** Komercni Finance, B.V. was excluded from consolidation in 2006 due to liquidation.*

Associates		**Net book value**	**Share of net assets**	Net book value	Share of net assets
Komerční pojišťovna, a. s.	49.00	380	430	379	368
Modrá pyramida stavební spořitelna, a. s.*	40.00	x	x	220	642
CBCB - Czech Banking Credit Bureau, a.s.**	20.00	0	0	0	0
Total associates		**380**	**430**	**599**	**1,010**
Investments in associates and unconsolidated subsidiaries		**419**	**434**	**640**	**1,023**

/ Modrá pyramida is fully consolidated in 2006.*

*/** The cost and net book value of CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.*

Associates	**2006 CZKm Assets**	**2006 CZKm Revenues**	**2006 CZKm Profit/ (loss)**	2005 CZKm Assets	2005 CZKm Revenues	2005 CZKm Profit/ (loss)
Komerční pojišťovna, a. s	11,629	(442)	135	9,850	(195)	24
Modrá pyramida stavební spořitelna, a.s.*	x	x	x	57,649	971	271
CBCB – Czech Banking Credit Bureau, a. s.	14	75	3	14	63	3

/ Modrá pyramida is fully consolidated in 2006.*

Additional information about the Bank's equity investments is presented in Notes 1 and 2.

30 Amounts due to banks

Amounts due to banks comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Current accounts	1,403	2,106
Amounts due to banks	13,191	30,718
Total amounts due to banks	**14,594**	32,824

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 105 million (2005: CZK 15,186 million).

31 Amounts due to customers

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

	31 December 2006 CZKm	31 December 2005 CZKm
Current accounts	252,041	238,685
Savings accounts	66,335	10,367
Term deposits	95,175	86,372
Loans from customers	42,466	34,509
Other payables to customers	24,090	18,498
Total amounts due to customers	**480,107**	388,431

The fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 1,326 million (2005: CZK 4,693 million).

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

	31 December 2006 CZKm	31 December 2005 CZKm
Private companies	170,634	132,404
Other financial institutions, non-banking entities	7,429	8,062
Insurance companies	4,263	6,856
Public administration	1,977	1,417
Individuals	205,584	132,752
Deposits – bills of exchange*	0	29,773
Private entrepreneurs	24,694	20,472
Government agencies	50,780	45,947
Other	9,199	6,315
Non-residents	5,547	4,433
Total amounts due to customers	**480,107**	388,431

Note: / Deposits – bills of exchange as of 31 December 2006 amounted to CZK 41,095 million and are categorised by relevant types of customers. In 2005 deposits – bills of exchange were reported separately because it was technically impossible to allocate them to individual types of customers.*

32 Securities issued

Securities issued comprise mortgage bonds of CZK 24,349 million (2005: CZK 22,672 million). Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

Debt securities are repayable, according to remaining maturity, as follows:

	31 December 2006 CZKm	31 December 2005 CZKm
In less than one year	1,143	0
In one to two years	3,634	1,175
In two to three years	5,150	4,939
In three to four years	0	5,426
In five to ten years	14,422	11,132
Total debt securities	**24,349**	22,672

The debt securities detailed above include the following bonds and notes issued by the Group:

Name	**Interest rate**	**Currency**	**Issue date**	**Maturity date**	**31 December 2006 CZKm**	31 December 2005 CZKm
Mortgage bonds of Komerční banka, a.s., CZ0002000151	6M PRIBOR plus 350 basis points	CZK	15 September 2000	15 September 2007	1,143	1,175
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5 %	CZK	21 August 2003	21 August 2009	5,150	5,426
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5 %	CZK	5 August 2004	5 August 2008	3,634	4,939
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10 % value of 3M PRIBID	CZK	2 August 2005	3 August 2015	2,789	5,049
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4 %	CZK	21 October 2005	21 October 2015	10,446	6,083
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 September 2006	1 September 2016	1,187	0
Total bonds					**24,349**	22,672

Note: Six-month PRIBOR was 261 basis points as of 31 December 2006 (2005: 233 basis points).

Three-month PRIBID was 245 basis points as of 31 December 2006 (2005: 207 basis points).

33 Accruals and other liabilities

Accruals and other liabilities comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Settlement balances and outstanding items	1	98
Payables from securities trading and issues of securities	1,234	774
Payables from payment transactions	7,591	6,303
Other liabilities	3,224	2,993
Accruals and deferred income	764	144
Total accruals and other liabilities	**12,814**	10,312

'Payables from payment transactions' predominantly include payables arising from payments passed onto the Czech National Bank's clearing centre.

'Other liabilities' largely include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).

Deferred income fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 18 million (2005: CZK 14 million).

34 Provisions

Provisions comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Provisions for contracted commitments	1,507	2,343
Provisions for other credit commitments	766	1,145
Total provisions	**2,273**	3,488

The provisions for other credit commitments are held to cover credit risks associated with issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the provision for jubilee bonuses.

Set out below is an analysis of the provision for other credit commitments:

Risk	**Balance 2006 CZKm**	Balance 2005 CZKm
Provision for off balance sheet commitments	632	994
Provision for undrawn loan facilities	134	151
Total	**766**	1,145

Movements in the provisions for contracted commitments are as follows:

	1 January 2006 CZKm	Additions CZKm	Disposals CZKm	Accrual CZKm	Foreign exchange difference CZKm	31 December 2006 CZKm
Jubilee bonuses	74	11	5	5	0	85
Loyalty bonuses	147	2	147	0	0	2
Other provisions for contracted commitments	2,122	239	877	0	(64)	1,420
Total	**2,343**	**252**	**1,029**	**5**	**(64)**	**1,507**

As of 31 December 2006, the Group held a provision of CZK 244 million (2005: CZK 277 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Group intends to vacate. This provision is included in '*Other provisions for contracted commitments'.*

35 Deferred income taxes

Deferred income taxes are calculated from temporary differences between tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is, 24 percent from 2006 onwards in the Czech Republic, and 19 percent from 2005 onwards in Slovakia.

Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2006 CZKm	31 December 2005 CZKm
Banking reserves and provisions	344	406
Provisions for non-banking receivables	48	54
Provisions for assets	182	217
Non-banking reserves	89	283
Depreciation	(264)	(121)
Leases	1	(49)
Revaluation of hedging derivatives - equity impact	(899)	(1,313)
Revaluation of a foreign currency equity investment - equity impact	(30)	(2)
Revaluation of available-for-sale securities - equity impact	(338)	(45)
Other temporary differences	84	57
Loss brought forward from previous periods	0	33
Net deferred tax liability	**(783)**	(480)

With effect from 2006, the Group has reported only a net deferred tax liability or a net deferred tax asset. The 2005 comparative amounts were restated to reflect this treatment.

Deferred tax recognised in the financial statements:

	31 December 2006 CZKm	31 December 2005 CZKm
Balance at the beginning of the period	**480**	609
Movement in net deferred tax liability - profit and loss impact	395	(483)
Movement in net deferred tax liability - equity impact	(211)	359
Consolidation adjustments – inclusion in/exclusion from consolidation	119	(5)
Balance at the end of the period	**783**	480

36 Subordinated debt

As of 31 December 2006 the Group had subordinated debt of CZK 6,002 million (2005: CZK nil). The nominal value of the subordinated debt received by the Group at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S. A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity with the Group's option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

37 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).

Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2006:

Name of the entity	**Registered office**	**Ownership percentage**
SOCIETE GENERALE S. A.	29 Bld Haussmann, Paris	60.35
INVESTORS BANK & TRUST COMPANY	89 South Street, Boston	6.98
NORTRUST NOMINEES LIMITED	50 Bank St. Canary Wharf, London	3.74%

Société Générale S. A., only entity with a qualified majority in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.

As of 31 December 2006, the Group held 54,000 treasury shares at a cost of CZK 150 million (2005: 2,000 treasury shares at a cost of CZK 7 million).

38 Composition of cash and cash equivalents as reported in the cash flow statement

	31 December 2006 CZKm	31 December 2005 CZKm	**Change in the year CZKm**
Cash and balances with central banks	15,000	9,328	5,672
Amounts due from banks - current accounts	280	885	(605)
Amounts due to banks - current accounts	(1,403)	(2,106)	703
Total	**13,877**	**8,107**	**5,770**

39 Acquisition/disposal of subsidiary companies

The net assets of companies acquired/disposed of:

	31 December 2006 CZKm	**At the date of disposal in 2005 CZKm**
Total acquired assets	60,666	10,633
Total acquired liabilities	(58,372)	(9,705)
Total net assets of companies acquired/disposed of	**2,294**	**928**
Transfer to equity accounting	0	(377)
Decrease in the reserve from revaluation of available-for-sale securities in respect of sold companies	0	(34)
Profit/(loss) on the exclusion from consolidation	0	95
Total	**0**	**612**
Acquired 60 percent of net assets of a company	1,376	0
Goodwill	2,741	0
Total paid for a 60 percent investment	**4,117**	**0**
Total paid in cash	**4,117**	**612**
Cash flow arising on disposal		
Payment for companies acquired/disposed of	(4,117)	604
Cash of companies acquired/disposed of at the acquisition/disposal date	52	(9)
Net cash flow arising on disposal of companies	**(4,065)**	**595**

Additional information is presented in Notes 2 and 12.

40 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2006. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 628 million (2005: CZK 1,345 million) for these legal disputes (see Note 34). The Group has also recorded an accrual of CZK 408 million (2005: CZK 387 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2006, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Group makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2006, the Group had capital commitments of CZK 69 million (2005: CZK 133 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The condition for opening a letter of credit is its collateralisation, that is, no uncollateralised letter of credit can be opened. The Group records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

Principal off balance sheet exposures include unutilised overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. Commitments to extend credit or guarantees issued by the Group which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Group does not recognise a provision for revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements (that is, their use is not contingent upon the customers maintaining other specific credit standards). The Group recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

Financial commitments and contingencies comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
Non-payment guarantees including commitments to issued non-payment guarantees	19,764	14,422
Payment guarantees including commitments to issued payment guarantees	5,190	3,507
Received bills of exchange/acceptances and endorsements of bills of exchange	77	51
Committed facilities and unutilised overdrafts	12,754	11,418
Undrawn credit commitments	40,627	27,159
Unutilised overdrafts and approved overdraft loans	43,058	39,099
Unutilised discount facilities	136	168
Unutilised limits under Framework agreements to provide financial services	50,306	38,859
Letters of credit uncovered	992	1,001
Stand by letters of credit uncovered	666	598
Confirmed letters of credit	225	17
Letters of credit covered	137	100
Total contingent revocable and irrevocable commitments	**173,932**	**136,399**

The Group provides a variety of credit facilities to its largest clients. Of the Group's committed facilities and guarantees, CZK 33,144 million (2005: CZK 18,846 million) is revocable.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2006, the Group recorded provisions for these risks amounting to CZK 766 million (2005: CZK 1,145 million) - for further information see Note 34.

Set out below is the breakdown of financial commitments and contingencies by sector:

	31 December 2006 CZKm	31 December 2005 CZKm
Agriculture, forestry, mining	4,955	2,222
Processing industry	34,431	33,216
Distribution and production of energy	15,519	7,838
Construction	28,515	19,525
Trade, catering, transport and communication	33,637	29,842
Insurance, banking	16,373	16,513
Other	40,502	27,243
Total	**173,932**	**136,399**

Set out below is an analysis by category of customers:

	31 December 2006 CZKm	31 December 2005 CZKm
Retail customers	22,308	16,788
Corporate customers	134,826	106,526
Public sector	16,798	13,085
Total	**173,932**	**136,399**

The majority of commitments and contingencies originate on the territory of the Czech Republic.

Finance lease commitments

During 2006, the remaining balance of finance lease commitments of CZK 1 million was settled.

41 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2006, the Group was controlled by Société Générale which owns 60.35 percent of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits and other types of transactions. These transactions were carried out on commercial terms and at market rates.

Amounts due to and from the Group companies

As of 31 December 2006, the Group had loans outstanding of CZK nil (2005: CZK 245 million) to the associates. The amounts of associated undertakings placed with the Bank totalled CZK 107 million (2005: CZK 362 million).

The following table summarises loans issued to the Group's associated undertakings and their deposits with the Bank:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
Modrá pyramida stavební spořitelna, a.s.*	x	245
Total loans	**x**	245
Komerční pojišťovna, a.s.	107	350
Modrá pyramida stavební spořitelna, a.s.*	x	12
Total deposits	**107**	362

Note: / Modrá pyramida stavební spořitelna, a. s. is fully consolidated in 2006.*

As of 31 December 2006 and 2005, other amounts due to and from the companies of the Bank's Group were immaterial.

As of 31 December 2006, the Group recorded interest income from loans granted to associates of CZK nil (2005: CZK 38 million).

In the years ended 31 December 2006 and 2005, the Group realised no material amounts of other income or expenses with its associates.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
ALD Automotive Czech Republic	967	475
ESSOX SK	18	0
Fimat London	36	0
Komerční pojišťovna	27	0
SG Brussels	5	0
SG Equipment Finance Czech Republic	4,090	2,591
SG London	69	45
SG New York	16	53
SGA Société Générale Acceptance	3,729	0
SGBT Luxemburg	1,644	15
Société Générale Paris	14,430	18,545
Total	**25,031**	21,724

Principal balances owed to the Société Générale Group entities include:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
ALD Automotive Czech Republic	1	750
ESSOX SK	65	0
Fimat London	94	90
Komerční pojišťovna	142	0
SG Equipment Finance Czech Republic	13	25
SG London	1	79
SG New York	3	16
SG Private Banking Switzerland	13	8
SGBT Luxemburg	1	40
Société Générale Paris	11,776	2,225
Société Générale Warsaw	46	44
Total	**12,155**	3,277

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, and debt securities acquired under initial offerings not designated for trading (refer also to Note 18).

As of 31 December 2006, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 128,702 million (2005: CZK 104,867 million) and CZK 137,389 million (2005: CZK 101,449 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives and guarantees for credit exposures.

As of 31 December 2006 and 2005, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2006, the Group realised total revenue of CZK 2,740 million (2005: CZK 2,074 million) and total expenses including a net loss from trading derivatives and a net loss on the sale of assets of CZK 1,757 million (2005: CZK 1,055 million) with Société Générale Paris. Income includes interest income from debt securities issued by Société Générale Paris (refer also to Note 18), income from interbank deposits, fees from transactions with securities and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits, net loss from financial operations, net loss on the sale of assets, interest expense on hedging derivatives and expenses related to the provision of management and consultancy services.

In the years ended 31 December 2006 and 2005, the Group realised no material amounts of income or expenses with other Société Générale Group entities.

Remuneration and amounts due from the members of the Management and Supervisory Boards and Directors' Committee

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

	31 December 2006 CZKm	31 December 2005 CZKm
Remuneration to the Management Board members*	43	58
Remuneration to the Supervisory Board members**	4	5
Remuneration to the Directors' Committee members***	85	76
Total	**132**	139

Note:

/* ***Remuneration to the Management Board members*** *includes amounts paid during the year ended 31 December 2006 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2006 but including bonuses for 2005, figures for expatriate members of the Management Board include remuneration net of bonuses for 2006 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.*

/** ***Remuneration to the Supervisory Board members*** *includes amounts paid during the year ended 31 December 2006 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.*

/*** ***Remuneration to the Directors' committee members*** *represents the sum of compensation and benefits paid in 2006 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2006, the total balance reflects his/her aggregate annual remuneration.*

	31 December 2006	31 December 2005
Number of the Management Board members	5	5
Number of the Supervisory Board members	8	9
Number of the Directors' Committee members*	17	18

Note: / These figures include all members of the Management Board who are also members of the Directors' Committee.*

As of 31 December 2006, the Bank recorded an estimated payable of CZK 17 million (2005: CZK 19 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2006, the Bank recorded loan receivables totalling CZK 10 million (2005: CZK 7 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2006, draw-downs of CZK 6 million were made under the loans granted to the members of the Directors' Committee. Loan repayments made by the members of the Directors' Committee during 2006 amounted to CZK 7 million. New members of the Directors' Committee used loans of CZK 7 million. The balance of the loans of the retiring members of the Directors' Committee was CZK 3 million as of 31 December 2005.

42 Movements in the revaluation of hedging instruments in the consolidated statement of changes in shareholders' equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate category of equity in the hedging reserve.

	2006 CZKm	2005 CZKm
Cash flow hedge fair value at 1 January	5,469	3,798
Deferred tax liability at 1 January	(1,313)	(985)
Balance at 1 January	**4,156**	2,813
Movements during the year		
Gains/losses from changes in fair value	474	4,013
Deferred income tax	(112)	(965)
	362	3,048
Transferred to interest income/expense	(2,198)	(2,342)
Deferred income tax	527	637
	(1,671)	(1,705)
Balance at 31 December	3,745	5,469
Deferred income tax	(898)	(1,313)
Balance at 31 December	**2,847**	4,156

43 Movements in the revaluation of available-for-sale securities

	2006	2005
	CZKm	CZKm
Reserve from fair-value revaluation at 1 January	741	659
Deferred tax liability/income tax liability at 1 January	(122)	(106)
Balance at 1 January	**619**	553
Movements during the year		
Gains/losses from changes in fair value	855	897
Inclusion of a company in consolidation	205	0
Shadow accounting - insurance company	0	(296)
Deferred tax liability/income tax liability	(196)	(49)
Inclusion of a company in consolidation	(50)	0
	814	552
Gains and losses from the sale and recognition and use of provisions against securities	(259)	(469)
Exclusion of companies from consolidation	0	(50)
Deferred tax liability/income tax liability	16	33
	(243)	(486)
Balance at 31 December	1,542	741
Deferred tax liability/income tax liability	(352)	(122)
Balance at 31 December	**1,190**	619

44 Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of counterparty risk is derived from quantitative and qualitative criteria. The Group assigns ratings not only to its clients, but also to guarantors and sub-debtors, which allows for a better assessment of the quality of accepted collateral.

Depending upon the type and profile of the borrower, the Group uses two basic types of rating – behavioural scoring (based on a client's characteristics of accounts) and application scoring (based on the financial and non-financial data of the client).

The Group continuously strives to fasten, simplify and (when possible) automate both decision-making and monitoring processes, in an effort to better meet market requirements. This is visible in the ongoing further extension of the utilisation of behavioural scoring – the enlargement of the number and individual limit of pre-scored individual clients and the increase in the number of products offered to small business clients (credit cards, authorised debits and business loans).

In setting up a client rating, the Group uses both internal and external credit registers, e.g. the Central Loan Register (information about legal entities) and the Client Information Bank Register (information about individuals).

In 2006, the Group updated its application scoring model for individual clients applying for consumer loans or credit cards, implemented a more granular rating scale enabling more precise pricing and limits better adjusted according to clients' risk profile, etc. Regarding the small business segment, credit risk activities were primarily driven by the development of a new scoring model. The new model integrates a complex set of data (financial, non-financial, behavioural and personal) according to the size of the clients. The model will go live in 2007. Generally the Group performs quarterly back-tests of scoring models.

In the field of the corporate portfolio, rules for following the "one borrower - one rating" principle within Société Générale Group were fully implemented.

The centralisation of the rating models for both individual and business clients into one IT tool was finalised in 2006 and enabled the Group to better control, maintain and further upgrade its rating tools.

Credit risk concentration

The Group monitors credit risk concentration on an aggregate basis (i.e. including all on and off balance sheet positions). The Group specifically monitors credit risk concentrations by countries, segments, industry sectors and by groups of economically linked entities. With respect to groups of economically linked entities, the Group monitors the ratio of the credit exposure to the client groups to the Group's capital and the concentration of corporate credit exposures by level of rating and maturity buckets.

Classification of receivables

The Group performs classification of receivables arising from its financial activities into five categories according to regulations of central banks. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).

The structure of the credit portfolio according to the classification is regularly reported to central banks and to investors.

Receivables that are not categorised

Pursuant to the regulations issued by central banks, the Group does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Provisioning for receivables

All significant exposures to clients are assessed individually at least on a quarterly basis by three levels of Provisioning Committees or by recovery specialists. Provisions are set after due consideration for all available information, including the estimated value of collateral and expected duration of the recovery process. Remaining exposures are provisioned based on a statistical cash flow model depending on the loan classification, product type and segment.

Loan collateral

The amount of the recognised value of collateral is based on the Group's internal rules on collateral valuation and discounting. More specifically, the Group uses independent valuations performed or supervised by the Risk Valuation Department for all real estate collateral, which represents the most frequent collateral type. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, bankruptcy rules etc., and the historical experience of the Group.

In 2006, the Group implemented new functionalities driven by BASEL II requirements.

Recovery of amounts due from borrowers

The Group's recovery activities are based on three pillars as follows:

- Pre-Recovery activities;
- Advisory and Consulting support of recovery specialists to business units; and
- Out of court and Legal Recovery.

Certain recovery activities related to out of court and legal recovery are outsourced to external collection firms with the objective of keeping a high level of efficiency.

In 2006, the Group improved its recovery organisation and processes with focus on pre-recovery activities and segment approach. Internal processes in all recovery activities have been streamlined in order to improve the efficiency of the recovery process in respect of the significant growth of the retail portfolio.

Credit risk hedging instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Revocable contractual commitments

The Group monitors revocable contractual commitments on the same basis as irrevocable commitments - the risk is identified on a client basis and is monitored monthly but no provisions or reserves are created. As of 31 December 2006, the revocable commitments account for 19 percent (2005: 16 percent) of all the Group's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily calculation of counterparty risk is based on two indicators: the Current Average Risk indicator (CAR), and the Credit Value at Risk indicator (CVaR). Both indicators allow for the estimation of the replacement cost of a derivative instrument in the event of counterparty default according to the type of the derivative, the current market parameters, time to maturity, the nominal amount of the transaction, and the volatility of the underlying assets. The CAR indicator calculates the average of the estimated potential exposures likely to occur during the remaining life of the derivative instrument, while the CVaR indicator shows the expected maximum potential exposure with a confidence level of 99 percent (therefore, it better reflects the maximum counterparty risks of the Group in the event of adverse market scenarios).

As of 31 December 2006, the Group posted a credit exposure of CZK 28,600 million (2005: CZK 24,551 million) on financial derivative instruments (expressed in CVaR). Note that this amount represents the gross replacement risk at market rates as of 31 December 2006 of all outstanding agreements, i.e. excluding the effect of any netting agreement.

(B) Market risk

Segmentation of the Group's financial operations

For market risk management purposes, the Group has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Group's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

In order to measure market risks, the Group operates a system of limits that monitors its market positions.

Products traded by the Group

The Group trades the following products that can bear market risks: loans and deposits in the interbank market, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures), treasury bills and Government bonds, corporate bonds and other specific products, such as bond futures, bills of exchange/bill programmes, cash management for selected clients, etc.

The Group enters into transactions with financial derivative instruments for proprietary purposes as well as at clients' requests. In addition, the Group may use derivative instruments (such as interest rate swaps, FRAs and currency swaps) to hedge some of its positions.

The Group also enters into a number of structured financial derivative transactions for its clients which are designed to meet the clients' hedging needs. Market risks from such derivatives transactions are eliminated via back-to-back transactions with the market.

Market risk in the Market Book

In order to measure market risks inherent in the activities in the Market Book, the Group uses the Value-at-Risk concept as an aggregate metric. Value-at-Risk is calculated using historical simulations and represents a maximum potential loss over a given time period (typically one trading day) with a confidence level of 99 percent. The validity of the Value-at-Risk is then verified through a back-testing process: actual trading results and hypothetical overnight results, which exclude P&L generated by the intraday trades, are compared with the Value-at-Risk results. Excesses are analysed to ensure consistency with the 99 percent confidence level. Value-at-Risk is monitored by the Group's management.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 374,000 and EUR 367,000 as of 31 December 2006 and 2005, respectively. The average Global Value-at-Risks were EUR 320,000 and EUR 316,000 for the years ended 31 December 2006 and 2005, respectively.

In order to also take into account events with probabilities of occurrence that are lower than Value-at-Risk scenarios, the Group has implemented daily analysis of potential losses generated by larger shocks ('stress tests') applied to all open positions of the Market Book. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from hypothetical crisis that could harm the positions.

Various specific metrics such as sensitivities, positions and holding periods are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book

The Group manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk ('EaR') for net interest income. The indicators are monitored separately for CZK, USD and EUR, and the sum of other foreign currencies. The EaR indicator shows the maximum departure of the planned net interest income over a one-year period attributable to the movements in interest rates with a 99 percent confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investment in securities or selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

The Group operates a system of market risk and counterparty limits which are designed to restrict inadequate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading:

	Notional value		Notional value		**Fair value**		Fair value	
	2006 Assets CZKm	**2006 Liabilities CZKm**	2005 Assets CZKm	2005 Liabilities CZKm	**2006 positive CZKm**	**2006 negative CZKm**	2005 positive CZKm	2005 negative CZKm
Interest rate instruments								
Interest rate swaps	229,642	229,642	170,560	170,560	2,474	2,424	2,842	2,846
Interest rate forwards and futures*	306,979	306,979	177,105	177,105	228	225	101	111
Interest rate options	1,361	1,361	120	120	1	1	0	0
Total interest rate instruments	**537,982**	**537,982**	347,785	347,785	**2,703**	**2,650**	2,943	2,957
Foreign currency instruments								
Currency swaps*	75,926	75,660	61,666	61,802	1,160	865	416	495
Cross currency swaps	20,741	20,141	10,533	10,343	807	216	310	75
Currency forwards	16,456	16,619	7,434	7,459	197	413	111	141
Purchased options	26,628	26,622	18,596	18,765	769	0	268	0
Sold options	26,884	26,890	18,765	18,596	0	772	0	268
Total currency instruments	**166,635**	**165,932**	116,994	116,965	**2,933**	**2,266**	1,105	979
Other instruments								
Forwards and futures on debt securities*	573	572	808	808	0	0	0	0
Forwards on emission allowances	213	179	0	0	84	50	0	0
Equity forwards	131	149	0	0	55	73	0	0
Commodity forwards	654	654	131	131	89	94	24	24
Commodity swaps	3,404	3,404	4,487	4,487	163	158	236	230
Purchased commodity options	0	0	93	93	0	0	9	0
Sold commodity options	0	0	93	93	0	0	0	9
Total other instruments	**4,975**	**4,958**	5,612	5,612	**391**	**375**	269	263
Total	**709,592**	**708,873**	470,391	470,362	**6,027**	**5,291**	4,317	4,199

Note.: / Fair values include only forwards, with regard to futures the Group places funds on a margin account which is used on a daily basis to settle fair value changes and receivables arising from these margin accounts are reported within other assets*

Financial derivative instruments designated as held for trading at nominal values per remaining maturity:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
Interest rate instruments				
Interest rate swaps	74,338	104,619	50,685	229,642
Interest rate forwards and futures*	269,632	37,347	0	306,979
Interest rate options	0	1,361	0	1,361
Total interest rate instruments	**343,970**	**143,327**	**50,685**	**537,982**
Foreign currency instruments				
Currency swaps	72,580	2,653	693	75,926
Cross currency swaps	2,819	15,794	2,128	20,741
Currency forwards	11,033	4,574	849	16,456
Purchased options	20,420	6,208	0	26,628
Sold options	20,649	6,235	0	26,884
Total currency instruments	**127,501**	**35,464**	**3,670**	**166,635**
Other instruments				
Forwards and futures on debt securities	573	0	0	573
Forwards on emission allowances	213	0	0	213
Equity forwards	131	0	0	131
Commodity forwards	654	0	0	654
Commodity swaps	2,342	1,062	0	3,404
Total other instruments	**3,913**	**1,062**	**0**	**4,975**
Total	**475,384**	**179,853**	**54,355**	**709,592**

Note: The remaining maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off balance sheet exposures are reversed

Financial derivative instruments designated as hedging:

	Notional value		Notional value		**Fair value**		Fair value	
	2006 Assets CZKm	**2006 Liabilities CZKm**	2005 Assets CZKm	2005 Liabilities CZKm	**2006 positive CZKm**	**2006 negative CZKm**	2005 positive CZKm	2005 negative CZKm
Interest rate swaps for cash flow hedging	185,306	185,306	143, 936	143,936	5,089	736	6,652	118
Interest rate swaps for fair value hedging	3,678	3,678	0	0	0	8	0	0
Cross currency swaps for fair value hedging	0	0	1,721	1,450	0	0	270	0
Total	**188,984**	**188,984**	145,657	145,386	**5,089**	**744**	6,922	118

Remaining maturity of derivatives designated as hedging:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
Interest rate swaps for cash flow hedging	43,596	60,752	80,958	**185,306**
Interest rate swaps for fair value hedging	0	0	3,678	**3,678**
Total	**43,596**	**60,752**	**84,636**	**188,984**

The Group treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met. Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

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

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section B of this note.

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

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Undefined CZKm	Total CZKm
Cash and current balances with central banks	6,187	0	0	0	8,813	15,000
Amounts due from banks	191,385	5,115	8,397	3,799	0	208,696
Financial assets at fair value through profit or loss	2,125	5,808	5,733	1,031	0	14,697
Positive fair value of financial derivative transactions	0	0	0	0	11,115	11,115
Loans and advances to customers, net	117,148	52,110	62,662	19,915	670	252,505
Securities available for sale	4,960	3,397	33,259	29,159	1,375	72,150
Investments held to maturity	62	225	1,954	1,059	0	3,300
Prepayments, accrued income and other assets	983	2,178	10	1	2,178	5,350
Income taxes receivable	0	145	0	0	24	169
Assets held for sale	0	0	0	0	613	613
Investment property	0	0	0	0	223	223
Goodwill	0	0	0	0	2,903	2,903
Intangible fixed assets, net	0	0	0	0	2,383	2,383
Tangible fixed assets, net	0	0	0	0	8,017	8,017
Investments in associates and unconsolidated subsidiaries , net	0	0	0	0	434	434
Total assets	**322,850**	**68,978**	**112,015**	**54,964**	**38,748**	**597,555**
Amounts due to banks	11,637	1,933	13	0	1,011	14,594
Amounts due to customers	136,221	15,365	42,241	4,220	282,060	480,107
Negative fair value of financial derivative transactions	0	0	0	0	6,034	6,034
Securities issued	4,196	0	8,622	11,531	0	24,349
Accruals and other liabilities	380	19	0	0	12,415	12,814
Provisions	0	0	0	0	2,273	2,273
Income taxes payable	0	0	0	0	1	1
Deferred tax liability	0	0	0	0	783	783
Subordinated debt	6,002	0	0	0	0	6,002
Total liabilities	**158,436**	**17,317**	**50,876**	**15,751**	**304,577**	**546,957**
On balance sheet interest rate sensitivity gap at 31 December 2006	**164,414**	**51,661**	**61,139**	**39,213**	**(265,829)**	**50,598**
Derivatives*	259,458	175,045	211,997	101,207	0	747,707
Total off balance sheet assets	**259,458**	**175,045**	**211,997**	**101,207**	**0**	**747,707**
Derivatives*	321,439	198,403	194,216	33,049	0	747,107
Undrawn portion of loans **	1,255	(2,108)	945	1,925	0	2,017
Undrawn portion of revolving loans **	(483)	483	0	0	0	0
Total off balance sheet liabilities	**322,211**	**196,778**	**195,161**	**34,974**	**0**	**749,124**
Net off balance sheet interest rate sensitivity gap at 31 December 2006	**(62,753)**	**(21,733)**	**16,835**	**66,233**	**0**	**(1,417)**
Cumulative interest rate sensitivity gap at 31 December 2006	**101,661**	**131,590**	**209,564**	**315,010**	**49,181**	**x**
Total assets at 31 December 2005	334,419	47,700	68,598	28,309	34,830	513,856
Total liabilities at 31 December 2005	156,049	3,438	11,297	6,139	285,606	462,529
Net on balance sheet interest rate sensitivity gap at 31 December 2005	178,370	44,262	57,301	22,170	(250,776)	51,327
Net off balance sheet interest rate sensitivity gap at 31 December 2005	(70,594)	(17,568)	28,602	60,021	0	461
Cumulative interest rate sensitivity gap at 31 December 2005	107,776	134,470	220,373	302,564	51,788	x

Note: / Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards, interest rate options, interest rate futures and cross currency swaps.*

*/** Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.*

Average interest rates as of 31 December 2006 and 2005:

	2006			2005		
Assets	**CZK**	**USD**	**EUR**	CZK	USD	EUR
Cash and balances with the CNB	1.07%	x	x	0.59%	x	x
Treasury bills	2.76%	x	x	2.51%	x	x
Amounts due from banks	2.65%	5.31%	3.73%	2.18%	4.38%	2.28%
Loans and advances to customers	4.36%	5.88%	4.22%	4.51%	4.81%	3.16%
Interest earning securities	3.90%	5.10%	3.53%	3.62%	5.12%	3.34%
Total assets	**2.44%**	**9.79%**	**4.31%**	2.12%	7.69%	2.90%
Total interest earning assets	**2.70%**	**5.32%**	**3.91%**	3.24%	4.55%	2.75%
Liabilities						
Amounts due to banks	2.46%	4.93%	3.54%	1.41%	4.29%	3.14%
Amounts due to customers	0.85%	2.85%	1.31%	0.60%	1.61%	0.71%
Debt securities	3.20%	x	3.73%	2.82%	x	x
Total liabilities	**0.77%**	**2.53%**	**1.58%**	0.53%	1.91%	0.72%
Total interest bearing liabilities	**1.02%**	**2.86%**	**1.66%**	0.78%	2.14%	0.75%
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	3.37%	5.15%	3.73%	3.07%	4.34%	3.40%
Undrawn portion of loans	3.72%	x	4.11%	3.55%	x	2.69%
Undrawn portion of revolving loans	2.87%	4.52%	3.10%	2.87%	4.31%	2.00%
Total off balance sheet assets	3.31%	4.82%	3.66%	3.07%	4.33%	3.38%
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.89%	5.03%	3.77%	2.74%	4.33%	2.90%
Undrawn portion of loans	3.72%	x	4.11%	3.55%	x	2.69%
Undrawn portion of revolving loans	2.87%	4.52%	3.10%	2.87%	4.31%	2.00%
Total off balance sheet liabilities	**2.91%**	**3.97%**	**3.67%**	2.75%	4.33%	2.89%

Note: The above table sets out the average interest rates for December 2006 and 2005 calculated as a weighted average for each asset and liability category.

Short and long crown and euro market rates increased year-on-year. Short-term dollar market rates rose during 2006, while long-term market rates stagnated.

Breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

	Fixed interest rate 2006 CZKm	**Floating interest rate 2006 CZKm**	**No interest 2006 CZKm**	**Total 2006 CZKm**	Fixed interest rate 2005 CZKm	Floating interest rate 2005 CZKm	No interest 2005 CZKm	Total 2005 CZKm
Assets								
Cash and current balances with banks	0	6,185	8,815	**15,000**	0	2,282	7,046	**9,328**
Amounts due from banks	14,599	193,890	207	**208,696**	16,684	228,612	1,489	**246,785**
Financial assets at fair value through profit or loss	14,289	271	137	**14,697**	7,280	85	228	**7,593**
Positive fair values of financial derivative transactions	0	0	11,115	**11,115**	0	0	11,240	**11,240**
Loans and advances to customers, net	138,464	113,644	397	**252,505**	74,914	112,159	2,139	**189,212**
Securities available for sale	67,996	2,200	1,954	**72,150**	25,059	4,457	692	**30,208**
Investments held to maturity	3,238	0	62	**3,300**	3,372	0	66	**3,438**
Liabilities								
Amounts due to banks	4,336	8,128	2,130	**14,594**	0	32,277	547	**32,824**
Amounts due to customers	65,872	388,824	25,411	**480,107**	1,419	365,393	21,619	**388,431**
Negative fair values of financial derivative transactions	0	0	6,034	**6,034**	0	0	4,317	**4,317**
Securities issued	20,130	3,909	310	**24,349**	16,215	6,199	258	**22,672**
Subordinated debt	2	6,000	0	**6,002**	0	0	0	**0**

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Group's Management Board. Liquidity is monitored on a group wide level, with the Market Book also having a stand-alone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date).

Assets	**On demand within 7 days CZKm**	**Up to 3 months CZKm**	**3 months to 1 year CZKm**	**1 year to 5 years CZKm**	**Over 5 years CZKm**	**Maturity undefined CZKm**	**Total CZKm**
Cash and current balances with central banks	9,193	0	0	0	0	5,807	15,000
Amounts due from banks	135,426	56,084	1,091	9,048	6,937	110	208,696
Financial assets at fair value through profit or loss	105	1,702	5,776	5,930	1,068	116	14,697
Positive fair value of financial derivative transactions	0	0	0	0	0	11,115	11,115
Loans and advances to customers, net	5,437	26,359	62,740	68,066	73,285	16,618	252,505
Securities available for sale	48	3,369	2,910	33,580	30,866	1,377	72,150
Investments held to maturity	0	51	236	1,954	1,059	0	3,300
Prepayments, accrued income and other assets	976	9	2,177	10	1	2,177	5,350
Income taxes receivable	0	0	151	0	0	18	169
Assets held for sale	0	0	611	0	0	2	613
Investment property	0	0	0	0	0	223	223
Goodwill	0	0	0	0	0	2,903	2,903
Intangible fixed assets, net	0	0	0	0	0	2,383	2,383
Tangible fixed assets, net	0	0	0	0	0	8,017	8,017
Investments in associates and unconsolidated subsidiaries , net	0	0	0	0	0	434	434
Total assets	**151,185**	**87,574**	**75,692**	**118,588**	**113,216**	**51,300**	**597,555**
Liabilities							
Amounts due to banks	7,004	5,384	1,235	971	0	0	14,594
Amounts due to customers	344,261	49,106	16,218	45,781	5,448	19,293	480,107
Negative fair value of financial derivative transactions	0	0	0	0	0	6,034	6,034
Securities issued	0	31	1,381	8,625	14,312	0	24,349
Accruals and other liabilities	11,350	730	19	0	0	715	12,814
Provisions	2	35	613	58	17	1,548	2,273
Income taxes payable	0	0	1	0	0	0	1
Deferred tax liability	0	0	0	0	0	783	783
Subordinated debt	0	2	0	0	6,000	0	6,002
Shareholders' equity	0	0	0	0	0	50,598	50,598
Total liabilities and shareholders' equity	**362,617**	**55,288**	**19,467**	**55,435**	**25,777**	**78,971**	**597,555**
On balance sheet liquidity gap at 31 December 2005	(211,432)	32,288	56,225	63,153	87,437	(27,671)	0
Off balance sheet assets *	32,735	45,891	50,953	35,600	3,670	0	168,849
Off balance sheet liabilities *	39,876	66,813	139,884	48,992	21,520	19,919	337,004
Net off balance sheet liquidity gap at 31 December 2006	**(7,141)**	**(20,922)**	**(88,931)**	**(13,392)**	**(17,850)**	**(19,919)**	**(168,155)**
Total assets at 31 December 2005	114,498	148,003	55,281	72,071	75,643	48,360	513,856
Total liabilities at 31 December 2005	364,524	41,172	4,972	15,956	11,713	75,519	513,856
Net on balance sheet liquidity gap at 31 December 2005	(250,026)	106,831	50,309	56,115	63,930	(27,159)	0
Net off balance sheet liquidity gap at 31 December 2005	(5,113)	(8,556)	(42,548)	(18,462)	(7,144)	(56,859)	(138,682)

Note: / Off balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and payables under guarantees, letters of credit and committed facilities.*

(F) Foreign exchange position

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Group monitors its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits in place.

	Czech crowns	Euros	US dollars	Swiss francs	Slovak crowns	Other curren-cies	Total
Assets	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**
Cash and current balances with central banks	13,150	1,078	238	64	261	209	15,000
Amounts due from banks	176,473	16,160	13,897	69	1,288	809	208,696
Financial assets at fair value through profit or loss	13,751	112	0	0	262	572	14,697
Positive fair value of financial derivative transactions	11,105	0	0	0	10	0	11,115
Loans and advances to customers, net	228,133	20,011	1,397	67	2,807	90	252,505
Securities available for sale	61,892	7,693	2,565	0	0	0	72,150
Investments held to maturity	1,357	1,711	215	0	17	0	3,300
Prepayments, accrued income and other assets	5,022	221	42	0	3	62	5,350
Income taxes receivable	155	1	0	0	7	6	169
Assets held for sale	613	0	0	0	0	0	613
Investment property	223	0	0	0	0	0	223
Goodwill	2,903	0	0	0	0	0	2,903
Intangible fixed assets, net	2,378	0	0	0	5	0	2,383
Tangible fixed assets, net	7,989	0	0	0	28	0	8,017
Investments in associates and unconsolidated subsidiaries, net	434	0	0	0	0	0	434
Total assets	**525,578**	**46,987**	**18,354**	**200**	**4,688**	**1,748**	**597,555**
Liabilities							
Amounts due to banks	8,675	4,373	44	0	1,186	316	14,594
Amounts due to customers	437,330	30,827	8,806	190	2,039	915	480,107
Negative fair value of financial derivative transactions	5,977	0	0	0	57	0	6,034
Securities issued	23,162	1,187	0	0	0	0	24,349
Accruals and other liabilities	11,300	1,104	237	1	141	31	12,814
Provisions	1,082	382	804	0	3	2	2,273
Income taxes payable	0	1	0	0	0	0	1
Deferred tax liability	778	0	0	0	5	0	783
Subordinated debt	6,002	0	0	0	0	0	6,002
Shareholders' equity	49,945	0	0	0	653	0	50,598
Total liabilities and shareholders' equity	**544,251**	**37,874**	**9,891**	**191**	**4,084**	**1,264**	**597,555**
Net FX position at 31 December 2006	**(18,673)**	**9,113**	**8,463**	**9**	**604**	**484**	**0**
Off balance sheet assets included in the FX position*	737,257	97,773	45,781	0	17,018	4,406	902,235
Off balance sheet liabilities included in the FX position *	717,934	105,951	54,640	7	18,104	4,877	901,513
Net off balance sheet FX position at 31 December 2006	**19,323**	**(8,178)**	**(8,859)**	**(7)**	**(1,086)**	**(471)**	**722**
Total net FX position at 31 December 2006	**650**	**935**	**(396)**	**2**	**(482)**	**13**	**722**
tal assets at 31 December 2005	448,434	35,243	22,636	168	5,506	1,869	513,856
Total liabilities at 31 December 2005	462,302	32,301	13,202	339	3,575	2,137	513,856
Net FX position at 31 December 2005	(13,868)	2,942	9,434	(171)	1,931	(268)	0
Off balance sheet net FX position at 31 December 2005	14,583	(3,313)	(9,386)	162	(2,044)	349	351
Total net FX position at 31 December 2005	715	(371)	48	(9)	(113)	81	351

Note: / Off balance sheet assets and liabilities include amounts receivable and payable arising from spot, forward and option transactions.*

(G) Operational risk

In the operational risks area, the Group is targeting the Société Générale's objective of the Advanced Measurement Approaches ('AMA') method validation at group level. Therefore, all operational risks management instruments required by the AMA method are progressively being implemented in the Group. These instruments are: data collection, risk control self assessment, scenario analysis (all implemented in 2006) and key risk indicators (to be implemented in the first quarter of 2007).

The operational risks validation agenda has been agreed with the regulator of the Group. The Czech National Bank started the pre-validation process in mid-2005 which is anticipated to be completed by May 2007. The validation process is planned to take place in the latter half of 2007 after the assessment by the Group's Internal Audit.

(H) Legal Risk

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount and accrued interest in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50 percent. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

(I) Estimated fair value of assets and liabilities of the Group

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

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

a) Cash and balances with central banks

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

b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

c) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of loss loan is equal to the appraised value of the underlying collateral.

d) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

e) Amounts owed to banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the balance sheet date. The carrying value of term deposits at variable interest rates approximates their fair values at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the balance sheet date.

f) Debt securities issued

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Group.

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

	31 December 2006 Carrying value CZKm	**31 December 2006* Fair value CZKm**	31 December 2005 Carrying value CZKm	31 December 2005* Fair value CZKm
Financial assets				
Cash and current balance with central banks	15,000	15,000	9,328	9,328
Amounts due from banks	208,696	209,023	246,785	247,597
Loans and advances to customers, net	252,505	259,169	189,212	195,324
Investments held to maturity	3,300	3,272	3,438	3,492
Financial Liabilities				
Amounts due to banks	14,594	14,590	32,824	32,820
Amounts due to customers	480,107	480,070	388,431	388,400
Securities issued	24,349	24,231	22,672	22,744
Subordinated debt	6,002	6,004	0	0

Note:/ The fair values were approximated by the carrying values of Penzijní fond Komerční banky, a. s., ESSOX, s. r. o., Factoring KB, a. s., and Modrá pyramida stavební spořitelna, a. s.*

45 Assets under management

As of 31 December 2006, the Group managed client assets in the amount of CZK 3,472 million (2005: CZK 3,754 million), of which no assets were from the Group's subsidiaries.

46 Post balance sheet events

In January 2007 the Bank formed the subsidiary Protos, uzavřený investiční fond a.s. (close ended investment fund) with equity of CZK 7,500 million. The entity will commence its operations following approval by the Czech National Bank and registration in the Register of Companies.