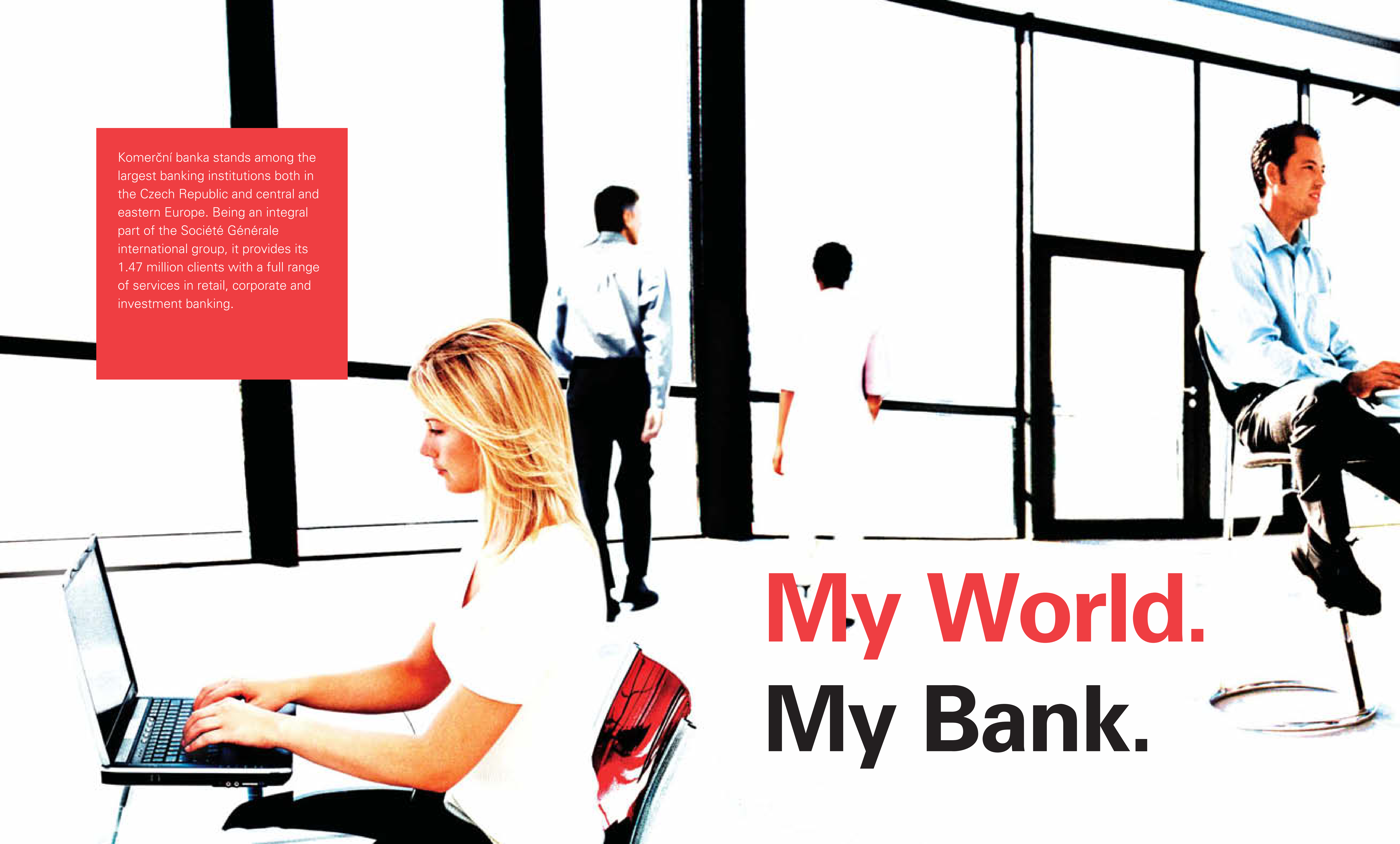
Komerční banka, a.s.
Annual Report 2005

KB



Komerční banka stands among the largest banking institutions both in the Czech Republic and central and eastern Europe. Being an integral part of the Société Générale international group, it provides its 1.47 million clients with a full range of services in retail, corporate and investment banking.

My World.
My Bank.

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Company Profile

Komerční banka (KB) stands among the largest banking institutions both in the Czech Republic and central and eastern Europe. Being a part of the Société Générale international group, it provides its clients with a full range of services in retail, corporate and investment banking.

The Bank serves 1.47 million clients through its extensive branch network that includes 360 points of sale across the entire Czech Republic, 607 ATMs, plus telephone, internet and PC banking services.

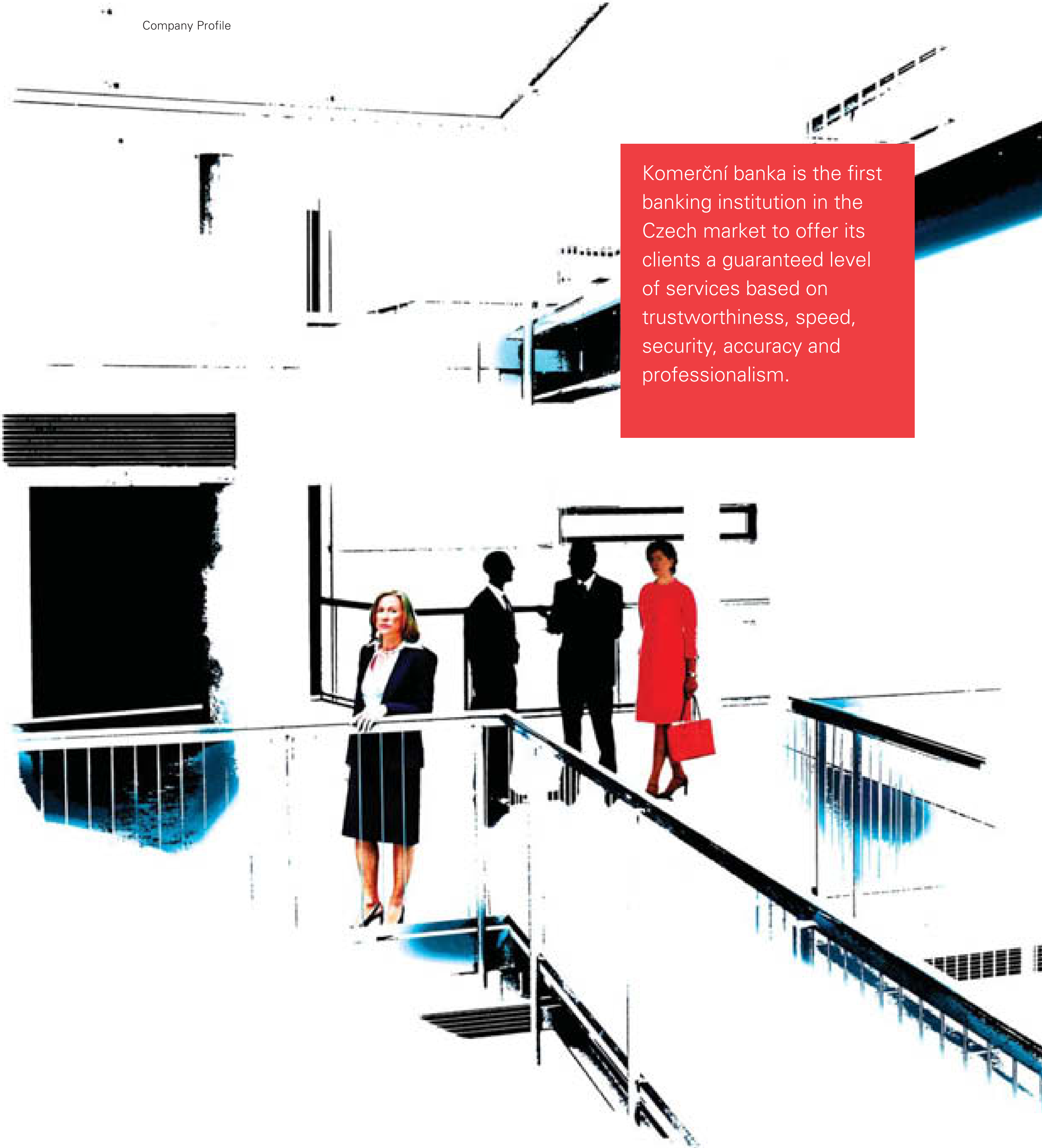
Aspiring to be a one-stop shop for its clients offering products matching their needs, Komerční banka provides services that include mortgages, consumer loans, credit cards, life and non-life insurance products, supplementary pension insurance, building loans and savings, investments into unit trusts and guaranteed funds, as well as leasing services and other tailored financial solutions. To achieve this objective, the Bank closely co-operates with its partners from both KB/SG Group and external companies who are leaders in their businesses.

Komerční banka is the first banking institution in the Czech market to offer its clients a guaranteed level of services, and it is the first providing its clients access to an independent ombudsman.

Reflecting its continuous effort to improve the quality of services and customer satisfaction, professional juries have repeatedly named Komerční banka "Bank of the Year", including for 2005, in the prestigious MasterCard Bank of the Year competition.

Société Générale Group

Komerční banka became part of the Société Générale Group (SG Group) in October 2001. SG Group comprises 775 companies and operates in the areas of retail banking, specialised financial services, global asset management, private banking and securities services, corporate and investment banking. It employs over 103,000 people in 76 countries. In retail banking, SG Group serves 19.2 million clients in France and worldwide. KB is part of the Retail Banking Outside France arm that is present in 27 countries and represents a very significant part of SG's retail business outside of France.



Komerční banka is the first banking institution in the Czech market to offer its clients a guaranteed level of services based on trustworthiness, speed, security, accuracy and professionalism.

Financial Highlights

Unconsolidated data		IFRS *		
CZK million	2005	2004	2003	2002
Financial Results				
Net Banking Income	23,409	22,717	21,844	22,597
of which: Net Interest Income	13,640	12,406	11,937	12,447
of which: Net Fees and Commissions	8,718	8,703	8,711	8,320
Total Operating Costs	(11,611)	(11,788)	(11,750)	(12,760)
Net Profit	9,148	9,299	9,262	8,763
Balance Sheet				
Total Assets	493,738	448,294	447,565	439,753
Loans to Customers, net	185,225	155,379	130,900	121,154
Amounts Due to Customers	370,058	358,825	349,505	341,114
Total Shareholders' Equity	50,314	43,578	40,399	33,758

Unconsolidated data		IFRS *		
%	2005	2004	2003	2002
RATIOS				
Return on Average Equity, ROAE	19.5	22.1	25.0	30.6
Return on Average Assets, ROAA	1.9	2.1	2.1	2.0
Capital Adequacy – ČNB	13.6	12.8	15.4	13.4
Net Interest Margin	3.1	3.0	3.0	3.3
Cost/Income Ratio	49.6	51.9	53.8	56.5

* IFRS – International Financial Reporting Standards

Unconsolidated data	2005	2004	2003	2002
Other Data				
Number of Employees, Average	7,388	7,855	8,683	8,935
Number of Points of Sale	360	335	335	331
Number of ATMs	607	555	519	440
Number of EFT-POS	15,312	12,717	10,104	8,480

Rating agency	Short-term *	Long-term *
Fitch Ratings	F1	A+
Moody’s	Prime-1	A1
Standard & Poor’s	A-1	A

* As of December 2005

Owing to rising revenues, driven by a very good business performance and efficient cost control, the net operating income increased by 8%.

Interview with the Chairman of the Board of Directors

Laurent Goutard
Chairman of the Board
of Directors and CEO

In autumn 2005, you became Komerční banka's Chairman of the Board and Chief Executive Officer. You took over leadership of the Bank from Alexis Juan, who had successfully guided the Bank through the transformation process. Will you continue in his strategy, or do you want to change it fundamentally?

First, let me say that the strategy for Komerční banka has been set correctly and that I unambiguously share Alexis Juan's vision and strategic outlook for the Bank as we share the same view also with the Supervisory Board members. In the spirit of this strategy, Komerční banka must always remain an important player on the Czech banking market. Under the management of Alexis Juan, Komerční banka successfully completed its fundamental reorganisation and was fully integrated into the Société Générale Group. I must build upon his work. Now is the time for developing the Bank's commercial activities. Our approach to clients and our business model are founded upon building a long-term relationship with the customer. We want to be our clients' lifelong banking partners. We want them – as well as their children – to come back to us, to turn to us also in their professional lives, as managers or business owners, and truly to find here all the products and services they need.

A long-term relationship means partnership. What did Komerční banka do in 2005 to become a true partner for all your clients?

I think that the foundation of any partnership must be an absolute and mutual trust that is based on transparency. Building up transparency is a long-term task, and Komerční banka already began working on this two years ago. The first step was to abolish the account-closing fee at the beginning of 2004, as we are convinced that the client should not be penalised for his or her decision to end a banking relationship.

Three substantial changes occurred in 2005 after several months of preparations. In January, we introduced a guaranteed level of services. KB was the first bank in the Czech Republic publicly pledging to adhere to clear rules with regard to products, services and the approach to clients. Furthermore, in 2005 we unified and made more transparent our general commercial terms. At the end of the year, then, we introduced a new Fee Schedule which became effective on 1 January 2006. This new fee schedule has been substantially simplified, and a number of items were eliminated that no longer corresponded to the Bank's business strategy. We have posted the new full version of the fee list on the Bank's website. While 2005 brought truly fundamental changes, this does not at all mean that our aim to increase transparency ends here. This is indeed a long-term goal, and I can promise that we will continue working toward its fulfilment in the months ahead.

Should these activities be seen as Komerční Banka's answer to actions taken by the Ministry of Finance, which this year opened a public debate on the position of bank clients in the Czech Republic?

No, our effort to increase transparency in the client-bank relationship is a long-term activity, as I have said, and our first steps were implemented, or preparations for them begun, already in 2004. It must be noted, though, that Komerční banka has thoroughly welcomed this public discussion, and our representatives have participated very actively – whether it has been within the Czech Banking Association or directly with the Ministry of Finance. KB has also collaborated in drafting the Czech Banking Association's Code of Conduct. We in Komerční banka know very well that only a happy client comes back, and it is up to us to convince that client that we are the right bank for him or her. We have taken the steps I have described precisely because we value our clients and we want them to come back to us. And we perfectly know that without them we couldn't be successful.

In your opinion, what is the level of competition on the Czech banking market and how it will develop in the near future?
The competition on the Czech market is definitely very strong. Every year, a number of clients end their relationships with the Bank for various reasons even as more new clients come. On balance, the total number of clients is increasing each year. This means that if clients are not happy with a bank's services, they simply go elsewhere, and there is plenty from which to choose on the Czech market. I am convinced that competitive pressure on the Czech market will only grow in the coming years. This does not mean, though, that there is no space for developing new business activities. Czech clients still use fewer products than is common in Europe, and those products they already have are being used to a lesser extent. There are plenty of business opportunities on the Czech market despite increasing competition, and the quality of services provided will be the decisive factor in who gains from those opportunities. Komerční banka is quite ready for this competitive struggle.

How was the year 2005 from the perspective of the Bank's business and financial results?
During 2005, we were again focused on our product portfolio. We brought to the market Mobilní banka, which is a unique service not only in the Czech Republic, but in Europe as well. We maintain our leading position on the Czech market in implementing chip technology, which is confirmed by the fact that in 2005 we equipped the entire ATM network with chip technology. We did very well, too, in developing investment products. A new investment programme, Fénix, joined our already successful Max line of mutual funds, and our clients can also invest into foreign funds through our sister company Société Générale Asset Management. We introduced a number of new products for our business clientele, such as business credit cards, noncash payment transactions at Makro retail outlets, and insurance for business payment cards including cash advances and intended deposits. Of course, we are still focused, too, on developing lending activities in all client segments.

Together with an expanding product offering, we are likewise working intensely to extend and optimise our distribution network. Last year, we opened 25 new branches, while dozens of points of sale were moved to locations more convenient to clients. Extending the branch network is a very important element in building relationships with clients, and we will continue in this direction. Also important is that our clients can use an ever growing network of Komerční banka ATMs. We aim to develop all of our distribution channels, because we want our customers to be able to tend to their money whenever they need.

With regard to financial results, the Bank succeeded in boosting its net operating income by 8%, which reflects a combination of increased revenues and a slight decrease in costs. The Bank's total net profit reached CZK 9,148 million, even though profits were influenced by several substantial one-time items. I regard this as a big challenge for the future.

Komerční banka sold its 100% share in its investment management firm (Investiční a kapitálová společnost KB) to SGAM and a 51% share in its insurer (Komerční pojišťovna) to Sogécap. Why did you decide to take this step?
One of the Société Générale Group's corporate values is professionalism. The partner companies from the Société Générale Group that you mention are real professionals in their particular fields, are among the European leaders, and possess extensive know-how that today they are bringing to the Czech market, to Czech clients. So the reason for this decision is quite obvious: to consolidate the KB financial group so we are able to offer products and services to our clients comparable with those offered on developed foreign markets. With the entry of our partner companies, our product offering will improve. A first step, for example, is the possibility to invest in SGAM's foreign mutual funds. It is obvious that through these transactions we also are upholding the interests of Komerční banka and its shareholders, and the improved products and growing sales will have positive effects on Komerční banka operations and earnings. At the same time, we have been very successful in the first step of our strategic partnership with Allianz in the Czech market. This partnership is very important for us and proves our capacity for building a strong business relationship also with an external company. By co-operating with our subsidiaries, Société Générale sister companies and other external partners, the Bank aims to provide our clients as wide a range of products as possible in our distribution network.

Komerční banka also supports a number of community projects in the areas of culture, amateur sport and education. Are such activities still the main pillars of the Bank's sponsorship strategy?

Indeed they are. Komerční banka is a leading Czech bank, one of the main pillars of the Czech economy, and being in this position brings with it certain obligations to society as a whole. KB is well aware of those obligations, and it fulfils them through its sponsoring and donating activities. While our co-operation with the likes of the National Theatre, the Czech Rugby Union and the Prague Zoo are very successful, we also support a number of other cultural, amateur sporting and educational activities. In the area of charity projects, I'd like to emphasise the work of Komerční banka's Jistota Foundation.

Can you outline the main features of the KB strategy for the immediate future?

As I've already noted, we must concentrate especially on developing our commercial activities. Komerční banka is very successful in managing its risks and its costs, so now we must focus on growing revenues. This goal can be accomplished only by developing our businesses. Therefore, we will direct our attention to increased cross-selling, to further expanding our distribution network, and to improving the quality of service and transparency in the relationships with clients. All of these elements must work hand in hand if Komerční banka is to be successful in such a highly competitive market. In the year 2005, Komerční banka defended the prestigious Bank of the Year title. This was possible only thanks to the professionalism of our employees and the trust from our clients. I would like to thank all of them, and I must say that I really look forward to our continuing co-operation.

KB's approach to clients and its business model are founded upon building a long-term relationship with the customer.

Major Events in 2005

New and innovated products

Komerční banka introduced a new mobile banking service, Mobilní banka KB, that enables clients to use Java technology for controlling their bank accounts via their mobile phone handsets. KB also continued to update its offer of mutual funds. Following onto the success of the MAX I-IV guaranteed funds, the Bank introduced Fénix, a combination of investments in local and foreign funds, and opportunity to invest directly into Société Générale Asset Management funds.

KB continued in improving its offer to businesses and entrepreneurs. It launched the first credit card intended exclusively for firms and businesspeople. KB also started offering an exclusive type of payment card for easy access and payments for customers of Makro Cash & Carry stores – the Makro payment card. The Makro card is not only a debit card designed for direct payments within the Makro retail network throughout the Czech Republic, but the bar code on the rear of the card also allows entry to the stores. The Bank also introduced a new and simplified business loan, called the EU Profi Loan, based on the EBRD's credit line.

Special attention was also given to enlarging the spectrum of insurance products. The Bank launched a new life insurance policy covering the risk of not being able to repay a mortgage loan should the insured individual die or become completely and permanently disabled. The Bank also offered a new payment card insurance policy for entrepreneurs and legal entities called Profi Merlin. It introduced a new accident insurance for entrepreneurs, Profi Patron, which provides financial support to an entrepreneur's family in the case of a serious accident.

Komerční banka – a leader in credit cards innovation

Komerční banka was the first bank in the Czech Republic to operate an ATM machine accepting chip cards. The process of migrating KB's entire network of ATMs to EMV chip technology was completed by the end October 2005. This move further enhances the security of using payment cards.

Development of the KB distribution network

In its effort to be closer to its clients and as a part of its top line expansion strategy, KB opened 25 new branches in 2005 and put 52 new ATMs into operation. As of the end of 2005, its clients had 360 branches and 607 ATMs at their disposal.

Innovations in approach to clients

From the beginning of 2005, KB became the first Czech bank to introduce a guaranteed service level. The Bank commits itself to observe clearly defined principles concerning its products, services and approach to clients. These principles include trustworthiness, speed, security and confidentiality, accuracy and reliability, professional behaviour and competent staff. At year's end, then, the Bank presented a new price list, which became effective in January 2006. The updated price list is part of Komerční banka's effort to improve transparency in the client-bank relationship. Many items were removed, so that the price list has been simplified significantly.

New Chief Executive Officer

On 6 October 2005, Komerční banka's Board of Directors elected Mr. Laurent Goutard as Chairman of the Board and Chief Executive Officer. Mr. Goutard replaced Alexis Juan, who on 5 October 2005 ended his four-year term and decided to retire.

Antimonopoly Office

As of May 12, the Czech Office for the Protection of Competition (antimonopoly office) began investigating the three largest Czech banks – Komerční banka, ČSOB and Česká spořitelna – for possible collusive behaviour and abuse of dominant position in setting fees. KB firmly denied any such behaviour and considered this accusation as entirely unfounded. In November 2005, the antimonopoly office decided to drop the investigation, as it had found no evidence of cartel behaviour. At the same time, the Ministry of Finance initiated a public discussion on a proposal to introduce regulations that would enhance Czech banks' transparency towards clients. The discussion resulted in the Czech Banking Association issuing in December 2005 a code of conduct with which banks should comply.

Komerční banka was awarded the main prize in the Bank of the Year 2005 competition.

Restructuring of KB Group and enhanced co-operation with its partners

In 2005, Komerční banka decided to further streamline its organisation in an effort to better exploit all synergies within the SG Group and to bring its clients higher quality services. In May, KB sold its asset management subsidiary, Investiční kapitálová společnost KB (IKS), to Société Générale Asset Management SA (SGAM). In September 2005, the Bank sold a 51% stake in Komerční pojišťovna, retaining a 49% minority shareholding. Moreover, Komerční banka has intensified co-operation with other business partners. Since autumn, not only does KB sell Allianz non-life insurance policies, but Allianz agents have also begun selling KB mortgages.

Annual General Meeting

On 28 April 2005, Komerční banka held its regular Annual General Meeting (AGM). Shareholders approved the financial statements for 2004 and voted on profit distribution. The AGM approved a dividend payment of CZK 100 per share before tax.

Rating improvement

The rating agency Fitch Ratings increased its individual rating for KB to C from C/D in March 2005. In June 2005, Standard & Poor's Ratings Services put KB on CreditWatch and raised its long-term rating to A- from BBB+. Later, the agency raised again KB's long-term counterparty rating to A from A- and, in December, raised its short-term rating to A-1 from A-2.

Awards for Komerční banka

Komerční banka was awarded the main prize "Bank of the Year 2005" in the fourth year of the prestigious MasterCard Bank of the Year competition. KB won the title for the second year in a row. KB Group collected three prizes overall in the total of nine categories.

Komerční banka Share Price

Trading in Komerční banka Shares

Komerční banka shares trade under ISIN CZ0008019106 on public capital markets in the Czech Republic organised by the Prague Stock Exchange (PSE) and the RM-SYSTEM. The shares are listed on the PSE's main market and rank among the most liquid issues. Moreover, Komerční banka shares are traded in the form of global depository receipts (GDRs) on the London Stock Exchange and in the PORTAL system of the National Association of Securities Dealers, Inc. in the USA.

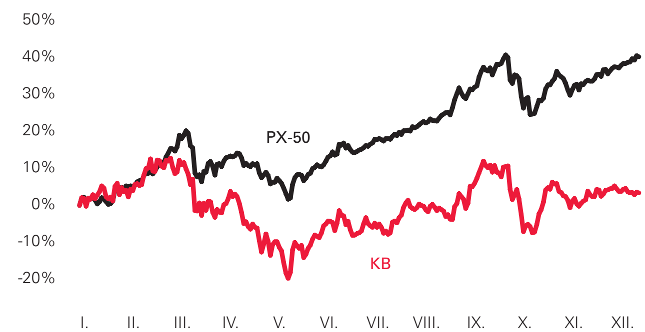
Share Price Development

Through 2005, Komerční banka shares gained 5.2%, or CZK 169, to end the year at CZK 3,441. After reaching an all-time high of CZK 3,754 in March, the share price went through a correction in April and May, partly in line with market developments. In May, the stock dropped to its minimum for the year of CZK 2,673. The stock then recovered, however the price has so far not been able to sustain itself for long at levels above CZK 3,500. Due in part to these events, the KB stock has underperformed the market, which, as measured by the PX 50 index, rose by almost 43% in 2005, being however significantly influenced by exceptional development of several of the most important companies in the market. Komerční banka remained one of the most actively traded issues on the PSE, with average daily trading volume of CZK 800 million. Trading in KB shares represented about 20% of the total trading volume in equities on the PSE.

Trading in KB shares represented 20% of the total trading volume in equities on the Prague Stock Exchange in 2005.

Development of KB share price in 2005

Development of KB share price in 2005 (% change)



Share price development

	2005	2004	2003	2002	2001
Number of outstanding shares [1]	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Market capitalisation (CZK billion)	130.8	124.4	91.9	79.0	39.4
EPS (CZK) [2]	240.7	244.7	243.7	230.5	66.6
BVPS (CZK) [3]	1,323.7	1,146.5	1,062.9	888.1	620.8
Share price (CZK)					
maximum	3,754	3,452	2,655	2,161	1,184
minimum	2,673	2,418	1,837	1,016	807
closing price at the end of period	3,441	3,272	2,418	2,078	1,036

[1] Nominal value per share CZK 500
[2] Earnings per share (IFRS unconsolidated)
[3] Book value per share (IFRS unconsolidated)

Dividend payment

In April 2005, the Komerční banka Annual General Meeting (AGM) approved a dividend payment for 2004 of CZK 100 per share before tax, which amounted to 41% of net profit. Shareholders holding KB shares on the thirtieth calendar day following the date of the AGM are entitled to receive the dividends.

	2004	2003	2002	2001	2000
Dividend (CZK) [1]	100.0	200.0	40.0	11.5	0
Payout ratio (%) [2]	40.9	82.1	17.3	17.3	0

[1] Dividend per share before tax; the statutory tax rate applicable is 15%
[2] Dividend/ Earnings per share (IFRS, unconsolidated)

Macroeconomic Development

Economic growth in the Czech Republic further accelerated during 2005. Gross domestic product increased by 6%, up from 4.7% growth in 2004. This figure marks the best result since 1996. The economic growth acceleration to 6% was accompanied by low inflation and improvement in the external balance.

Consumer inflation stayed below 2% for the majority of the year, with no major impact from the autumn's sharp increase in oil prices. Growth in consumer prices through the full year was 2.2%, and the average inflation rate in 2005 was 1.9%. Producer prices registered rapid slowdown in the course of the year, ending in the deflation range in spite of high world fuel prices. The effects of globalisation and increasing competitive pressures were strongly felt in the small and open Czech economy. In addition, both consumer and producer prices have been pulled down by continuing appreciation of the Czech currency. On average, the Czech crown appreciated by 6.6% against the euro in 2005, while the gain relative to the US dollar was 6.8%.

The economic growth is more and more driven by export efficiency. The year 2005 marked a turning point for the trade balance, which, for the first time in the history of the Czech Republic, registered a surplus of CZK 40 billion. Foreign trade has improved especially due to the pro-export effects of foreign direct investments, the inflow of which was massive during the last decade. The companies under foreign control are strongly export-oriented and have a great impact on the favourable developments of industry, services and trade.

Although the growth in industry was not at a record high, as it had been in 2004, the expansion of 5.7% should be seen as very solid, and particularly so in a European context. Moderate slowing in industrial output growth was influenced by rather weak economic activity in the euro zone and a general slowdown in demand for metal production. With year-on-year growth close to 20%, the automotive industry was the most rapidly expanding. New capacities of the TPCA factory (Toyota Peugeot Citroën Automobile), along with growing production of automotive components, contributed to the increase. Considering the automotive industry's key importance in Czech industry and foreign trade, the risks for the whole economy stemming from the cyclical character of demand in this industry seem indisputable.

Statistical data on construction in 2005 continued to show the effects of the change in VAT in 2004, and rather low 4.2% growth in output was predominantly due to statistical effects. As in previous years, construction was driven mostly by infrastructure projects and activities of foreign investors focused on business and commercial centres. Housing construction rose by approximately 5%, massively supported by the mortgage market. The volume of mortgages rose by more than 40%, although their share in GDP (around 8%) is still low in the European context.

Retail sales growth accelerated to 3.8%, up from 2.5% in 2004. The main reasons were recovery in the automotive segment and strong demand for non-food consumer goods. The activities of international retail chains have expanded the range of goods offered, and pricing has been competitive. Meanwhile, purchasing power has been supported by consumer lending, which increased by 37% in 2005.

Public finance and the labour market have continued to be major weak spots of the Czech economy. Although both areas have stabilised somewhat as automatic consequences of strong economic activity, they still represent long-term problems. The reform of public finance, and especially of the pension system, must be accomplished before joining the euro zone, so that annual budget deficits under 3% of GDP will be sustainable. The situation on the labour market improved slightly during 2005, but the unemployment rate's easing to 8.9% (from 9.5% in 2004) cannot be considered excellent under conditions of strong economic activity. The structural nature of Czech unemployment, regional disparities and an increasing share of long-term unemployment have been the main problems of the Czech labour market.

In 2005, the gross domestic product of the Czech Republic increased by 6%.

Report of the Board of Directors

Strategy

Komerční banka's unceasing ambition is to be a leading universal financial institution that builds long-term relationships with all of its customers by focusing on the quality of its services. The Bank will take full advantage of the potential in the under-penetrated and fast-growing retail market while using its very strong position in the segment that is the affluent individual clientele. Through its multi-channel, customer-orientated distribution model, the Bank provides a wide range of financial products, including day-to-day banking services, financing products, insurance and investment products.

The Bank strives to strengthen further its leading position in the small and medium enterprises market and to maintain its top rank in providing banking services to large corporations in the Czech Republic.

Business model

KB has successfully implemented its new business model. This multi-channel, customer-orientated distribution model focuses on marketing and distribution capabilities as well as operational efficiency. The main features of this model are:

- Long-term client relationships that emphasise transparency and communication.
- Continuously improving services reflecting technological innovations and clear quality commitments.
- A multi-channel approach to clients that provides them non-stop and convenient access to the Bank by fully integrating the branch network with telephone, mobile and internet banking services.
- Taking full advantage of all synergies throughout Société Générale's business lines.
- An emphasis on cross-selling activities.
- Separation of production and distribution processes, wherein KB, with its focus on client relationships, is a distributor for products manufactured by KB and Société Générale subsidiaries, and external partners.
- A high level of efficiency.

KB's ambition is to be a leading universal financial institution in the Czech Republic.

Client services

- In order to offer a comprehensive product range under the KB brand, the Bank develops new and innovative products and enhances co-operation within KB Group, with Société Générale sister companies and other firms.
- Striving to move closer to its clients and offer convenient access to all its services, the Bank is developing a modern multi-channel distribution model. In addition to opening new branches in major cities and urban areas, it continues to install new ATMs and develop more services to provide through its telephone, mobile, internet and PC banking channels.
- Endeavouring always to enhance services quality, Komerční banka became the first financial institution in the Czech market to commit itself to maintaining a guaranteed level of services with regard to its products, services and approach to clients. These commitments to clients are built on the four solid pillars that are clearly defined principles: trust, speed, security and satisfaction.
- To enhance services and convenience for its clients, the Bank continuously seeks all possible new means for improvement. Beginning in January 2006, the Bank significantly simplified its price list to be more user-friendly for all KB clients.

Komerční banka's role in society

- Professionalism, innovation and team spirit are the Bank's three main corporate values. Motivated, satisfied and loyal employees are of key importance. KB's never-ending focus on training its employees and the development of their careers aim to both improve client services and boost employee loyalty.
- The Bank is well aware of its social responsibility. It has always put great emphasis on its contributions to culture, education and sport, and Komerční banka will carry this commitment into the future.

New challenges for the Bank

- KB will persist in its vigorous attention to generating revenues and growing market shares in all areas. It will target fast-growing segments and products, improve customer-support and relationship-management tools, data sharing and analysis systems, while building professionalism and the capacity of the sales force.
- The Bank will go on enhancing its lending activities to both retail and corporate clients by simplifying all processes and taking an active approach to customers.
- Key factors for Komerční banka's performance are to further increase its potential for cross-selling and constantly to broaden its product range.
- Regular and extensive monitoring will further improve the quality of services provided to clients.
- To maintain its high efficiency, the Bank will continue in its successful cost management and strict risk management.

Expected developments in the financial situation

The Bank's financial results in previous years were impacted by significant one-off gains which are not likely to be repeated in the coming years. Management expects, however, that the Bank's business strategy will:

- positively impact upon revenue generation and the level of recurring profitability,
- keep the cost/income ratio in the low fifties, and
- lead to a slight increase in the cost of risk, as a result of the fast growing retail portfolio, although that will be kept under control and adequate to the Bank's risk profile.

Management also expects that there will be no significant impact on KB's very good liquidity. The Bank will maintain its strong capital base, with a long-term dividend policy of a 40 – 45% payout ratio that is comparable with those of other European banks.

Serving the Clients

Komerční banka continued during 2005 in gaining new customers. As of the end of the year, the Bank was serving some 1.47 million clients, of which about 1.19 were individuals and 282,000 were entrepreneurs and companies. As the Bank's products, services and relations with customers continually improved, the number of clients grew year on year by 60,000, i.e. by 4%.
KB uses a detailed segmentation of clients, which enables it to customise its product offer to most closely meet the clients' needs and requirements. Represented in the individual segments are:

- some 1.45 million individual clients, small businesses and entrepreneurs, who are further subdivided into groups receiving dedicated products and services,
- more than 15,000 medium enterprises and municipalities, and
- over 2,000 large corporations.

The Bank strives unceasingly to enhance its services and communication with its clients in order to improve the quality of services delivered.

Communication with clients and monitoring quality

In 2005, KB intensified direct communication with existing and potential clients. Throughout the year, the Bank held 42 Meeting Days with KB, where clients have an opportunity to meet and discuss with the Bank's product specialists and other experts from its subsidiary companies.

KB also participated in several international fairs: the International Engineering Fair and International Building Fair in Brno and, together with the parent company, Société Générale, also in the Eurofinance fair. During the INVEX fair, the Bank, together with the Czech Franchising Association, participated in organising the Franchising Forum, which brings new projects in this area to the Czech Republic.

For the youngest clients, KB organised 260 theatre performances of the children's story "Ladybug Detective Office". About 10,000 children saw this successful performance in nursery and grade schools throughout the country.

As part of its Quality Programme, Komerční banka devotes constant attention to resolving complaints and claims from its clients. Information on resolving complaints and claims – including the process for filing these – is included in important information for clients and is available at all points of sale and on KB's website. The Bank emphasises quality and speed in settling such issues. Komerční banka has a three-level system of dealing with complaints and claims: Branch, Client Complaints and Claims Settlement Centre, and Independent Ombudsman.

All employees also have access to an internal document called "Everything You Need to Know about the Complaints and Claims Process", which emphasises, above all, the client's satisfaction.

Sales Network

Business Network

Komerční banka continued to optimise its sales network and significantly extend its network of branches within the Czech Republic to 360 during 2005. A total of 25 new branches were opened, primarily in the Prague Region. Nine of the 25 newly opened branches are cashless banking, bringing to ten the total number in the whole network. The optimisation also included ten relocations. The branches were moved to more appropriate premises that are closer to their clients. Plans call for continuing the active opening policy and include a redesign of the point of sale interior. All points of sale were equipped with new publicity and presale orientation systems as a part of the so-called merchandising in branches project.

Komerční banka further enlarged its ATM network by 52 machines, year on year, with the total number reaching 607. Last year was also a year to modernise ATMs by replacing more than 90 obsolete units. ATMs are currently at the clients' disposal at each point of sale or at a maximum of 200 metres from the branch. The basic principle of ATM network development has been to install ATMs in new points of sale, shopping centres and locations with a large population density.

KB implemented a brand new teller system for all tellers and relationship managers within the network, which executes all cash, non-cash and check transactions.

In 2005, KB extended its branch network to the total of 360.

Direct Banking

Komerční banka continued in 2005 to improve and develop direct banking services. A result is that 65% of companies and more than 50% of individuals having accounts with KB use telephone or internet banking.

The year was again one of growth for direct banking clients, the number of which increased by 14% to 793,000. Total direct banking products sold exceeded one million. There was also significant gain in the number of Mojebanka internet banking users, which rose by nearly one-third to 289,000. The KB Express Line remained the most used direct banking service with 668,000 customers in 2005. The fact that almost 85% of all non-cash payments are entered via computers and telephones by our clients also demonstrates the popularity of direct banking.

In direct banking, too, KB's priority is client satisfaction. In 2005, therefore, we further improved the multi-channel sale of Komerční banka products, increasing quality and time efficiency for both clients and relationship managers. Phone bankers – specialists in sales by phone – placed over 820,000 outgoing calls and matched the previous success in selling credit cards and other products of Komerční banka and its subsidiary and associated companies.

During 2005, Komerční banka broadened its offer of direct banking services with a new service – mobile banking. This service permits clients to control their accounts on-line via mobile phones. The Mobilní banka service works on Java-based technology that enables data transfer between the client and the Bank. This is a revolutionary innovation in direct banking and Komerční banka is the first bank in the Czech Republic – and one of the first in the world – to offer such a service to clients. Via Mobilní banka, clients can place payment orders, verify their account balances, check transaction history, receive information on pending payment transactions, use templates for periodical payments, and send notifications of payments made. Six months after launching the service into the market, almost 5,000 clients already were using mobile banking.

In September 2005, Komerční banka introduced to the market electronic payment cards statements for merchants who accept payment cards. This service enables them to more quickly and comfortably process transactions in their accounting systems. Clients will also benefit from a new way to activate internet banking, which is now easier and quicker than before.

Payment Cards

In 2005, Komerční banka further developed its payment cards programme and related activities. By the year's end, there were 1.37 million active cards, of which 1.24 million were debit cards and 125,000 were credit cards.

Komerční banka is still the only bank in the Czech Republic that accepts the cards of all five major card associations: VISA, MasterCard, American Express, Diners Club and JCB.

In line with the Bank's strategy and trends on the Czech market, greater emphasis was placed on expanding in the credit card area. The total number of active credit cards rose by 89% to 125,000, year on year. The portfolio of credit cards was also broadened by launching a new credit card for entrepreneurs, the first on the Czech market.

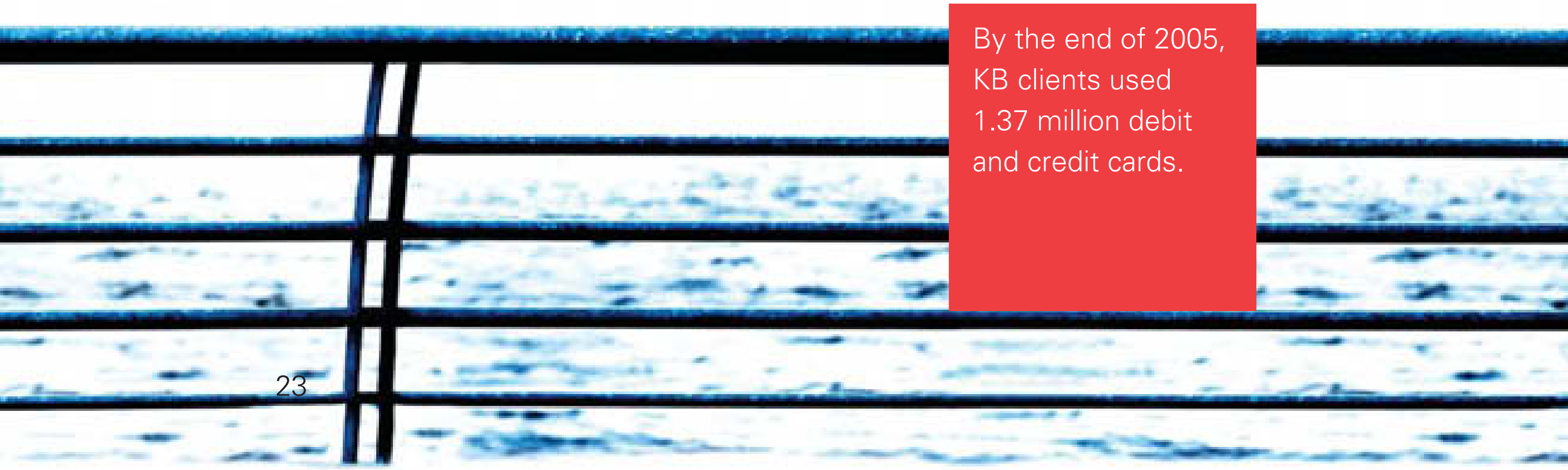
In 2005, EMV migration, i.e. the move to chip-embedded cards, was completed. This technology increases the security of payment processes for merchants, the Bank and customers. Likewise, the entire Komerční banka ATM network was upgraded step by step to the EMV standard. All of the Bank's ATMs are now able to accept chip-embedded cards with the EMV standard.

A brand new achievement in card issuance has been the launching of a co-branded card for Makro (Metro), a leading wholesale chain in the Czech Republic. In addition to the standard payment function, this card includes an identification function (bar-code on the back side). Two types of the card are being issued – one for standard clients and another for VIP clients.

With the introduction of a new design concept, another very important innovation was made in the field of card design. As a general motif, pictures of several world cities were chosen, including views of Prague, Paris, London, Venice and New York. For the first time a unique and innovative card, MasterCard, with translucent technology has also appeared. It is issued for the Gaudeamus[2] student account.

KB began during 2005 to implement migration of its business partners involved in e-commerce onto the 3D-Secure platform. This step essentially increases the security of transactions made with payment cards on the internet.

In the last quarter of 2005, Komerční banka also began to offer its partners (merchants accepting payment cards) electronic statements for payment card transactions. From the total number of merchants using direct distribution channels (internet banking), 96% have fully migrated to this service.



By the end of 2005, KB clients used 1.37 million debit and credit cards.

Information Technologies and Support Services

Even as they enhance the quality of services and comfort for clients, modern information technologies and efficient support services also improve and accelerate the Bank's internal processes. Not surprisingly, then, Komerční banka pays close attention to this area. KB continued during 2005 in its three-year strategic programme, known as Renaissance, that was launched in 2003. This programme is directed to reorganising internal processes, modernising KB's information technologies and other areas.

Aiming to optimise operating costs, substantial changes were made in the field of technical and telecommunication infrastructure. In 2005, KB implemented new MPLS technology for the data network that utilises services from Czech Telecom. Furthermore, it began to use hosting in Société Générale for the domestic payment system.

The Bank has made significant progress in a project, known as REPO, intended to optimise its real estate portfolio. As the project's implementation got underway, the first successful sales of unused premises in Prague and other regions were realised.

In May 2005, the outsourcing of IT support for such end-users as administrators and help-desk operators was completed. As a result of this optimisation, services for end-users were improved and considerable savings in personnel and administrative costs were achieved.

In the second half of 2005, processing of all teller transactions was centralised. The main objectives – to increase both the efficiency and quality of teller transaction processing – were achieved.

Using the security and technical standards of Komerční banka's direct banking channels, a new internet banking tool was developed for Komerční banka Bratislava (KBB). This brings more secure payment processing and higher satisfaction for KBB clients.

The Bank completed its move to chip-embedded payment cards in 2005.

Retail Banking

Individuals

The Bank of the Year award given to KB for the second consecutive year confirmed that implementation of the new business model for retail and especially individual clients had been successful. A concept in which each individual client has a dedicated relationship manager, along with a bank assurance approach, seems to be optimal for the Czech individuals market. In January 2005, KB became the first bank on the market to introduce a guaranteed level of services to its clients. This means that the Bank undertakes to observe clearly defined principles concerning its products, services and approach to clients. The content of each of the commitments is based on customer surveys.

Komerční banka grew its base of individual clients to 1.2 million during 2005. One of the main factors behind this increase was continuous improvement in the Bank's offer to young people and students. At the end of the year, KB also introduced a specific offer for the most affluent clients. As a result of these offers, KB has a leading position in serving the youth segment, with more than 116,000 young clients that now represent about 8% of all KB clients, and the Bank is also highly competitive in the segment made up of the most affluent clientele.

KB has recorded further increase in lending to the individual segment. At the end of the year, the total volume of mortgage loans to individual clients reached CZK 43 billion, which marked a year-on-year increase of 39%, and the total volume of newly granted loans grew by 41%. Interest in housing mortgages still persists, and the average amount for an individual loan was CZK 1.3 million. To broaden its offer to clients, the Bank introduced new risk life insurance for mortgage loans (in co-operation with Komerční pojišťovna), simplified the sales process, and significantly improved its co-operation with such third parties as housing developers, real estate agencies and financial advisers. These improvements supported KB's leading position on the Czech mortgage market.

The Bank's strategy to support financing through consumer loans and credit cards resulted in year-on-year growth in the total volume outstanding by 20% to CZK 12.6 billion. The dynamics of client demand for credit cards remained strong all through 2005, bringing an increase in the volume of credit card receivables of 44%.

Individuals	2005	2004	Change
Total number of mortgage loans	41,100	30,400	+35%
Total volume of mortgage loans (CZK billion)	43.1	31.0	+39%
Total number of consumer loans	144,900	118,500	+22%
Total volume of consumer loans and current account debits (CZK billion)	11.4	9.7	+18%
Total volume of loans from credit cards (CZK billion)	1.3	0.9	+44%
Number of active credit cards	96,200	66,100	+46%
Number of active packages	812,800	716,200	+13%
Number of child accounts	127,400	94,800	+34%

During 2005, the Bank has continued in introducing new global guaranteed funds, and KB clients invested nearly CZK 1.7 billion into Max III, IV and V. At the end of 2005, a similar guaranteed fund denominated in euros was also launched. To satisfy clients' continuously growing demand for investing their assets into international markets, KB also introduced a group of investment funds prepared by SGAM.

In 2005, the Bank continued in its successful co-operation with Allianz in developing the bancassurance model. KB clients are now able to insure their homes, households and cars at each KB branch. Other non-life insurance products are to be launched in 2006.

Small Businesses

KB has further strengthened its leading market position in the small businesses segment, even though the number of such enterprises has decreased in the Czech market. KB was serving some 260,000 such clients as of the year's end.

The Bank has extended its offer for small businesses in all three key areas: day-to-day banking, financing and insurance. In the area of day-to-day banking services, KB has launched the Makro card. This is a unique payment instrument combining several functions within one card and is targeted at Makro wholesale chain customers.

Komercni banka's range of financing products has been extended by the business credit card, which is the only credit card on the Czech market targeted exclusively at entrepreneurs and companies. The interest in this product is evident in its sales results, as 25,000 businesses bought this credit card during its first nine months of availability. In addition to its sales achievements, the business credit card has earned its first award – the Zlatá koruna in the business loans category. Recently established, too, is a financing package for housing co-operatives and owners associations.

Two new insurance products for businesses were launched during the year, as well. The Profi Merlin insurance product covers not only the loss and misuse of payment cards but also insures the transport of cash. Profi Patron insurance, meanwhile, provides financial support to an entrepreneur's family in the event of his or her death as the result of an accident.

The Bank continued successfully to sell already well-established products, including financial packages and business loans. More than one-half of small business clients are using one of the Efekt, Komfort, Excelent or Optimum Medicum packages.

The total volume of business loans grew on a year-on-year basis by 42% to CZK 10 billion. The penetration of financing products exceeded 30%.

Small Businesses	2005	2004	Change
Number of loans	15,967	11,048	+ 45%
Number of authorized overdrafts and lines of credit	65,916	54,867	+ 20%
Number of credit cards	24,541	0	N/A
Volume of drawn loans, current account debits and credit lines from credit cards (CZK billion)	10.1	7.1	+ 42%
Number of financial packages	145,221	114,484	+ 27%

KB has further strengthened its leading market position in the small business segment, serving 260,000 clients.

Medium Enterprises and Municipalities

Komerční banka's performance in the medium enterprises and municipalities segment (MEM) reflects its strong position in the market, serving approximately 15,000 clients from its 37 MEM Business Centres across the Czech Republic.

Putting great emphasis on lending activities, the Bank managed to further increase its outstanding loans to MEM clients by 16% to CZK 45 billion. This growth was partially supported by innovations in the field of lending. KB launched in February 2005 the EU ProfiLoan, which is based on its EBRD loan facility that is supported by the EU. This new product is designed to help KB clients to finance their projects. As a part of the Bank's effort to simplify processes, KB introduced electronic pledging of accounts receivable. Clients using receivables to secure loans may now conveniently submit these on-line, which facilitates KB's monitoring and recovery. Loan activity was also complemented by growth in the factoring and leasing businesses, in which the Bank closely co-operates with the companies Factoring KB, SG Equipment Finance and ALD Automotive.

Booming foreign trade was the highlight of the Czech economy in 2005. KB participated fully in this trend, both thanks to its own capabilities and through synergies with the international Société Générale Group. The number of foreign payments processed rose by 16%, supported by the fixed-price KB EuroPayment for cross-border transfers of up to EUR 12,500 within the euro zone. To increase the support to clients doing business in the euro zone, the limit will be raised to EUR 50,000 in February 2006. Moreover KB launched eTrading, an innovative internet trading tool, providing active clients with on-line access to financial markets, which partially offsets decreasing FX volumes transacted through KB branches.

Komerční banka is committed to support Czech exporters, who constitute a key element in Czech economic growth. For the third consecutive year, KB signed a co-operation agreement with the Export Club of CzechTrade in order to promote foreign trade knowledge in the Czech market by, for example, organising seminars for beginning exporters.

The Bank's International Desk, which supports foreign companies in the Czech market, expanded its network of partnership banks to cover Scandinavian countries. Focusing on Czech companies wishing to establish foreign subsidiaries, KB set up a simplified procedure for opening an account abroad with banks belonging to the SG international network or other partner banks.

KB has taken a leading position in the booming franchising market. To help franchisers meet franchisees, the Bank organised a seminar linked to a Franchising Meeting Point at the Brno INVEX trade fair in October 2005. This resulted in KB's financing several new projects.

A partnership agreement was signed with the Union of Towns and Municipalities of the Czech Republic, and Komerční banka took part in various events organised by the Union. In addition, KB supports the "Euro Project" that helps Union members deal with new legislation, environmental regulations, public procurement, and state aid. A 24% increase in the number of EU-supported projects pre- or co-financed through KB Programme Ponte confirms the Bank's expertise in this field.

Komerční banka further strengthened its leading position in the field of trade finance, as evidenced by year-on-year growth in its number of Trade Finance clients by 8%. A network of regional trade finance specialists contributed greatly to this development. Working directly in the individual regions, these specialists aim to boosting knowledge within firms as to the possibilities for managing business risks, and they offer to the Bank's clients professional advice on an individual basis.

Corporate and Investment Banking

Corporates

According to a recent external survey, KB has increased further its level of customer satisfaction in the large corporates segment, and this confirms the Bank's leading position in that segment of the Czech market. Through its relationship managers located in eight business centres in all regions of the Czech Republic, and through direct banking, KB provides its clients with payment services, trade finance, hedging, leasing, factoring, loans, asset management, capital market services, financial advisory and other services in order to meet their specific needs.

For the second year, Komerční banka has significantly improved its loan portfolio in this segment, this time by 14% to about CZK 76.6 billion. In August 2005, KB was one of the mandated lead arrangers and the sole facility agent for a CZK 12 billion term loan facility that was the largest CZK denominated credit facilitiy ever arranged in the corporate syndicated loan market. Also, close co-operation with Komerční banka Bratislava is reflected in significant loan production that is related to construction projects and foreign direct investments in Slovakia.

Due to its strong position on the market and its experienced teams, Komerční banka provides to its clients large volumes of such value-added products as FX options, interest rate swaps and commodity hedging. As a result, revenues from these products have been expanding and, compared to previous years, they now represent a significantly larger part of the Bank's trading desk revenues.

In 2005, KB increased cross-selling of such products as tailor-made pension insurance and life insurance plans for corporate employees, car fleet management, intermediation of Essox's consumers loans, and others. The range of services will expand further in the coming months with a specific offer from SG's fully controlled subsidiary ECS, which is specialised in IT global solutions and is dedicated to large and medium corporates.

Komerční banka is further improving its position as the leader in providing payment services for major Czech and multinational corporates and groups, and it is developing sophisticated cash pooling solutions for domestic as well as cross-border operations.

Investment Banking

Komerční banka provides investment banking services to a large number of corporate and institutional clients. It fully benefits from the global expertise of Société Générale Corporate and Investment Banking. The Bank offers its clients a full range of competitive and innovative investment banking products and services: foreign exchange and interest rate derivatives, liquidity management, capital market financing, mergers & acquisitions, advisory and individual asset management. During 2005, KB further strengthened its position as a leading bank in the Czech financial markets, providing liquidity in numerous market segments, arranging syndicated loans, and transacting growing volumes of FX and interest rate derivatives with its corporate and institutional clients.

Derivatives

In 2005, the accounting and fiscal environment with regard to derivatives became more restrictive for many companies in the Czech Republic. Nevertheless, the trend remains in place toward growing usage of foreign exchange and interest rate derivatives. All through the year Komerční banka reconfirmed its leading position as a provider for FX options to Czech corporate clients.

New opportunities appeared with the start of the EU's multinational Emissions Trading Scheme (ETS) and its implementation under Czech law. Czech companies have begun to trade surpluses in carbon dioxide (CO_2) allowances both domestically and internationally. Backed by Société Générale's expertise in commodity and emissions trading, Komercni banka transacted the first CO_2 allowance deals in 2005's fourth quarter, and it has quickly become a recognised partner for Czech corporates in this market.

The Bank offers its clients a variety of investment products. These include plain vanilla government and corporate bonds, for which the Bank ranks among the most active market makers, and tailor-made interest rate and equity linked products designed to enhance the performance of invested funds. Following a trend seen already in 2004, the demand for structured products in particular was even stronger in 2005. This development can be expected to continue.

Debt origination and corporate finance

In the area of large debt transactions, Komerční banka benefits from both its extensive experience in the local market and the strong position of Société Générale in the European league tables. In 2005, KB again ranked among the top arrangers of CZK denominated syndicated loan facilities. The most significant transaction for the market was certainly the syndicated loan for Veolia Environnement, S.A. With a volume of CZK 12 billion, it was the largest-ever corporate syndicated loan denominated in Czech crowns. Komerční banka acted as underwriter, mandated arranger, and sole facility agent.

Komerční banka's Corporate Finance Department provides high quality mergers & acquisitions (M&A) advisory support to its corporate clients. Komerční banka can assist its clients in business valuations, buy and sell side advisory, negotiation assistance and leveraged buyout/management buyout (LBO/MBO) advisory. In close co-operation with Société Générale and its international network, the Corporate Finance Department also arranges cross-border transactions for its domestic and international clients.

In 2005, the Bank assisted in a variety of assignments for corporate clients in various sectors, including Unipetrol (petrochemical industry), Unicorn (software), Zakládání staveb (construction and engineering) as well as Kovostal, Heunisch and Marie-Laure Merchandising (manufacturing industries).

KB confirms its leading position in the segment of large corporations in the Czech market.

Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group and the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. In its procedures, the Bank takes into consideration developments regarding all types of risk, i.e. credit risk, market and liquidity risk, as well as regulatory, operational and environmental risks.

Credit Risk Management

Again in 2005, the risk management units co-operated closely with the business units in order to support the Bank's business activities by making the credit process more efficient while closely monitoring the quality of Komerční banka's risk portfolio. Attention was increasingly focused on the Bank's development in retail segment lending.

Loan origination and monitoring credit risk

With regard to credit decision-making processes and capacities, risk activity in 2005 was driven especially by developments in the areas described below:

- Implementation of a new client rating methodology had been initiated in 2004, and it was followed in 2005 by intensive effort in the area of checking data quality. An important step in approaching Société Générale group principles was to complement Komerční banka's rating scale with the Société Générale debtor rating scale. This was in full compliance with Basel II and CNB regulations. One of the goals is to ensure functioning of the "one borrower – one rating" principle within Société Générale Group.
- Aspects of the attention given to the retail portfolio in the areas of lending and portfolio quality management included:
  - extended automation and simplification of credit approval processes, notably by using behavioural rating for granting and monitoring of credit cards and loans for small business.
  - improving retail portfolio management on the basis of a more systematic and detailed statistical monitoring.
  - review of the credit risk assessment process by an internal credit risk control team in co-operation with Internal Audit, with both benefiting from Société Générale's extensive experience in this area.
- Developing and launching new products (including working out co-operation with Société Générale subsidiaries) aimed to meet market requirements and expectations. At the same time, Komerční banka dedicated significant effort to setting up its strategy in developer financing.

The Bank also addressed efforts to the following other credit risk areas:

- active methodological support of business units, risk training and regularly updating scoring tools for retail client segments and products;
- ongoing close monitoring of its potentially problematic credits (this category of assets is reviewed both on an ad hoc basis and on a quarterly basis by a dedicated committee);
- continuing centralisation and upgrading of monitoring and credit risk assessment tools; and
- preparing adjustments to internal rules to meet Basel II requirements.

Provisions and reserves

The Bank classifies all of its assets arising from financial activities into five categories according to Czech National Bank Regulation No. 6/2004, taking into account both quantitative criteria (account history, payment discipline and financial statements) and qualitative criteria (e.g. in-depth client knowledge and behavioural scoring).

All significant impaired exposures are assessed individually and at least every quarter by three levels of provisioning committees or by recovery specialists. Provisions are set after considering all available information, including the estimated value of collateral and expected duration of the recovery process.

In 2005, Komerční banka also reviewed and updated its discounting policy with regard to collaterals in order to better reflect recent development and trends.

Recovery activities

Komerční banka's recovery activities are based on three pillars:

- pre-recovery activities,
- advisory and consulting support for recovery specialists to business units, and
- hard recovery.

Some recovery activities related to hard recovery are outsourced to external collection firms with the objective of increasing efficiency. In 2005, KB also put significant effort into changes in recovery organisation to be able to face significant recovery workload in the future that will arise from the current retail portfolio growth.

Foreign exposure

Most of Komerční banka's foreign exposures are generated by transactions with international financial institutions on the inter-bank market. The Bank has developed a system and formalised appropriate procedures in order to monitor related counterparty and country risk exposures against pre-defined and approved limits.

Counterparty risk on capital market activities

In the field of counterparty risk from capital markets activities, the basic rule of "pre-authorisation" (i.e. the authorisation must always be granted before a transaction is concluded with a counterparty) is systematically applied for all capital markets transactions. Daily monitoring of compliance with exposure limits also takes in the activities of Komerční banka Bratislava. Front office dealers are provided daily with information on a per counterparty basis about their current limits, exposures and available limits. Any breach of these limits is immediately reported to the relevant level of management within the Bank. The Board of Directors is informed of all breaches of limits on a monthly basis.

The daily calculation of counterparty risk arising from derivative products was changed during 2005. It is now based on two indicators: the Current Average Risk indicator (CAR), which previously was most utilised, and the new Credit Value at Risk indicator (CVaR). Both indicators allow evaluating the replacement costs of a derivative product in case of counterparty default according to the type of derivative product, current market parameters, time to maturity and nominal amount of the transaction. The CAR indicator calculates the average of the estimated potential exposures that are likely to occur during the remaining life of the instrument, while the CVaR indicator calculates the expected maximum potential exposures with a confidence interval of 99% (therefore it better reflects KB's maximum counterparty risks in case of adverse market scenarios).

Market Risk Management

Responsibility for market risk management at Komerční banka lies with the Market Risk Unit. In order to ensure the independence of risk management from business units, the Unit reports directly to the member of Komerční banka's Board of Directors responsible for risk management and to the Head of Société Générale Group's Market Risk Division. Market risks at KB are managed in compliance with the following principles, which ultimately require the approval of the Board of Directors:

- All risks are systematically and regularly monitored and reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by Komerční banka's management and Société Générale Group's Market Risk Division.
- Limit applications are processed based on requests from business units and within the global limits set by the Board of Directors.
- All regulatory requirements are fully respected.

Prior to their launch, new capital market products are comprehensively analysed by all relevant units of the Bank, the objective being to identify all associated risks. Following this analysis phase, provided that all risks are deemed acceptable, an approval is given by the New Product Committee. The latter is to ensure that KB is in a position to propose the product to its clients in a fashion that is properly controlled and demonstrates clear understanding.

Methods for measuring market risk and defining limits

Assessment of market risks is based on three main types of indicators that are used to define monitored exposures and corresponding limits:

- Value-at-Risk (VaR) historical simulation method, calculated to a 99% confidence level and one-day time horizon, which allows the Bank to consolidate its market risks into Société Générale Financial Group's Value-at-Risk. All open positions are subject to VaR computation.
- Stress-test measurement, to take into account low-probability events not covered by VaR. The Bank performs several types of stress tests for foreign exchange, interest rate and equity exposures. Shock scenarios consist of very significant movements in parameters; these are calibrated either through historical studies or hypothetical analysis.
- Complementary limits such as sensitivities, FX positions and holding periods are used to obtain a more detailed picture of risks and strategies.

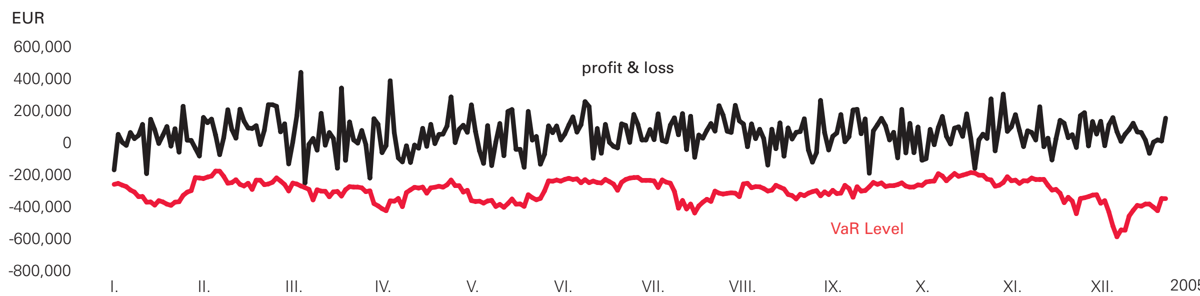
Value-at-Risk method

The VaR method ("historical simulation") has been used at Komerční banka since 2002 for foreign exchange and interest rate risk and since 2003 for equity risk. It takes into account correlations between all markets and the characteristics whereby the repeating of market parameters is not evenly distributed. Scenarios of one-day variations of market parameters over a period that encompasses the last 250 business days are used. The 99% VaR is the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. With 250 scenarios this corresponds to the average of the second and third largest potential losses.

Back testing

Komerční banka regularly reviews the accuracy of the VaR model through back testing. Trading results are compared with VaR results to monitor the number of violations against the 99% confidence level. During 2005, no daily loss exceeded the 99% VaR level.

The Value-at-Risk and main exposures as at 31 December 2005 were as follows:



Stress Test exposures (worst case) as of 30 December 2005

Foreign Exchange relative shock (EUR)	-1,552,157
Historical scenario	-1,224,000
Hypothetical scenario	-8,331,000

Monitoring of the CDO portfolio

The underlying rationale used for evaluating risks and computing prices for these exposures is based on a methodology that computes Monte Carlo simulations of future cash flows. The actual payment of these cash flows depends upon the credit quality of the underlying assets as perceived by the market. There is active communication with collateral managers and rating agencies in order to ensure that the most up-to-date data or information is used in the process.

Operational Risk Management

Following on to the creation in 2004 of the Operational Risks Department, the Operational Risks Committee was established in 2005 as the decision-making body in this field. Since 2004, Komerční Banka has defined its objectives in this area as: to qualify on the Société Générale Group level for the Advanced Measurement Approach under Basel II of calculating capital requirements, to be compliant with local regulatory requirements, and to manage effectively operational risks in the Bank.

In 2005, the process for collecting loss data was partially automated and the accounting reconciliation was implemented. During the year, 181 operational risk losses were collected with a total gross amount of EUR 3.35 million.

The Risk Control Self-Assessment exercise was launched in late 2005. The aim is to assess the risk characteristics of each banking process in comparison to Société Générale Group's best practices. This will be finalised in the first half of 2006.

Work was begun, too, on the so-called Scenario Analysis. Its aim is to assess those risks with low probability of occurrence but high impact on the business. The first step was achieved at the end of 2005, as the Bank completed its risk database summarising all potential threats to KB's business and their financial impacts. The Bank will be building up the scenarios during 2006.

In the area of Business Continuity Management, Komerční banka has prepared a broad risk analysis and implemented plans for most critical activities. For other activities, the continuity plans will be introduced in 2006.

Basel II in 2005

In the context of strong risk management and control within KB and Société Générale groups, Komercˇní banka aims also to adopt for purposes of regulatory capital adequacy reporting and examination under Basel II internal rating based (IRB) approaches for credit risk and is considering to adopt an advanced approach to operational risk with support of the central SG model.

With regard to credit risk, Komerční banka continues to develop its rating and expected loss schemes and models. These have been applied since the late 1990s in day-to-day risk management and business procedures for the corporate and retail segments. In terms of risk management within Société Générale Group, Komerční banka is primarily responsible for the risk models and related procedures dedicated to the activities of Czech core customers, i.e. its lending activities to retail, corporates and municipalities.

In relation to the Basel II requirements, the Bank began its Basel II Project in 2002. For 2005, KB focused on the following areas and targets:

- Models
  - redesign of local risk models for estimating probability of default, exposure at default and loss given at default to comply with Basel II requirements, as well as corresponding adjustment of historical risk databases (for default, recovery);
  - recalibration of models for establishing probability of default ratings and aligning these with the Société Générale rating scheme; and
  - calibrating models for estimating losses at default and credit conversion factors, along with completing that portion for the retail segment.

- Procedures
  - implementation of relevant procedures in connection with Basel II, including compliance with default definition, rating scale, loss collection and collateral eligibility.

- Data and capital requirement calculation
  - implementing systems for collecting credit risk data for the regulatory reporting; and
  - completing set-up of risk parameters for KB models within SG Group’s common credit risk weight calculation tool.

- Training
  - general and specialised training for managers and specialists from marketing, distribution, risk management and finance carried out in co-operation with the EU Phare project Strengthening the Czech Banking Sector: Application of Basel II.

- Impact study
  - KB’s participation in the Quantitative Impact Study No. 5 facilitated by KB’s Czech and SG Group’s French regulators in late 2005 and early 2006.

During 2006, the Bank intends to establish with Société Générale Group and KB’s regulators a validation plan for adopting sophisticated IRB approaches, to establish its reporting mode to the Czech regulator for 2007 – 2008 and to start an internal pilot project of Basel II reporting.

Asset and liability management

Asset and liability management is the responsibility of the ALM department. Its role is to minimise financial impacts of potential changes in interest and exchange rates while also ensuring a sufficient amount of liquidity. The rules used, changes to these rules, and proposed hedging transactions with respect to interest rate, foreign exchange and liquidity risks are approved by the Asset and Liability Committee. In all its activities, the Bank fully complies with all requirements of the Czech regulatory authorities, as well as with all applicable international regulations.

Liquidity risk

Management of liquidity risk is primarily designed to ensure that KB can meet its funding requirements at all times. This includes to maintain adequate volumes of cash, as well as balances on nostro accounts and the account for minimum mandatory reserves while keeping the Bank's costs low and not unduly constraining its business activities. Liquidity is maintained by consistent diversification of sources and by cash flow management, as these reduce the occurrence of unforeseen requirements for additional funding during a given period. This primary objective is achieved by way of managed coverage of the Bank's cash-out with a very high confidence level (97.5%) over a sufficiently long future period (one year). In case of liquidity crises, KB has a special intranet application enabling efficient communication with KB business units and to minimise the outflow of funds.

A liquidity snapshot broken down by currency – CZK, USD, EUR and others – is monitored on two levels of market behaviour: normal and stressed scenario. Sufficient liquidity is controlled using a system of limits. To achieve these, the Bank uses on-balance sheet instruments (e.g. bond issues, loans taken) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps).

In 2005, Komerční banka issued mortgage bonds in a total volume of CZK 13.01 billion. Of this amount, CZK 7.41 billion represent completion of the existing Mortgage Bond Programme, and, of that latter figure, CZK 2.37 billion is the completion of the second issue maturing in 2008 with fixed coupon of 4.5%. Finally, CZK 5.04 billion belongs to the third issue maturing in 2015 with floating coupon based on 3M PRIBID. In addition to this Mortgage Bond Programme, the Bank sold CZK 5.60 billion of a new issue maturing in 2015 with fixed coupon of 4.4%. Considering KB's high liquidity surplus, it should be noted that the mortgage bonds were not issued further to increase the liquidity, but rather to provide advantageous funding of mortgage loans.

Structural interest rate and foreign exchange rate risk

Structural interest rate and foreign exchange rate risks are risks of potential loss arising from positions held in Komerční banka's Structural Book. Structural foreign exchange rate risk is measured and managed on a daily basis. The Bank's position is controlled by a system of limits (KB's internal limits as well as limits required by the CNB). Foreign exchange positions are hedged by such standard instruments as FX spot and FX forward operations.

The Bank manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of volatility of future interest income. In 2005, KB has implemented Convergence, which is an asset and liability management system supplied by SUNGARD. The Bank uses such standard market instruments for hedging against interest rate risk as interest rate swaps (IRS) and forward rate agreements (FRA), and to a lesser degree it does so by investing in securities. All deals are immediately entered into the front office system to be recorded and priced.

Interest rate derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with IAS 39 to achieve the most accurate accounting valuation. KB has adopted a detailed strategy of interest risk management that includes descriptions of which derivatives are allowed, how these may be used and their accounting valuations.

Price setting

The ALM department is in charge of external price setting. It prepares the KB foreign exchange rate list, sets or proposes the external interest rates for deposit products, and determines the Bank's base lending rates, which are then used to set the rates on loans. The external interest rates for deposits are set by the Interest and Exchange Rate Management Committee, taking into account external developments.

By means of a specialised intranet application, the ALM department also assists the business units in carrying out KB's internal loan-pricing policy. This application bring to the Bank's relationship managers a direct connection to ALM experts who provide them with exact pricing for individual loan transactions.

Management of regulatory risk

Regulatory risk derives from potential non-compliance with laws and other regulations and subsequent sanctions imposed by the regulator.

Komerční banka's activities are subject primarily to regulations of the Czech National Bank (CNB). The Bank's activities as a securities trader and depository are supervised by the Czech Securities Commission and, exceptionally, some regulations might be issued by the Ministry of Finance of the Czech Republic. With regard to anti-money laundering measures, Komerční banka is supervised by a specialised department of the Ministry of Finance. Stock exchange operations are supervised by the Prague Stock Exchange, a self-regulating body.

The Bank's subsidiaries are overseen, depending on their character, either jointly by the Czech Securities Commission and the Ministry of Finance (Penzijní fond KB) or by the National Bank of Slovakia (KB Bratislava).

Banking institutions in the Czech Republic are regulated by practically the same rules as are applied in other EU countries. The year 2005 brought only negligible changes in the regulations, and these the Bank has subsequently incorporated into its internal rules.

In 2005, Komerční banka became the subject of an investigation by the Office for the Protection of Competition. The purpose of that enquiry was to investigate the behaviour of Komerční banka and some other banks with regard to offering basic banking services in the segment of individuals. Komerční banka successfully defended its responsible approach to the competition rules, and it proved during the investigation that it is able to succeed in the Czech banking market without violating rules on competition. In its verdict, the Office for the Protection of Competition declared that Komerční banka did not conclude a prohibited agreement with its competitors nor did it act in concert with others with regard to the pricing of its services connected with current accounts. Therefore, the administrative proceeding initiated in April 2005 was dismissed in November of the same year.

As a member of the international Société Générale Group, Komerční banka, in spring 2005, acceded to the Société Générale Code of Conduct. This Code of Conduct brings together the guiding principles governing the actions and behaviour of individual entities in the Société Générale Group as well as of their employees (more in section Corporate Social Responsibility). During autumn 2005, the Bank successfully incorporated the principles of the Code of Conduct into its major internal rules, which include the Ethical Code for Komerční banka employees.

Environmental risk management

Considering the businesses in which it operates, the Bank is not a substantial polluter of the environment. Without exception, the Bank conforms to the legal requirements related to environmental and health protection and occupational safety, and it continuously supports processes to improve the environment and health protection for its employees.

During 2005, the Bank concentrated on optimising its real estate portfolio, creating conditions for additional investments to minimise operating expenses for those facilities.

Komerční banka makes long-term efforts to reduce the amount of waste it creates and to use recycled materials. Waste management services are provided only by properly licensed companies. Every supply contract includes an appendix informing the Bank's partners that Société Générale has acceded to the United Nations Environment Programme Statement by Financial Institutions (UNEP FI Statement), and all tenders for equipment suppliers emphasise such technical parameters as consumption of primary resources.

KB takes into consideration compliance with ecological standards and the possible impacts of breaching those standards when assessing credit risk. The Bank identifies sensitive sectors and monitors potentially problematic clients by means of special questionnaires or the clients' action plans. At the same time, KB seeks to finance environmentally friendly projects as well as rehabilitation programmes for damages that occurred in the past.

Internal Audit

Internal audit is one of the basic elements of the Internal Management and Control System. Its function is to monitor and evaluate the effectiveness of this system and to assist in rectifying insufficiencies. Internal audit activities shall be carried out independently from all management activities and are governed directly by the CEO. The results of the findings shall be processed in the form of regular quarterly reports that are submitted to the Board of Directors and to the Audit Committee of the Supervisory Board. The activities of internal audit are based on a four-year strategic plan approved by the Board of Directors and updated on an annual basis. In 2005, 20 planned audits and 82 unplanned checks were carried out.

During the year, implementation of first-level checks began within the Bank. A new directive governing the basic framework for these was prepared and issued, and a system of internal first-level checks for the distribution network was elaborated. A new system of these checks for the headquarters will be prepared in 2006. As part of its ongoing work, the Internal Audit Department will verify the relevance and functionality of these checks.

At the end of 2005, Internal Audit started to implement the software audit system, which should improve the quality of risk monitoring and thus enable the Bank precisely to target individual internal audit activities. The system will increase the efficiency of internal audit activities and improve monitoring of the corrective measures.

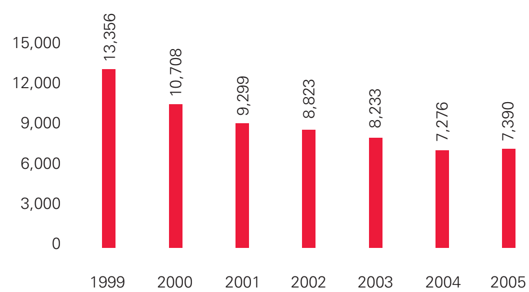
Late in 2005, the Board of Directors approved the strategic vision for the development of internal audit over the next two years. In order to carry out this strategy, the Internal Audit Department will be reorganised and centralised. These steps will be followed by changes in the areas of human resources, applied methodology and software support.

Human Resources

The quality of employees and their development were the major driving factors in human resources management during 2005.

Komerční banka's total headcount reached 7,390, of which 2,433 worked at headquarters and 4,957 in the distribution network. Compared to the end of 2004, the number of employees increased by 114, i.e. by 1.6%, as a consequence of opening 25 new branches and the Bank's enhanced business activities.

Development of the year-end headcount



Development of the distribution network called for intensified recruitment and training activities. Recruitment and selection of talented university graduates remained one of the Bank's main priorities. The success of these activities is demonstrated by recognition from Czech university graduates. Komerční banka was repeatedly chosen as the Most Desired Employer of the Year for University Graduates in 2003, 2004 and 2005. In this voting, organised by the international student organisation AIESEC, Komerční banka was selected by more than 1,600 students from more than 40 universities.

Each year, Komerční banka offers to selected university graduates the possibility to participate in the Young Graduate Programme, whose target is to initiate their professional development in the Bank. Fifty university graduates were hired into the programme in 2005. During the one-year programme, the participants go through an integration process, during which they become familiar not only with all the activities, services and products of Komerční banka, but also with its strategy and corporate culture. The second part of the programme includes further professional education within their future job positions. Each participant is assigned a mentor from among senior managers who becomes his or her professional consultant.

The Bank offers employment to additional college graduates who find jobs especially in the sales network. By improving the recruitment process the Bank has considerably supported the sales network in its effort to improve the quality of services and open new points of sale. As a result, more than 400 new relationship managers were selected in 2005 from in excess of 1,000 new candidates.

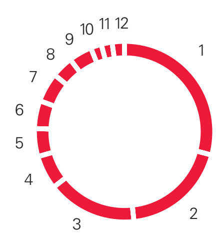
Komerční banka is aware of the necessity to attract educated young people with the potential for their further development. Therefore, since 2002 it has been concluding partnership and co-operation agreements with a number of Czech universities. These mutually beneficial relations are based on the Bank's direct involvement in such activities and events as sponsorship, professional internship programmes, scholarships and lectures.

Great emphasis is placed, too, on the career development and professional expertise of Komerční banka's employees. The system of mobility and career management allows nurturing the Bank's own professionals, and it ensures better implementation and understanding of the best practices applied within Société Générale Group. Through international mobility programmes, several Czech expatriates were sent in 2005 to SG Head Office, the international network and KB subsidiaries.

Training is an important tool for developing human capital, and KB managers pay attention to it. A comprehensive range of training modules, covering all professional fields and developed in accordance with practical needs, provides support to the Bank's strategic moves. As appropriate, it allows all employees to strengthen their competencies in order better to fulfil their respective missions or to develop according to principles of the Société Générale Group. Almost all of the Bank's employees participate in at least one or more courses and positively appraise their quality. In 2005, employees spent an average ten days in training.

A strong effort was dedicated to training with regard to banking applications, products, service quality and, as in previous years, to integrating new employees. A one-month programme was created especially for the 400 new client relationship managers. This provided them the essentials they needed to start successfully in their positions. To support the roll-out of our new organisation for highly affluent clients, 100 employees went through specially focused trainings.

Structure of training days per training categories in 2005



1	Applications, logistics, security	30%	7	Managerial skills	5%
2	Integration	19%	8	IT	4%
3	Products and services	16%	9	Office automation	4%
4	Risk management	6%	10	Sales	2%
5	Curriculum	5%	11	Communication skills	2%
6	Accounting, financial control	5%	12	Other	2%

The launch of Programme Progress was an important and innovative action. Talented team leaders participate in this one-year programme, which, when successfully completed, will give them faster access to greater responsibilities.

Aware that satisfied and well motivated employees are critically important and a fundamental element in a profitable growth strategy, Komerční banka conducted for the first time an extensive opinion survey among its employees. The survey results will be integrated into action plans for 2006 and following years.

The Bank devoted great attention to relations with its social partners. Collective negotiations of the new collective agreement were conducted in a very constructive and fruitful spirit. The main result of this dialogue is an agreement concluded for the period 2006 – 2008 and signed on 19 January 2006. It offers a new employees structure and banking benefits that are fairly accessible to all employees and tax efficient for both employees and the employer.

Corporate Citizenship

As a major Czech bank, Komerční banka is well aware of its commitments to society as a whole. It fulfils these obligations through its sponsorship and donation activities, which are themselves based on the three main values of the Société Générale Group: professionalism, innovation and team spirit. The main pillars of the long-term KB sponsoring strategy are culture, amateur sports and education.

Its biggest cultural project consists in supporting the artistic activities of the National Theatre. The successful partnership between KB and the National Theatre continued in 2005 with the signing of a new three-year contract bringing two new important elements to this co-operation. The first is the Komerční banka Prize, which is to be presented annually to the season's best performances in ballet, drama and opera. The second important innovation under the new contract is to sponsor exclusive National Theatre performances in the regions.

Komerční banka also supports selected concerts of the Prague Symphonic Orchestra FOK. Young musicians have an opportunity to learn from prominent musical instructors at the French-Czech Musical Academy in Telč, which also is organised with financial assistance from KB. For the third time, the Bank was in 2005 a main partner of the French Film Festival, which was successfully extended to several regions of the Czech Republic.

The Bank's support of amateur sport has already become a tradition, and this is manifested in continuing co-operation with the Czech Rugby Union. The support goes not just to the national team, but a major part is directed also to assist in developing and publicising the game among the youth.

Another successful sponsorship activity is the partnership between KB and the Czech Association of Disabled Athletes. Also thanks to Komerční banka support, the Czech delegation of handicapped athletes did well at the European Athletic Championship in Finland, where it won four gold metals and 15 medals in all.

In 2005, the Bank continued in successful co-operation with the Prague Zoo and has become its main partner.

Co-operation with a number of Czech universities is another Komerční banka tradition. In 2005, it lent support to Prague's Charles University, the Czech Technical University, Masaryk University in Brno, the University of Economics in Prague, Ostrava's University of Mining, the Technical University and Western Bohemian University in Pilsen. KB sponsors professional conferences and seminars, allows students to participate in internships to gain experience, and provides scholarships and internships abroad. Komerční banka managers also share their experience with students as lecturers or as graduation thesis mentors. In collaboration with the French Social Studies Institute, KB distributes scholarships every year to selected PhD students. The Bank is a traditional partner for the international student-run organisations AIESEC and IASTE. It provides the student organisations with financial support for their job fairs and it actively participates in these fairs.

Public service projects are supported not only by the Bank, but also by the Bank's employees through the Jistota Foundation. The Foundation is financed both from the Bank's contributions as well as those from individual employees. A donation of CZK 900,000 dedicated to research and clinical testing of anti-cancer vaccines was given from the Foundation's funds to Masaryk University and the Teaching Hospital in Brno. One million crowns was donated by the Jistota Foundation to the Institute for the Care of the Mother and Child in Podolí, Prague, to purchase two ultrasound instruments. Another CZK 150,000 was donated toward purchasing a haematological analyser for the hospital in Havířov. The Jistota Foundation has also contributed to improvements in equipment for several other hospitals and social institutions, and it has helped a number of individuals whose health put them into difficult life situations. KB contributed CZK 2,400,000 to the Czech Red Cross for relief to the South-East Asia regions affected in 2004 by the tsunami and earthquake there.

Corporate Social Responsibility

Given its important role in society, Komerční banka takes its social responsibility very seriously. This means that the Bank gives strong consideration to building transparency and sustainable development into all of its everyday activities, it endeavours to create long-term and high-quality relations with all of its stakeholders, and it gives serious attention to the Bank's environmental policy and sponsorship activities. Société Générale became a signatory to the United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development in 2001 and to the Global Compact (as a member of the National Council for Sustainable Development) in 2003. Komerční banka, as an integral part of the Société Générale Group, is also committed to operate in a manner consistent with the main principles of sustainable development, social responsibility and environmental protection, as well as to enhance its social and environmental reporting.

Société Générale Group Code of Conduct

In spring 2005, the Société Générale Group Code of Conduct was introduced for all the companies within the Société Générale Group, irrespective of circumstantial and cultural differences in the countries where Société Générale has established a presence. This Code of Conduct sets out guiding principles that govern the actions and behaviour of the Société Générale Group and its employees.

Komerční banka adopted the Code of Conduct and during autumn 2005 incorporated the Code's principles into its major internal rules, collectively known as the Corporate Governance Principles and Ethical Code.

Amendments to the Corporate Governance Principles include general rules for the Bank. The purpose is to highlight KB's great effort to comply with such corporate governance principles as respecting the interests and privacy of clients, business partners and employees, respecting legal regulations, co-operating properly with regulatory bodies responsible to monitor the Bank's activity, maintaining political neutrality and not financing political parties or movements, respecting the confidentiality of non-public information, complying with principles of economic competition, respecting fundamental human and workers' rights, respecting the environment, and working actively to combat money laundering and the financing of terrorism.

Amendments to the Ethical Code include rules related to the behaviour of individual bank employees. These set out the principles of professional conduct with regard to adhering to the law and generally observing rules of ethics, which are fundamentally important to successfully developing the Bank's activities. These rules include, for example, avoiding conflicts of interest and not abusing one's position, knowledge or confidential information to the detriment of the Bank or for trading in investment instruments. Included here, too, is the rule on protecting confidential information with reference to clients, employees, the Bank itself, and the entire Société Générale Group.

KB adopted Société Générale Group's Code of Conduct setting principles of behaviour and actions for all SG Group companies and their employees.

Comments on the IFRS Unconsolidated Financial Results

Komerční banka reported an unconsolidated and audited net profit of CZK 9,148 million under International Financial Reporting Standards (IFRS) for the year 2005. Owing to rising revenues, driven by good business performance in both retail and corporate banking, and continuously efficient cost control, the net operating income increased by almost 8%. The 2005 net result decreased by a slight 1.6%, although significant exceptional gains in 2004 were to a large extent compensated by KB's solid underlying business performance in 2005. The cost/income ratio further improved to 49.6% from 51.9% for 2005. This was due not just to declining costs but even more so to growth in net banking income. The return on equity (ROE) declined to 19.5% from 22.1% in 2004, mainly because of rising average shareholders' equity.

Profit and Loss Statement

Net interest income

Net interest income recorded an upturn and increased to CZK 13,640 million, i.e. by 9.9% compared to 2004. Despite low market interest rates (as the Czech National Bank cut the 2-week repo rate three times, from 2.50% to 1.75%, in the first six months of the year before raising it back to 2.00% at the end of October), the net interest income benefited from increasing lending volumes (gross loans rose 19.0% year on year), from growing volumes in current accounts of 12.1% and from efficient interest rate hedging policy. Also contributing to the improvement was higher income from investment banking activities, which was, however, largely offset by corresponding losses in the net profit from financial operations. Given strong growth in retail loans, the net interest income from loans improved by 13.0% to CZK 4.2 billion. The net interest income from deposits showed a slight increase of 3.5% to CZK 8.0 billion, supported by structural changes in the deposit composition (i.e. a shift from term to current deposits). The net interest margin improved to 3.1% from 3.0%, thanks to an improving asset mix and growing volumes.

Net fees and commissions

In 2005, total net fees and commissions remained virtually stable at CZK 8,718 million. Non-FX fees and commissions reached CZK 7,123 million, up 2.6% year on year, mainly thanks to growing sales and transactions volumes. The non-FX fees are mainly composed of fees for payment transactions and deposits maintenance. These fees have been stagnating as the increasing volumes have been offset by lower prices and structural changes towards direct banking channels, which is consistent with the Bank's strategy. On the other hand, fees from loan services and from cross-selling the products of subsidiaries and other partners are growing considerably. Lending fees rose 12.9%, driven by the pickup in mortgages, business loans and credit cards. Since January 2005, a significant part of the fees for business loans has been accounted for in the net interest income, thus limiting the growth in fee income. Fees from selling financial products of subsidiaries and other partners also registered a significant rise of 46.0%, driven by rising demand for mutual funds, pension funds and insurance products. FX fees and commissions declined by 9.4% to CZK 1,595 million. FX fees still account for a significant part of the fee income, but their contribution is gradually falling. Despite rising volumes and KB's strengthening position, the decline in FX fees is primarily driven by market conditions, such as introduction of the euro and competitive pressures on prices.

Net profit from financial operations

Net profit from financial operations amounted to CZK 780 million, down 31.9% year on year, mainly due to lower profit from securities and FX derivatives. Net profit from foreign exchange operations, the main component in this item, amounted to CZK 610 million, increasing moderately year on year. This item was generated mainly by client spot operations and FX options. Profits from securities decreased by 49.9% to CZK 342 million and losses from interest-rate and commodity derivatives reached CZK 172 million, both largely compensated, however, by growth in net interest income from investment banking activities.

Other income

Other income totalled CZK 271 million, compared to CZK 463 million in 2004. Other income consists mainly of dividends, which declined year on year by 66.1% to CZK 121 million and comprise dividends from IKS KB (CZK 96 million) and Penzijní fond KB (CZK 25 million). The 2004 result had been exceptional and was influenced by extraordinary dividend payments from IKS KB (see more in the section "Investments in subsidiaries and associates"), Modrá pyramida and Penzijní fond KB.

Net banking income

Given the developments described above, the net banking income increased by 3.0% to CZK 23,409 million.

Operating costs

Again in 2005, KB was able to maintain a high degree of cost control. Total operating costs declined by 1.5% to CZK 11,611 million, favourably influenced by some exceptional cost savings. The cost/income ratio thus improved further to 49.6%.

Personnel expenses decreased by 1.3% to CZK 4,737 million, positively impacted by the lower average headcount (-5.9% y/y) and by outsourcing some of KB's support activities. Due to expanding business-related activities, however, the number of employees began slightly to increase again from the beginning of 2005. The physical number of employees thus reached 7,390 as at 31 December 2005, up 1.6%. The personnel expenses also benefited positively from the capitalisation of internal project costs, which began in January 2005 and brought a decrease in personnel expenses of CZK 86 million.

General administrative expenses totalled CZK 5,140 million, which was a year-on-year decrease of 2.7%. Compared to 2004, the deposit insurance contribution eased back to 0.1% of the deposit base, thus saving CZK 298 million for the whole year. Some of the business-driven costs such as marketing or costs related to opening new branches increased slightly. Komerční banka succeeded in achieving further internal cost savings that stem mainly from the rationalisation of its operations.

Depreciation, impairment and disposal of fixed assets grew by a slight 1.4% to CZK 1,734 million. A one-off gain of CZK 348 million from the sale of property was offset by creation of a CZK 395 million provision relating to the Bank's intention to sell certain real estate assets.

Net operating income

Thanks to higher revenues, driven by very good business performance in both retail and corporate banking, and to efficient cost control, the net operating income improved by 7.9% to CZK 11,798 million.

Cost of risk

Cost of risk includes provisions for loan losses and for impairment of securities, as well as provisions for other risk expenses. In 2005, the Bank reported a net creation of provisions of CZK 349 million, compared to a net release of CZK 1,338 million in 2004. This is mainly the result of significantly lower write-back of reserves in 2005 compared to 2004.

Net creation of provisions for loan losses amounted to CZK 675 million, compared to a net release of CZK 1,554 million as at the end of 2004. The 2004 result had been impacted mainly by release in the fourth quarter of that year of general tax-deductible provisions amounting to CZK 2,375 million. At the end of 2004, the remaining part of the general provisions had been reclassified as a reserve for ongoing commitments and its release was accounted for in other risk expenses in 2005. The cost of credit risk on the credit portfolio fell to 24 bp from 37 bp in 2004, mostly due to improved quality of exposures to large corporate clients. Without this, the cost of risk would have been around 47 basis points for 2005.

Provisions for impairment of securities amounted to a charge of CZK 196 million and were connected solely to developments in the CDO portfolio. That compares to a charge of CZK 85 million in 2004. About half of the CDO portfolio was sold during 2005 (see more in the section Securities available for sale). The restructuring of the portfolio has been completed, though the evolving risk profile of the remaining USD 101 million (net book value) continues to be closely monitored.

Provisions for other risk expenses are dedicated to legal and certain operational risks. As at the end of the year, it turned to a positive CZK 522 million compared to a negative charge of CZK 131 million in 2004. This was mainly due to the accounting for the release of CZK 1,389 million in reserves for ongoing commitments. At the same time, the Bank created a reserve for legal disputes.

Profit on subsidiaries and associates

Profit on subsidiaries and associates dropped by 61.7% from 2004 to CZK 341 million. In May 2005, the Bank sold its 100% stake in IKS KB to Société Générale Asset Management for CZK 265 million. The contribution from the first instalment payment was a gain of CZK 56 million. The second instalment will be payable within four years and will be based on KB's performance in selling IKS products. In the second quarter, KB released provisions of CZK 185 million created for Komerční pojišťovna. The release had anticipated disposal of a 51% stake in KP, which was in fact completed in September 2005. The transaction brought a capital gain of CZK 78 million. The overall impact of Komerční pojišťovna in KB's unconsolidated accounts was CZK 263 million. The 2004 result had been affected by sale of the stake in the company MUZO for USD 34.7 million, which had brought an overall pre-tax gain of CZK 804 million.

Profit before taxes

Especially due to significantly larger one-off incomes in 2004, the pre-tax profit fell 10.4% to CZK 11,790 million.

Tax charge

Income tax totalled CZK 2,642 million, down 31.5% compared to 2004. This was favourably influenced by the decrease in the statutory corporate income tax from 28% to 26% that became valid since January 2005. The effective tax rate was further decreased by the booking of deferred tax assets worth CZK 465 million in the last quarter of the year, which was mainly connected with the recognition of a deferred tax asset linked to a legal claim.

Net profit

Komerční banka's net profit for 2005 amounted to CZK 9,148 million, which represented a slight decline of 1.6%. Lower one-off gains in 2005 compared to 2004 were largely offset by successful business performance and further improvements in cost management.

Balance Sheet

As at 31 December 2005, total assets reflected solid year-on-year growth of 10.1% to stand at CZK 493.7 billion.

Assets

Cash and current accounts with banks

Cash and balances with the central bank decreased 7.9% from a year earlier to CZK 9.2 billion. The balance of obligatory minimum reserves deposited with the central bank ended 2005 at CZK 3.4 billion, which was 19.2% lower than a year earlier. The obligatory minimum reserves earn interest equal to the CNB's two-week repurchase rate, which stood at 2.00% in December 2005.

Amounts due from banks

Amounts due from banks increased to CZK 246.0 billion, i.e. by 6.3% from the end of 2004. Loans to the Czech National Bank as a part of reverse repo operations declined somewhat to CZK 166.6 billion from CZK 173.1 billion at the end of 2004. Term deposits with banks increased 37.2% to CZK 51.0 billion. Amounts due from banks rose by 10.1% to CZK 16.6 billion and continue to include bonds issued by Société Générale SA, the parent bank, in the total nominal value of CZK 15.0 billion. The Bank had purchased these under market conditions in 2002 and 2003.

Trading securities

Trading securities in the KB portfolio amounted to CZK 7.6 billion at the end of 2005, representing a year-on-year decrease of 21.2%. This change reflects a CZK 1.8 billion reduction of treasury bills in the portfolio.

Net loans and advances to customers

Total net loans and advances grew by 19.2% to CZK 185.2 billion at the end of 2005. Gross loans increased by 19.1% year on year to CZK 191.3 billion, mainly due to loans to individuals. The balance of specific provisions for loan losses reached CZK 6.2 billion, up 15.9% year on year.

Gross mortgage loans to individuals grew year on year by 38.9% to CZK 43.1 billion, while consumer loans expanded in the same period by 19.7% to CZK 12.6 billion. The share of loans to individuals in the total gross loan book is constantly rising and has now reached 29%, up from 26% at the end of 2004. Loans to small and medium enterprises and municipalities increased by 19.8% to reach CZK 55.1 billion at the end of 2005.

The quality of the loan book remains very good despite dynamic loan growth in 2005. Standard loans increased 23.0% to CZK 165.6 billion, and the share in the total gross loan portfolio reached 87% (versus 84% in 2004). Meanwhile, loans volume under special review (sub-standard, doubtful, loss) remained stable year on year at CZK 8.9 billion, while their share in the loan portfolio declined to 4.7%, i.e. by almost 1 percentage point. At the end of December 2005, 64% of the loans under special review were covered by specific provisions, up from 54% at the end of 2004.

The used value of collateral for client loans remained stable at CZK 74.3 billion, of which CZK 45.2 billion, or 60.8%, was in the form of real estate.

The cost/income ratio further improved to 49.6%.

Securities available for sale

The portfolio of securities available for sale grew by 18.6% to CZK 14.7 billion from CZK 12.4 billion, due to an increase in Czech mortgage and foreign government bonds held by the Bank as part of its investment strategy. Since 2004, KB's strategy has included to gradually sell off parts of the CDO portfolio, which had relatively significant default risk. The book value of the portfolio decreased to USD 137 million during 2005 from USD 324 million at the end of 2004, mainly due to sales (USD 142 million in nominal value) and partly due to repayments. By the end of 2005, the restructuring of the portfolio had been completed. It now comprises just assets rated at least A3 plus the equity tranche, and these are almost fully provisioned. The CDO portfolio continues to be regularly evaluated by a model that analyses the assets underlying the CDOs. The carrying value of this portfolio, reflecting the sale, revaluations and creation of provisions, was USD 101 million as at 31 December 2005.

Investments held to maturity

As at the end of 2005, the portfolio of securities held to maturity had increased to CZK 3.4 billion from CZK 2.3 billion. This portfolio comprised primarily bonds of countries within the European Monetary Union. The CZK 1.1 billion rise was mainly due to the purchase of Italian, Netherlands and French government bonds.

Investments in subsidiaries and associates

The value of investments in subsidiaries and associates decreased since the end of 2004 by 17.8% to CZK 1.5 billion. In the second quarter of 2005, the Bank sold its 100% share in its asset management subsidiary, Investiční kapitálová společnost KB (IKS), to Société Générale Asset Management (SGAM). The selling price was agreed at CZK 265 million, following two significant distributions of retained profits to KB of CZK 187 million in 2004 and CZK 96 million in April 2005. As a condition of the transaction, SGAM and KB agreed that KB shall continue to be the distributor of SGAM products on the Czech market and that IKS shall continue to act as the provider of asset management products for KB customers. In September, KB also agreed to sell a 51% stake in its subsidiary Komerční pojišťovna to Sogécap, the life insurance business line of Société Générale, thus retaining a minority stake of 49% in the insurance company. The stake was sold for CZK 473 million. Both these transactions were in line with KB Group strategy and the change in ownership followed the long-term involvement of SG subsidiaries with these companies.

In the first half of 2005, KB also finalised the liquidation process for the companies ALL IN and ASIS with no material impact on the Bank's accounts.

Assets held for sale

In line with KB's cost optimisation strategy, the Bank transferred a part of its portfolio of buildings to the category “Assets held for sale”, and it expects that the individual sales will be completed within one year after the reclassification. These assets are valued at CZK 810 million and appear as a new line added to the balance sheet.

Tangible fixed assets

At the end of 2005, the amount of tangible fixed assets decreased by 21.5% to CZK 7.4 billion. This reflected mainly a decline in buildings, as part of these were transferred to “Assets held for sale”.

Liabilities and Shareholder's Equity

Amounts due to banks

In 2005, amounts due to banks increased by 70.0% to CZK 31.5 billion. The rise stems mainly from repo operations with the CNB and other banks, which increased by almost CZK 13 billion during the year.

Total assets increased by 10% to CZK 493.7 billion.

Amounts due to customers

Amounts due to customers totalled CZK 370.1 billion, which represents an increase of 3.1% compared to the end of 2004. The Bank's deposit base remained solid and stable. The volume of deposits on current accounts reached CZK 237.9 billion, compared to CZK 212.2 billion at the end of 2004. These deposits now represent as much as 71% of total primary deposits, and this share has been rising as clients shift from saving or term deposits to demand deposits due to the low interest rate environment. Total term and saving deposits decreased by 5.1% to CZK 95.4 billion. Loans from customers, excluding repo loans, declined during 2005 by 23.1% to CZK 29.8 billion, representing a fall in certificates of deposit.

Securities issued

Komerční banka's certificated debt increased significantly compared to year-end 2004, growing from CZK 9.3 billion to CZK 22.7 billion. The rise is solely represented by mortgage bonds. The Bank had repaid all other issued bonds already in 2004.

Accruals, provisions and other liabilities

This item totalled CZK 9.9 billion as at the end of 2005, up 28.0% from 2004. This was mainly due to a rise in liabilities from payment transactions.

Reserves

This line item declined by 19.0% to CZK 3.4 billion and includes reserves on commitments, to which CZK 1.6 billion had been reallocated from the specific loan provisions and reserves in 2004. The decrease was due mainly to the release of CZK 1.4 billion at the end of 2005.

Shareholders' equity

In 2005, Komerční banka's shareholders' equity increased by 15.5% to the total of CZK 50.3 billion. The gain was mostly due to a rise in the retained profit by 45.4% and in the hedging reserve by 48.1%. The Annual General Meeting of the Bank decided on the dividend payment (see Major Events) in the total amount of CZK 3.8 billion. The hedging revaluation reserve, which reflects changes in the fair value of hedging derivatives, increased significantly from CZK 2.8 billion to CZK 4.1 billion as a result of the downturn in interest rates. Also part of equity is the revaluation reserve for the available-for-sale portfolio, which amounted to CZK 285 million (up 20.6%) at the end of 2005. Shareholders' equity also includes the net profit of the current period in the amount of CZK 9.1 billion. The Bank's share capital remained stable at CZK 19.0 billion. Total shareholders' equity represents 10.2% of Komerční banka's total assets.

Komerční Banka Financial Group

As of 31 December 2005, KB Financial Group consisted of ten companies controlled to some extent by the Bank. Seven companies within the Group were subsidiaries wherein KB held controlling interests, while three were affiliated companies in which it held influential ownership interests.

In addition to its presence in the Group, KB has maintained several strategic interests where it has ownership of 20% or less, including in the Czech and Moravian Guarantee and Development Bank (13%) and Prague Stock Exchange (7.9%).

KB Financial Group continued during 2005 to co-operate closely with other companies from the Société Générale Group that are active on the Czech market, and especially in developing products and selling them through KB's distribution network. The result of such co-operation is a comprehensive offer of products for both private and business clientele.

Restructuring the KB Financial Group

The year 2005 saw completion of a restructuring process launched in 2002 after Société Générale's entry into KB. Except in the case of banking products, the KB Financial Group strategy is to separate the production and distribution processes. Komerční banka concentrates on distribution and relationships with clients, while products are created by its subsidiaries, companies within the SG group, and external partners.

The main emphasis was on integration and on strengthening collaboration between KB Financial Group companies and specialised subsidiary companies from the Société Générale Group. The aim was to utilise those companies' proven know-how and market positions.

Earlier co-operation between the asset management companies Investiční kapitálová společnost KB (IKS) and the Société Generále subsidiary Société Generále Asset Management (SGAM) resulted in signing a contract on selling IKS to SGAM in May 2005. New IKS guaranteed funds were introduced in 2005, and SGAM funds also were made available to clients. All of the above steps led to strengthening of the IKS position on the collective investment market.

The product portfolio also was expanded in the insurance area, especially for corporate clientele, and existing products were adjusted to better reflect clients' current needs. In both instances, this resulted through co-operation between KB, Komerční pojišťovna (KP), and the Société Générale life insurance, Sogecap. A contract was concluded in August 2005 between KB and Sogecap to sell a 51% share in KP. KP continues to be the main provider of life insurance products within the KB Financial Group.

KB as the main distributor of products from KB Financial Group and other companies

Komerční banka remains the main distributor in the areas of asset management (IKS) and insurance products (KP). Co-operation in distribution was broadened with other members of the KB Financial Group, especially in integrating the products of those companies into Komerční banka's offering and in using the extensive KB distribution network. Collaboration with other Société Générale companies active in the Czech market continued in 2005, namely in the area of business financing. KB sells the products of SG Equipment Finance Czech Republic (KB Leasing) and of ALD Automotive (KB FleetLease).

In October 2005, ECS International Czech Republic (ECS) was established as a subsidiary company of Europe Computer Systèmes, which belongs to the Société Générale Group. ECS specialises in hardware and software leasing for corporate clientele. Through planned close co-operation between KB and ECS, the KB product offer will further increase during 2006.

Structure of the Komerční banka and Société Générale Financial Groups in the Czech Republic

Société Générale

Komerční banka

Other
- Komerční finance B.V. **(100%)**
- Bastion European Investment S.A. **(100%)**
- ALL IN REAL ESTATE LEASING, a.s. **(100%)**
  - (AIREL IMMO spol. s r.o. in bankrupcy100%)
- CBCB – Czech Banking Credit Bureau, a.s. **(20%)**

Pension Insurance
- Penzijní fond Komerční banky a.s. **(100%)**

Building Saving
- Modrá pyramida stavební spořitelna, a.s. **(40%)**

Corporate Banking
- Factoring KB, a.s. **(100%)**
- Komerční banka Bratislava, a.s. **(100%)**

Consumer Finance
- ESSOX s.r.o. **(51%)**

Insurance
- Komerční pojišťovna, a.s. **(49%)**

Asset Management
- Investiční kapitálová společnost KB, a.s.

Leasing
- ALD Automotive, s.r.o.
- SG Equipment Finance Czech Republic, s.r.o.

IT leasing
- ECS

Subsidiaries and associate companies in the KB Financial Group

Company	Share capital CZK thousand	KB participation in the share capital – nominal CZK thousand	KB participation in the share capital – relative (%)	Net book value CZK thousand	Nominal value per share CZK thousand	Consolidation method CZK thousand
DOMESTIC PARTICIPATION						
Komerční pojišťovna, a.s.	602,768	295,344	49	379,413	74.6 and 37.3	Equity
Penzijní fond Komerční banky a.s.	200,000	200,000	100	230,000	100	Full
Modrá pyramida stavební spořitelna, a. s.	500,000	200,000	40	220,000	100	Equity
ESSOX s.r.o.	245,221	124,898	50.9	124,898	–	Full
Factoring KB, a. s.	84,000	84,000	100	90,000	100 and 10	Full
ALL IN REAL ESTATE Leasing, a.s.	2,000	2,000	100	4,170	100	None
Czech Banking Credit Bureau, a.s.	1,200	240	20	240	10	None
Total	–	**906,482**	–	**1,048,721**	–	–
FOREIGN PARTICIPATION						
Komerční banka Bratislava, a. s. *	382,825	382,825	100	466,499	100 000 SKK	Full
Komercni Finance, B. V. **	526	526	100	653	453.8 EUR	Full
Bastion European Investment, S. A.	1,798	1,795	99.84	1,801	100 EUR	None
Total	–	**385,146**	–	**468,953**	–	–
Total	–	**1,291,628**	–	**1,517,674**	–	–

* CZK/SKK exchange rate 0.76565 as at 30 December 2005 (ČNB)

** CZK/EUR exchange rate 29.005 as at 30 December 2005 (ČNB)

Factoring KB

Shareholder Structure	Komerční banka (100%)
Core Business	Factoring
Market position	Fourth place on the factoring market managing 16% of the factoring portfolio on the Czech market, which represents an increase in volume of factoring turnover by 18% in comparison with 2004.
Main Products	Domestic factoring Foreign factoring Reverse factoring

Financial Summary

CAS, CZK thousand	31 December 2005	31 December 2004
Total Assets	4,441,106	3,572,783
Factoring Portfolio	4,350,187	3,490,348
Shareholders’ Equity	162,225	144,614
Share Capital	84,000	84,000
Net Factoring Income	156,746	141,697
Profit Before Tax	25,931	28,901
Profit After Tax	18,285	17,973

Contact

Factoring KB, a.s.
Na Poříčí 36, P.O.Box 59, 110 02 Praha 1, Reg. No: 251 48 290
Tel.: +420 222 825 111, Fax: +420 224 814 628
E-mail: info@factoringkb.cz, Internet: www.factoringkb.cz

Komerční banka Bratislava

Shareholder Structure	Komerční banka (100%)
Core Business	Complete banking services for corporate clients Trade finance and settlement between the Czech Republic and the Slovak Republic
Market Position	Niche position on the Slovak market (almost 1% of the Slovak market), restructuring of clients' portfolio, focus on medium and large corporate clients with activities both on the Czech and Slovak markets
Main Products	Short term and investment loans, guarantees International payments Foreign exchange instruments (spot, forward) Derivatives Interest rate instruments (forward rate agreements, swaps) Money market deposits and loans Capital market operations Trade finance E-banking Leasing products – KB Leasing, KB Fleet Lease Cash pooling

Financial Summary

IFRS, CZK thousand	31 December 2005 *	31 December 2004 **
Total Assets	4,816,295	4,517,579
Loans to Customers	2,361,085	1,689,745
Deposits from Customers	2,284,465	2,367,042
Shareholders' Equity	580,657	589,087
Share Capital	382,825	393,150
Net Interest Income	78,819	99,045
Profit After Tax	1,086	28,202

* CZK/SKK exchange rate 0.76565 as of December 30, 2005 (CNB)
** CZK/SKK exchange rate 0.78630 as of December 31, 2004 (CNB)

Contact

Komerční banka Bratislava, a.s.
Medená 6, P.O.Box 137, 810 00 Bratislava, Slovak Republic, Reg. No: 313 95 074
Tel:: +421 259 277 328, Fax: +421 252 961 959
E-mail: koba@koba.sk, Internet: www.koba.sk

Penzijní fond Komerční banky

Shareholder Structure	Komerční banka (100%)
Core Business	Pension fund
Market Position	Penzijní fond Komerční banky, a.s. strengthened in 2005 its share on pension fund market. Share on market according to number of participants is 11% (growth of 0.7%) and share measured by volume of assets under management is 13.3% (growth of 0.3%).
Rating	A-/CzAa- according to the CRA Rating agency (the highest rating among Czech pension funds)
Main Products	State-subsidised pension insurance

Financial Summary

CAS, CZK thousand	31 December 2005	31 December 2004
Total Assets	16,590,659	13,409,558
Total Volume on Client Accounts	15,199,163	12,242,098
Shareholders' Equity	1,292,296	1,099,795
Share Capital	200,000	200,000
Net Financial Income	883,003	635,500
Profit Before Tax	632,582	447,615
Profit After Tax	620,910	439,735

Contact

Penzijní fond Komerční banky a.s.
Lucemburská 7/1170, 130 11 Praha 3, Reg. No: 618 60 018
Tel.:+420 272 173 111, 272 173 173-5, Fax: +420 272 173 176, 272 173 171
E-mail: pf-kb@pf-kb.cz, Internet: www.pfkb.cz

ESSOX

Shareholder Structure	Komerční banka (51%) Franfinance (49%)
Core Business	Providing consumer goods and car financing, credit cards and personal loans
Market position	In 2005, Essox strengthened its position on the Czech market of non-banking consumer financing to the market share of 6.6%.
Main Products	Consumer loan Revolving loan Car leasing

Financial Summary

IFRS unaudited, CZK thousand	31 December 2005	31 December 2004
Total assets	2,500,273	1,212,936
Shareholders' equity	49,478	97,673
Share capital	245,221	245,221
Loans to clients	2,205,309	989,294
Net interest income	259,175	119,022
Result before taxes	-56,851	-64,551

Contact

ESSOX s.r.o.
Senovážné nám. 231/7, 370 01 České Budějovice, Reg. No: 267 64 652
Tel.: +420 387 881 111, +420 389 010 111, Fax: +420 387 881 270, +420 389 010 270
E-mail: essox@essox.cz, Internet: www.essox.cz

Komerční pojišťovna

Shareholder Structure	Sogecap (51 %) Komerční banka (49 %)
Core Business	Insurance
Market position	6th position on life insurance market (according to preliminary information from Czech Insurance Association)
Main Products	Saving life insurance Vital Life insurance for corporate clients Program Vital Capital life insurance Vital Grant Risk life insurance for mortgage loans Accident insurance Patron Accident insurance for entrepreneur Profi Patron Payment card insurance Merlin Payment card insurance Profi Merlin Travel insurance
Products sold as a benefit of main products	Travel payment card insurance Risk life insurance for credit cards Risk life insurance for consumer loans

Financial Summary

CAS, CZK thousand	31 December 2005	31 December 2004
Total Assets	9,814,516	7,710,346
Technical Reserves	8,855,089	6,809,304
Shareholders' Equity	732,951	704,177
Share Capital	602,768	808,000
Gross Premiums Written	2,633,775	2,977,221
Investment Income	298,746	244,514
Net Profit/Loss	-50,015	2,297

Contact

Komerční pojišťovna, a.s.
Karolinská 1/650, 186 00 Praha 8, Reg. No: 639 98 017
Tel.: +420 222 095 111, Fax: +420 224 236 696
E-mail: servis@komercpoj.cz, Internet: www.komercpoj.cz

Modrá pyramida stavební spořitelna

Shareholder Structure	BHW Holding (50%) Komerční banka (40%) Česká pojišťovna (10%)
Core Business	Building society
Market Position	Significant position on the market of building saving
Main Products	State-subsidised building savings accounts Bridging loans Building savings loans

Financial summary

CAS, CZK thousand	31 December 2005	31 December 2004
Total Assets	57,650,455	51,492,090
Total Loans	19,221,921	15,392,624
Shareholders' Equity	1,604,826	1,339,944
Share Capital	500,000	500,000
Interest Margin	666,199	643,886
Profit Before Tax	293,598	73,585
Profit After Tax	270,578	32,053

Contact

Modrá pyramida stavební spořitelna, a. s.
Bělehradská 128, č.p. 222, P.O.Box 40, 120 21 Praha 2, Reg. No: 601 92 852
Tel.: +420 222 824 111, Fax: +420 222 824 113
E-mail: info@mpss.cz, Internet: www.mpss.cz, www.modrapyramida.cz

Statutory Bodies

Board of Directors

Laurent Goutard	Chairman of the Board of Directors (since 7 October 2005), Vice-Chairman (from 1 September 2004 to 6 October 2005)
Philippe Rucheton	Vice-Chairman of the Board of Directors (since 7 October 2005), Member (since 2 May 2002)
Didier Colin	Member of the Board of Directors (since 9 October 2004)
Peter Palečka	Member of the Board of Directors (since 5 October 2001, re-elected on 6 October 2005)
Matúš Púll (†)	Member of the Board of Directors (since 5 October 2001, re-elected on 6 October 2005, passed away on 23 February 2006)

Matúš Púll Peter Palečka Laurent Goutard Didier Colin Philippe Rucheton

Laurent Goutard

Graduate of four-year economics studies at the University of Paris-Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics. In 1986, he joined Société Générale working first at the General Inspection and then, between 1993 and 1996, as deputy managing director for large corporations at the Paris-Opéra Branch. Between 1996 and 1998, he was director of the Corporate Banking Division on the French territory. From 1998 to June 2004 (until his election as a member of the Board of Directors of Komerční banka), he was a member of the Board of Directors and chief executive officer, later the chairman of the Board of Directors of Société Générale Marocaine de Banques, a Société Générale's subsidiary in Morocco. KB's Board of Directors elected Mr. Laurent Goutard as the Chairman of the Board of Directors and CEO of Komerční banka with effect from 7 October 2005.

Philippe Rucheton

Graduate of the High Military-Technical College Ecole Polytechnique, of the Institut Supérieur des Affaires and of the Pantheon Sorbonne University. From 1972 to 1980, he worked as a consultant and senior manager in the banking operation of the BRED Group, and from 1980 to 1988 in Louis-Dreyfus Bank. Between 1988 and 1995, he was CFO and deputy CEO of SG Europe Computer Systems, an SG subsidiary. From 1995 to his election as a member of the Board of Directors of Komerční banka, he worked as director of Assets and Liabilities Management in Société Générale. KB's Board of Directors elected Philippe Rucheton as the Vice-Chairman of the Board of Directors and deputy CEO of Komerční banka with effect from 7 October 2005.

Didier Colin

Graduate of the University of Paris-IX Dauphine and Master of Business Administration from the University of New York. Since 1990 he has worked for Société Générale, first as a financial analyst at the SG branch in New York, then, since 1991, as a member of the team of auditors at SG's Head Office. In 1998 he returned to New York and worked as CFO of the SG US Branch, being also in charge of the budget for all of SG's activities on the American continent. In 2000 he assumed the position of deputy CEO of the Société Générale Branch in Canada, and in 2001 he became its CEO. He occupied this position until his joining Komerční banka, holding the position of member of the Board of Directors in charge of the Risk Management.

Peter Palečka

Graduate of the University of Economics, Bratislava. From 1982 to 1988, he worked in foreign trade organizations. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. Between 1992 and 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic, and of the Czech Republic, respectively, in GATT, and from 1995 to 1998, he was the Permanent Representative of the Czech Republic in the World Trade Organization. Since 1998 he has worked in Komerční banka, first as director for strategy. In October 1999 he was elected a member and in April 2000 vice-chairman of the Board of Directors of Komerční banka. On 5 October 2001 he resigned from this position, and on 5 October 2001 he was re-elected as a member and vice-chairman of the Board of Directors. At present, he is a member of the Board of Directors.

Matúš Púll

Graduate of the University of Economics, Prague. From 1972 to 1977, he worked in Fincom, a. s., Praha, a foreign trade company. Between 1977 and 1982, he worked at the head office of the State Bank of Czechoslovakia. From 1982 to 1995, he managed the Société Générale office in Prague. From 1991 to his election as a member of the Board of Directors of Komerční banka, he was a member of the executive management of Société Générale Komerční banka, later Société Générale banka and Société Générale, Prague branch, respectively. Since 6 October 2001 he has been a member of the Bank's Board of Directors. In September 2005 he was awarded the official French decoration "Médaille de Chevalier de l'Ordre National du Mérite". He was among to the most recognised experts and also personalities in the Czech-French community. Matúš Púll passed away tragically on 23 February 2006.

Personnel changes on the Board of Directors in 2005:

Alexis Juan, Chairman of the Board of Directors (from 5 October 2001 to 6 October 2005). Alexis Juan, who resigned as KB Chairman of the Board of Directors as of 6 October 2005, was elected by the Board of Directors the Honorary Chairman of the Board of Directors of Komerční banka expressing the Bank's gratitude for Mr Juan's extraordinary merit and contribution to its development.

Directors Committee

The Directors Committee is a body dealing with the strategy and other matters relating to everyday banking business.

The Directors Committee takes three different configurations:
- Enlarged Directors Committee
- Retail Directors Committee
- Corporate and Investment Directors Committee.

The Directors Committee was established by the Board of Directors of Komerční banka; its members are appointed by the Chairman of the Board of Directors and Chief Executive Officer of Komerční banka. At the time of annual report preparation, the Committee consisted of the following members:

Laurent Goutard, Chairman of the Board of Directors and Chief Executive Officer
Philippe Rucheton, Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer
Didier Colin, Member of the Board of Directors and Executive Director, Risk Management
Peter Palečka, Member of the Board of Directors and Executive Director, Corporate Secretary
Pavel Čejka, Executive Director for Strategy & Finance, Chief Financial Officer
Philippe Delacarte, Executive Director, Distribution Channels
Jürgen Grieb, Executive Director, Capital Markets & Corporate Finance
Petr Kalina, Executive Director, Support Services
André Léger, Executive Director, Marketing
Jitka Pantůčková, Executive Director, Operations
Pavel Racocha, Executive Director, Internal Audit
Christian Rouso, Executive Director, Information Technology
Karel Vašák, Executive Director, Human Resources
Vladimír Jeřábek, Director, Distribution Channels
Christian Vasseur, Director, Risk Management

Personnel changes in the Directors Committee in 2005 and in 2006 until the annual report preparation:
Alexis Raymond Juan, Chairman of the Board of Directors and Chief Executive Office (until 6 October 2005)
Matúš Púll, Member of the Board of Directors and Executive Director, Corporate Banking (until 23 February 2006)
Martin Čejka, Executive Director, Internal Audit and Control (until 31 May 2005)
Frank Le Duc, Executive Director, Internal Audit (from 2 June 2005 until 31 August 2005)
Jan Pokorný, Executive Director, Distribution Channels (until 30 September 2005)
Miloš Adámek, Executive Director, Communication (until 31 December 2005)
Jan Kubálek, Director, General Program Manager, Program Renaissance (until 28 February 2006)

Pavel Racocha, Executive Director, Internal Audit (since 1 September 2005)
Vladimír Jeřábek, Director, Distribution Channels (since 1 October 2005)

Supervisory Board

Didier Alix, Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Jean-Louis Mattei, Vice-Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Séverin Cabannes, Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Jan Juchelka, Member of the Supervisory Board (since 31 May 1999, re-elected on 8 October 2001 and on 29 April 2005)
Pavel Krejčí *, Member of the Supervisory Board (since 27 May 2001, re-elected by KB's employees on 28 May 2005)
Jan Kučera *, Member of the Supervisory Board (since 27 May 2001, re-elected by KB's employees on 28 May 2005)
Petr Laube, Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Christian Achille Frederic Poirier, Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Nina Trlicová *, Member of the Supervisory Board (since 28 May 2005, elected by KB's employees)

* elected by KB's employees

Didier Alix

Graduate in three-year studies of economics, and graduate of the Paris Institute of Political Studies. In 1971 he started to work for Société Générale, where he has held a number of positions. From 1972 to 1979 he worked at the Group General Inspection. In 1980 he started to work at the General Directorate as head of Central Risk Control. In 1984 he was appointed director of the Levallois Branch, and in 1987 as director of the Paris Opera Branch. From 1991 to 1993 he worked as chief executive officer of the SG subsidiary Franfinance appointed within the activities of a specialized financial division. From 1993 he worked as deputy director and later as director of the French business network within the Retail Banking Division. In 1998 he was appointed chief executive officer of Retail Banking. Since 2001 he has been a member and chairman of the Supervisory Board of Komerční banka.

Jean-Louis Mattei

Graduate in three-year studies and in advanced studies of private law, and graduate of the Institute of Political Studies and of the Centre of Advanced Banking Studies. In 1973 he started to work for Société Générale, where he has held a number of positions. He has worked, inter alia, at SG's branch in Bordeaux, at the Human Resources Management Department, and later on as the head of cost analyses and as the head of the audit of the management of the Organization and of the Information Technologies departments. Subsequently, he worked as head of the Organization Unit. In 1988 he became a member of the board of directors and chief executive officer of SG de Banques in Cote d'Ivoire. Between 1992 and 1998 he was deputy director and later director for the zone of Africa Overseas and for the zone of Africa, Near and Middle East, Overseas. Since 1998 he has been the head of International Retail Banking. Since 2001 he has been a member and vice-chairman of the Supervisory Board of Komerční banka.

Séverin Cabannes

Graduate of the Polytechnic School and of the Paris Mining School. From 1983 to 1986 he worked in Credit National. From 1986 to 1997 he worked in various strategic positions at Elf Atochem, the most important being the position of Economic and Strategic Planning Director. Between 1997 and 2001 he worked at the La Poste Group as a member of the executive committee and, subsequently, as deputy chief executive officer in charge of the strategy, development and financial audit of the Group. In 2001 he joined Société Générale as financial director and as a member of the General Management Committee in charge of the Group financial management, management control, assets and liabilities management and investor relations. In 2002 he became deputy chief executive officer and financial director of Steria Group, and in 2003 he became the company's chief executive officer. Since 2001 he has been a member of the Supervisory Board of Komerční banka.

Jan Juchelka

Graduate of the Business Faculty of the Silesian University in Karviná. From 1992 to 1993 he worked as branch manager of MATTES AD, s.r.o. and from 1993 to 1995 as an assistant to the chief executive officer of Korona, a. s. From 1995 he worked at the National Property Fund of the Czech Republic, first in the securities department as a clerk, later as a section and department manager. From spring 2000, he was vice-chairman of the Executive Committee of the National Property Fund of the Czech Republic and from November 2002 to December 2005 he was its chairman. Since May 1999 he has been a member of the Supervisory Board of Komerční banka.

Pavel Krejčí

Graduate of the Brno Technical University, faculty of electrical engineering; and of the Palacký University in Olomouc, faculty of arts. In 1987 he started to work at the Czechoslovak National Bank. In 1990 he joined Komerční banka. In 1992 he was elected chairman of KB's Trade Union Committee. Since 1997, he has been vice-chairman of the Federation of Trade Unions of Employees of Financial and Insurance Companies of the Czech Republic. He works as full-time chairman of KB's Trade Union Committee. Since 2001 he has been a member of the Supervisory Board of Komerční banka.

Jan Kučera

Graduate of the Prague Technical University, faculty of mechanical engineering. He has worked in AERO Vodochody and in the electric engineering company ZSE MEZ Náchod. Since 1991 he has worked in KB: he worked at KB's branch in Náchod, first as the head of the client services department, then as the branch accountant. At the moment, he works as a financial analyst at the region director's unit in Hradec Králové. He is chairman of KB's Trade Union Committee in Náchod and a member of KB's Trade Union Committee. Since 2001 he has been a member of the Supervisory Board of Komerční banka.

Petr Laube

Graduate of the Prague Business University specialized in foreign trade. From 1974 to 1991, he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and since 1993 he has been chief executive officer and chairman of the Board of Directors of Lafarge Cement, a. s., Prague. Since 2005 he has been director of the segment of electricity, gas, liquid fuels and SG&A Lafarge, s.a., Paris. Since 2001 he has been a member of the Supervisory Board of Komerční banka.

Christian Achille Frederic Poirier

Graduate of the National School of Administration; postgraduate studies of history. Between 1980 and 1987, he served in leading positions in the national administration. Since 1987 he has worked in Société Générale: from 1987 to 1991 as head of the department of public and governmental organizations, from 1991 to 1995 as director of the Japanese corporate department. Between 1995 and 1997, he worked as director of subsidiaries specialized in consumer credit, leasing and factoring. Between 1997 and 2001, he was deputy head of the Strategy and Marketing Division, and since February 2001 he has been the head of Strategy and Marketing. Since 2001 he has been a member of the Supervisory Board of Komerční banka.

Nina Trlicová

Graduate of a secondary business school. Until 1989 she had worked as an accountant in the area of infrastructure and businesses. Since 1990 she has worked in Komerční banka, first as a credit accountant, later at the controlling department, and as the branch accountant at the branch in Ústí nad Labem; then as a head office accountant at the financial analyses unit of KB's head office. She currently works as a financial analyst of the Ústí nad Labem region. She is vice-chairman of KB's Trade Union Committee. Since 2005 she has been a member of the Supervisory Board of Komerční banka.

Personnel changes in the Supervisory Board in 2005:

Miroslava Šmídová, member of the Supervisory Board (membership terminated upon the expiration of her term on 27 May 2005)

Supervisory Board Committees

As a part of its powers, the Supervisory Board establishes two committees, which have advisory and initiative roles. These are the Remuneration and Personnel Committee and the Audit Committee.

Remuneration and Personnel Committee

The committee members are Didier Alix (chairman), Jean-Louis Mattei and Christian Achille Frederic Poirier. The Remuneration and Personnel Committee provides the Supervisory Board with its recommendations on the election and dismissal of members of the Board of Directors and on the composition of its committees. It provides positions on draft contracts and performance for the members of the Board of Directors, evaluates the performance of the contracts with the members of the Board of Directors, and provides recommendations for the Supervisory Board.

Audit Committee

The members are Séverin Cabannes (chairman), Jan Juchelka and Petr Laube. Christian Achille Frederic Poirier is the Committee's permanent guest. The Audit Committee namely inspects accounting documents and records, monitors whether the books are kept properly, and co-operates with the Internal Audit Department and with the external auditor.

Shareholders

Shareholder Structure

Major shareholders of Komerční banka, a. s. with over 3% of the share capital as of 31 December 2005:

Shareholder	Proportion of share capital (%)
Société Générale S. A.	60.35
Investors Bank & Trust Company	5.14
The Bank of New York ADR Department	4.39
Chase Nominees Limited	3.11

Of the Bank's total share capital, i.e. CZK 19,004,926,000 (38,009,852 shares in a nominal value of CZK 500), Société Générale S.A. holds 60.35%.

At the end of 2005, the number of shareholders comprised 45,846 legal entities and private individuals.

Shareholder Structure of Komerční banka

(According to the excerpt from the issuers' register taken from the Prague Securities Centre as of 31 December 2005)

	Number of shareholders	Proportion of number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	45,846	100.00	100.00
of which: legal entities	297	0.65	89.75
private individuals	45,477	99.19	3.44
unidentified shareholder accounts registered	72	0.16	6.81
Legal entities	297	100.00	89.75
of which: from the Czech Republic	163	54.88	2.24
from other countries	134	45.12	87.51
Private individuals	45,477	100.00	3.44
of which: from the Czech Republic	40,859	89.85	3.29
from other countries	4,618	10.15	0.15

Main Decisions of the General Meeting of Komerční Banka held in 2005

The Annual General Meeting was held on 28 April 2005. The shareholders approved the financial statements of the Bank for 2004, decided upon the distribution of profit for 2004 in the amount of CZK 9,435,340,415.04 and resolved to pay out pre-tax dividends in the amount of CZK 100 per share. The Annual General Meeting also approved:

- the report of the Board of Directors on the business activities of the Bank and the state of its assets for 2004,
- financial statements and the consolidated financial statements for 2004,
- acquisition of its own ordinary shares, and
- remuneration for members of the Bank's bodies.

The Annual General Meeting re-elected the following members of the Supervisory Board: Didier Alix, Séverin Cabannes, Jan Juchelka, Petr Laube, Jean-Louis Mattei, and Christian Achille Frederic Poirier.

Report of the Supervisory Board

Throughout 2005, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the internal control and management system and made its regular assessments.

Having checked the Bank's annual and consolidated financial statements for the period from 1 January 2005 to 31 December 2005, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank's auditor, company Deloitte, performed an audit of the Bank's consolidated and unconsolidated financial statements worked out under the International Financial Reporting Standards (IFRS). The report was unqualified.

The Supervisory Board recommends that the general meeting approve the financial statements for the year 2005 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on relations among related entities in 2005 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2005 to 31 December 2005, Komerční banka, a.s., did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 15 March 2006

On behalf of the Supervisory Board of Komerční banka, a.s.:

Didier Alix
Chairman

Sworn Statement

Komerční banka, a.s., hereby declares that all information and data contained in this annual report are accurate and correct. It further confirms that this document contains all facts that may be important for decisions taken by investors.
Komerční banka, a.s., also declares that as at the date on which the annual report was compiled no negative changes had occurred in the financial situation, nor there were any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Prague, 6 April 2006

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

Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

Deloitte.

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Registered address:
Týn 641/4
110 00 Prague 1
Czech Republic
Registered at the Municipal Court in Prague, Section C, File 24349
Id Nr. 49620592
Tax Id Nr.: CZ49620592

Having its registered office at: Praha 1, Na Příkopě 33 čp. 969, PSČ 11407
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

Unconsolidated Financial Statements

Based upon our audit, we issued the following audit report dated 28 February 2006 on the consolidated financial statements which are included in this annual report on pages 66 to 121:

"We have audited the accompanying unconsolidated financial statements of Komerční Banka, a.s. ("the Bank"), which comprise the balance sheet as of 31 December 2005, and the related statement of income, changes in equity and cash flows for the year then ended and notes. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Bank as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 7 March 2006 on the consolidated financial statements which are included in this annual report on pages 122 to 180:

"We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries ("the Group"), which comprise the balance sheet as of 31 December 2005, and the related statement of income, changes in equity and cash flows for the year then ended and notes. These consolidated financial statements are the responsibility of Komerční banka's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Group as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of Komerční banka, a.s. for the year ended 31 December 2005 which is included in this annual report on pages 192 to 196. This related party transactions report is the responsibility of the Company's Board of Directors. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Komerční banka, a.s. for the year ended 31 December 2005 contains material factual misstatements.

Annual Report

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 6 April 2006

Audit firm:
Deloitte s.r.o.
Certificate no. 79
Represented by:

Statutory auditor:
Michal Petrman
certificate no. 1105

Michal Petrman, statutory executive

Financial Section

Unconsolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2005

Deloitte.

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Registered at the Municipal Court in Prague, Section C, File 24349
Id Nr. 49620592
Tax Id Nr.: CZ49620592

Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

Having its registered office at: Praha 1, Na Příkopě 33 čp. 969, PSČ 11407
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying unconsolidated financial statements of Komerční banka, a.s. ("the Bank"), which comprise the balance sheet as of 31 December 2005, and the related statement of income, changes in equity and cash flows for the year then ended and notes. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Bank as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 28 February 2006

Audit firm:
Deloitte s.r.o.
Certificate No. 79
Represented by:

Statutory auditor:
Michal Petrman
Certificate no. 1105

Michal Petrman, statutory executive

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Unconsolidated Profit and Loss Statement for the year ended 31 December 2005

CZK million	Note	2005	2004
Interest income	5	20,148	19,644
Interest expense	5	(6,508)	(7,238)
Net interest income		**13,640**	**12,406**
Net fees and commissions	6	8,718	8,703
Net profit/(loss) on financial operations	7	780	1,145
Dividends and other income	8	271	463
Net banking income		**23,409**	**22,717**
Personnel expenses	9	(4,737)	(4,799)
General administrative expenses	10	(5,140)	(5,280)
Depreciation, impairment and disposal of fixed assets	11	(1,734)	(1,709)
Total operating expenses		**(11,611)**	**(11,788)**
Profit before provision for loan and investment losses, other risk and income taxes		**11,798**	**10,929**
Provision for loan losses		(675)	1,554
Provisions for impairment of securities		(196)	(85)
Provisions for other risk expenses		522	(131)
Cost of risk	**12**	**(349)**	**1,338**
Profit or loss on subsidiaries and associates	13	341	889
Profit/(loss) before income taxes		**11,790**	**13,156**
Income taxes	14	(2,642)	(3,857)
Net profit/(loss)	**15**	**9,148**	**9,299**
Earnings/(loss) per share (in CZK)	**16**	**240.68**	**244.66**

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

Unconsolidated Balance Sheet as of 31 December 2005

CZK million	Note	2005	2004
Assets			
Cash and current balances with the Czech National Bank	17	9,231	10,025
Amounts due from banks	18	245,953	231,361
Financial assets at fair value through profit or loss	19	7,593	9,642
Positive fair value of financial derivative transactions	40	11,228	11,333
Loans and advances to customers, net	20	185,225	155,379
Securities available for sale	21	14,725	12,411
Investments held to maturity	22	3,423	2,320
Prepayments, accrued income and other assets	23	2,910	2,069
Income taxes receivable	14	628	1
Deferred tax asset	33	1,006	437
Assets held for sale	24	810	0
Intangible fixed assets, net	25	2,097	2,059
Tangible fixed assets, net	26	7,391	9,411
Investments in subsidiaries and associates	27	1,518	1,846
Total assets		**493,738**	**448,294**
Liabilities			
Amounts due to banks	28	31,526	18,548
Amounts due to customers	29	370,058	358,825
Negative fair value of financial derivative transactions	40	4,324	4,699
Securities issued	30	22,672	9,255
Accruals and other liabilities	31	9,923	7,750
Provisions	32	3,437	4,245
Income taxes payable	14	0	366
Deferred tax liability	33	1,484	1,028
Total liabilities		**443,424**	**404,716**
Shareholders' equity			
Share capital	34	19,005	19,005
Share premium and reserves		31,309	24,573
Total shareholders' equity		**50,314**	**43,578**
Total liabilities and shareholders' equity		**493,738**	**448,294**

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

These financial statements were approved by the Board of Directors on February 27, 2006.

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

Unconsolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2005

CZK million	Share capital	Capital and reserve funds and undistributed profit *	Compen-sation reserve	Hedging reserve	Reserve for hedging a foreign currency investment in a subsi-diary	Reserve from revaluation of available-for-sale securities	Total
Balance at 31 December 2003	**19,005**	**20,082**	**18**	**1,328**	**(34)**	**0**	**40,399**
Change of accounting policy **	0	(191)	0	0	0	191	0
Change of accounting policy ***	0	(126)	0	0	0	0	(126)
Balance at 1 January 2004	**19,005**	**19,765**	**18**	**1,328**	**(34)**	**191**	**40,273**
Cash flow hedging:							
– net fair value, net of tax	0	0	0	2,886	0	0	2,886
– transfer to net profit, net of tax	0	0	0	(1,411)	0	0	(1,411)
Currency translation from foreign investments	0	0	0	0	34	0	34
Unrealised gains or losses on available-for-sale securities, net of tax	0	0	0	0	0	45	45
Other treasury shares	0	72	0	0	0	0	72
Equity compensation programme reserve	0	0	(18)	0	0	0	(18)
Dividends	0	(7,602)	0	0	0	0	(7,602)
Net profit for the period	0	9,299	0	0	0	0	9,299
Balance at 31 December 2004	**19,005**	**21,534**	**0**	**2,803**	**0**	**236**	**43,578**
Cash flow hedging:							
– net fair value, net of tax	0	0	0	3,040	0	0	3,040
– transfer to net profit, net of tax	0	0	0	(1,701)	0	0	(1,701)
Currency translation from foreign investments	0	0	0	0	9	0	9
Unrealised gains or losses on available-for-sale securities, net of tax	0	0	0	0	0	49	49
Other treasury shares	0	(8)	0	0	0	0	(8)
Dividends	0	(3,801)	0	0	0	0	(3,801)
Net profit for the period	0	9,148	0	0	0	0	9,148
Balance at 31 December 2005	**19,005**	**26,873**	**0**	**4,142**	**9**	**285**	**50,314**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit and retained earnings.
** Unrealised gains or losses on the revaluation of available-for-sale securities as of 1 January 2004, net of tax.
*** Accrued fees as of 1 January 2004, net of tax.

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

Unconsolidated Cash Flow Statement for the year ended 31 December 2005

CZK million	2005	2005	2004	2004
Cash flows from operating activities				
Interest receipts	20,110		19,201	
Interest payments	(6,277)		(6,037)	
Commission and fee receipts	9,620		9,592	
Commission and fee payments	(766)		(727)	
Other income receipts	183		548	
Cash payments to employees and suppliers, and other payments	(8,391)		(8,215)	
Operating cash flow before changes in operating assets and operating liabilities	**14,479**		**14,362**	
Due from banks	(13,731)		(29,565)	
Loans and advances to customers	(30,983)		(3,336)	
Securities held for trading	1,969		16,205	
Other assets	(218)		450	
Total (increase)/decrease in operating assets	**(42,963)**		**(16,246)**	
Amounts due to banks	12,374		(218)	
Amounts due to customers	10,692		9,290	
Other liabilities	1,884		7,649	
Total increase/(decrease) in operating liabilities	**24,950**		**16,721**	
Net cash flow from operating activities before taxes	(3,534)		14,837	
Income taxes paid	(4,087)		(4,860)	
Net cash flows from operating activities		(7,621)		9,977
Cash flows from investing activities				
Dividends received	166		426	
Purchase of investments held to maturity	(1,155)		(1,045)	
Maturity of investments held to maturity *	107		138	
Purchase of securities available for sale	(8,384)		(803)	
Sale of securities available for sale *	6,754		11,013	
Purchase of tangible and intangible fixed assets	(1,419)		(1,514)	
Sale of tangible and intangible fixed assets	878		103	
Purchase of investments in subsidiaries and associates	(2)		(257)	
Sale of investments in subsidiaries and associates	672		882	
Net cash flow from investing activities		**(2,383)**		**8,943**
Cash flows from financing activities				
Paid dividends	(3,788)		(7,530)	
Securities issued	13,778		5,133	
Securities redeemed *	(639)		(18,532)	
Net cash flow from financing activities		**9,351**		**(20,929)**
Net increase/(decrease) in cash and cash equivalents	**(653)**		**(2,009)**	
Cash and cash equivalents at beginning of year	**8,669**		**10,678**	
Cash and cash equivalents at end of year (see Note 35)		**8,016**		**8,669**

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

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

Notes to the Unconsolidated Financial Statements for the year ended 31 December 2005

1. Principal activities

Komerční banka, a.s. (henceforth the “Bank”) 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 registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its subsidiary Komerční banka Bratislava, a.s.

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 (2004: 60.35 percent) of the Bank’s issued share capital.

2. Events for the year ended 31 December 2005

Dividends declared in respect of the year ended 31 December 2004

At the General Meeting held on 28 April 2005, the shareholders approved a dividend for the year ended 31 December 2004 of CZK 100 per share before tax. The dividend was declared in the aggregate amount of CZK 3,801 million in respect of the total net profit of CZK 9,435 million under Czech Accounting Standards for that year.

Changes in the Bank’s Financial Group

During 2005, the Bank sold 100 percent of the issued share capital of Investiční kapitálová společnost KB, a.s. (“IKS”) to Société Générale Asset Management S.A. (France). In addition, the Bank sold 51 percent of the issued share capital of Komerční pojišťovna, a.s., which had been the Bank’s wholly owned subsidiary, to Sogecap S.A. (France). Additional information about these significant sales and other changes in the Bank’s financial group are presented in Note 27.

3. Principal accounting policies

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

(a) Basis of accounting

The unconsolidated statutory financial statements are prepared in accordance with and comply with International Financial Reporting Standards (“IFRS”) and IFRS as adopted by the European Union, applicable for unconsolidated financial statements effective for the year ended 31 December 2005. As of the date of issuance of these unconsolidated 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 financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss 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 unconsolidated 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 to fair value and suffered impairment are stated at net recoverable amount.

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

The Bank maintains its books of account and regularly prepares the required statements in accordance with International Financial Reporting Standards. The Bank also prepares consolidated financial statements under International Financial Reporting Standards which show the consolidated results of the Group.

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

(b) Investments in subsidiaries and associates

Subsidiary undertakings are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the share capital or otherwise has power to exercise control over the operations of the entity. Associated undertakings are those companies in which the Bank, directly or indirectly, holds 20 – 50 percent of the entity's issued share capital.

The Bank's investments in subsidiary and associated undertakings are recognised at cost less any provisions. Investments, in which the Bank, directly or indirectly, has an equity interest less than 20 percent, are reported as "*Securities available for sale*".

Dividends are recorded as declared and included as a receivable in the balance sheet line "*Prepayments, accrued income and other assets*" and in "*Dividends and other income*" in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

The Bank regularly assesses equity investments for impairment. An equity investment is impaired if its carrying amount is greater than the present value of the expected future cash flows.

Equity investments denominated in foreign currencies are reported on the face of the balance sheet at the historical exchange rate ruling at the acquisition date.

(c) Dates of settlement and derecognition of financial instruments from the Bank'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, if a portfolio of financial assets remeasured at fair value is involved, 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 Bank decided to write off are derecognised at the write-off date.

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

The Bank settles 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 underlying accounting system of the Bank 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 the process of collection.

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 Bank 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 Bank by providing money directly to a borrower are categorised as loans originated by the Bank 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 Bank recognises provisions against loan receivables only on an individual basis. The portfolio approach would be applied if the Bank identified impairment of loans at the portfolio level. Further details about provisioning are set out in Note 40 to these financial statements.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Bank’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 Bank writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank 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 Bank are categorised into portfolios in accordance with the Bank’s intent on the acquisition of the securities and pursuant to the Bank’s security investment strategy. The Bank has 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 Bank 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 securities marketplace concerned are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement at fair value.
The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its cost.
Dividend income arising from securities is recorded as 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 Bank’s equity.
The Bank 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 Bank 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 Bank for the purpose of generating a profit from short-term fluctuations in prices. These securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.
Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line “*Net profit/(loss) on financial operations*”.
With effect from 1 January 2005, the Bank has reported interest income on debt securities at fair value through profit or loss as a component of the value remeasurement through “*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 Bank has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective yield 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 Bank has not included them in other portfolios. 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 "*Reserve from 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 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/cashflow 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 is not available, and all debt securities is equal to the present value of the expected future cash flows discounted at the 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 must 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 Bank 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) 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. Fixed 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 fixed 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 Bank specifically does not depreciate land, works of art, tangible and intangible fixed assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.

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

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

	2005	2004
Machinery and equipment, computers and vehicles	4	4
Fixtures, fittings and equipment	6	6
ATMs and selected equipment of the Bank	8	4
Energy machinery and equipment	12/15	6/12
Distribution equipment	20	20
Buildings and structures	40	30
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	x
– Lift, electro-installation	25	x
– Roof, fasade	30	x
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Tangible 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 Bank 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 Bank does not capitalise expenses incurred in research.

The Bank periodically tests its assets for indications of impairment, such as a change in their utilisation or worsened economic conditions. Where the 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 being surplus to the Bank's requirements, management of the Bank 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.

(j) 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 rate of interest.

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.

At present the Bank does not act as a lessor for finance leases.

(k) Provisions for guarantees and other off balance sheet credit related commitments

In accordance with IFRS, the Bank 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 causing a decrease of economic benefits; and

– A reliable estimate can be made of the amount of the obligation.

In the normal course of business, the Bank enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, 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).

(l) Employment benefits

The Bank 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 Bank for a defined period of time. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or are entitled to receive a disability pension and were employed with the Bank 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, estimated discount rate).

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

(m) Securities issued

Securities issued by the Bank are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of the Bank'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 Bank derecognises these securities so as to reflect the economic substance of the transaction as a repayment of the Bank'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 Bank's own debt securities are included in "*Net profit/(loss) on financial operations*".

(n) 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. Interest income includes amortisation of interest earned on debt financial instruments. 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.

(o) Income taxation

Income taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic, based on the profit recognised in the profit and loss statement net of the effects of International Financial Reporting Standards. 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 liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. 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.

(p) Repurchase agreements

Under repurchase transactions ("repos"), the Bank 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 Bank'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 repo agreement using the effective interest rate.

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

(q) Derivative financial instruments and hedging

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

The derivative financial instruments used by the Bank 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 and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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 Bank 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 with the Bank's risk management strategy;

(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing 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 a 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 entity.

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 Bank hedges the foreign exchange rate risk associated with selected portfolios of foreign currency assets through cross-currency swaps. 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 reserve*" 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 line "*Net profit/(loss) on financial operations*. On this basis, the Bank hedges the interest rate risk associated with selected portfolios of assets or liabilities through interest rate swaps (IRS) and FRAs. 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 subsidiary, Komerční banka Bratislava, a.s. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from their retranslation are included in the *"Reserve for hedging a foreign currency investment in a subsidiary"*.

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 40.

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*".

(r) Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with the Bank's clients, liquidity, interest rate and foreign currency position.

(s) Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

(t) Share capital and treasury stock

Where the Bank 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.

(u) Contingent assets and contingent liabilities

In addition to transactions giving rise to the recognition of assets and liabilities in the balance sheet, the Bank enters into transactions under which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities off balance sheet as off-balance sheet items. The Bank monitors these transactions as they represent a substantial proportion of its activities and materially impact the level of risks to which the Bank 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.
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 Bank.
Off-balance sheet items also consist of interest rate and foreign currency instruments, including swaps, options and futures.

(v) Changes of accounting policies arising from the implementation of new IFRS and revised IAS effective from 1 January 2005

All the new IFRS and revisions of the extant IAS have been implemented with effect from 1 January 2005. Set out below are the changes and their impact on the profit for the year ended 31 December 2004 and retained earnings, if relevant.

Category	The 2004 presentation in the prior period financial statements CZK million	Category	The 2004 presentation in the current period financial statements CZK million	Profit and loss impact in 2004 CZK million	Equity impact in 2004 CZK million
Net interest income	540	Net profit/(loss) on financial operations	540	–	–
Net fees and commissions	184	Net interest income	183	1	(171)
Loans and advances to customers	1,335	Investments held to maturity	1,335	–	–
Deferred tax asset	437	Deferred tax asset	392	(4)	45
Total				(3)	(126)

1. IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement

Measurement of financial instruments held for trading

These standards no longer require that interest income and expense attributable to financial assets at fair value through profit or loss be recognised separately.
In accordance with this guidance, the Bank, effective 1 January 2005, has recognised interest income and expense on financial assets at fair value through profit or loss (for example, debt securities held for trading) as a component of the fair value remeasurement in the "Net profit/(loss) on financial operations', not in the line "Net interest income". Reflecting the change referred to above, the Bank made a reclassification of CZK 540 million in the 2004 amounts.

Definition of loans and receivables

IAS 39 has revised the definition of the category of "loans and receivables originated by the enterprise" to "Loans and receivables'. Under the revised definition, an entity is permitted to classify in "loans and receivables" loans that are purchased only if they are not quoted in an active market.
The Bank has assessed the purchased receivables categorised as "loans and receivables" and re-allocated the receivables that do not meet the above definition into a different portfolio with effect from 1 January 2005. The re-allocation comprised securities with the carrying amount of CZK 1,335 million which the Bank decided to include in the held-to-maturity investments portfolio. The impact on the profit and loss statement and retained earnings was zero. The change was also reflected in the 2004 comparative period.

2. Other changes of accounting policies

Accruals

With effect from 2005, the Bank has commenced recording accruals for loan origination fees, fees from guarantees and annual fees from payment cards, which results in a fairer presentation of information.

In accordance with IAS 8, the Bank applied the changes of accounting policies retrospectively. As of 1 January 2005, the net impact on retained earnings (decrease) was CZK 37 million, CZK 14 million and CZK 78 million in respect of loan origination fees, fees from guarantees and fees from payment cards, respectively. Of the aggregate impact of CZK 129 million, CZK 3 million represents the impact on the year ended 31 December 2004 and CZK 126 million is the impact on retained earnings for the periods preceding 1 January 2004.

3. Other changes with no impact on prior periods

3.1. IFRS 5 Non-current assets held for sale and discontinued operations

Assets held for sale

Following the implementation of IFRS 5, the Bank has reviewed its non-current assets and identified assets which meet the "assets held for sale" definition as of 1 January 2005. As of this date, assets with the carrying value of CZK 37 million, which are no longer being depreciated, were re-allocated to this category. Given that the assets met the criteria for classification as assets held for sale as of 1 January 2005, the re-allocation has no impact on prior periods.

3.2. IAS 16 Property, Plant & Equipment

Introduction of the component approach

The revised wording of IAS 16 expressly requires that an enterprise determine the amount of depreciation separately for each significant component of property, plant & equipment.

The application of the treatment has relevance for the Bank's operating buildings which can be split into components. Given that the Bank owns operating buildings that were acquired a fairly long time ago, it is not possible to clearly determine the costs of individual components. The Bank has made a reasonable estimate of the impact of the change of the policy which appears immaterial based upon the obtained results. Hence, the Bank has applied the component approach prospectively beginning in the period from 1 January 2005. The impact on retained earnings as of 1 January 2005 is therefore zero.

(w) Changes in accounting policies arising from the adoption of new IFRS and amendments to IAS effective 1 January 2006 and thereafter

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);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective 1 January 2006);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" in respect of cash flow hedge accounting (effective 1 January 2006);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" for financial guarantee contracts (effective 1 January 2006); and
- Amendments to IAS 1 "Presentation of Financial Statements" on capital disclosures (effective 1 January 2007).

The Bank has undertaken a detailed analysis of the revised standards in order to identify and implement the relevant changes. All the new IFRS and revisions of the extant IAS are implemented with effect from 1 January 2006 or 1 January 2007 as appropriate. The adoption of these standards in future periods is not expected to have a material impact on the Bank's profit or equity.

4. Source of income and expenses

Set out below is a business segment analysis:

CZK million	Universal banking		Investment banking		Elimination		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
External income (out-of-segment)	16,307	13,834	7,102	8,883	0	0	23,409	22,717
Income from other segments	6,136	8,008	(6,136)	(8,008)	0	0	0	0
Total income	**22,443**	**21,842**	**966**	**875**	**0**	**0**	**23,409**	**22,717**
External expenses	(11,048)	(11,285)	(563)	(503)	0	0	(11,611)	(11,788)
Segment result	**11,395**	**10,557**	**403**	**372**	**0**	**0**	**11,798**	**10,929**
Unallocated expenses							(8)	2,227
Profit/(loss) before taxation							**11,790**	**13,156**
Taxation							(2,642)	(3,857)
Profit							**9,148**	**9,299**
Assets by segment	252,634	217,726	240,476	230,567	0	0	493,110	448,293
Unallocated assets							628	1
Total assets							**493,738**	**448,294**
Liabilities by segment	201,685	174,657	241,739	229,693	0	0	443,424	404,350
Unallocated liabilities							0	366
Total liabilities							**443,424**	**404,716**
Acquisition of assets	**1,293**	**1,435**	**33**	**57**	**0**	**0**	**1,326**	**1,492**
Depreciation and amortisation	**1,628**	**1,719**	**33**	**30**	**0**	**0**	**1,661**	**1,749**

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.
The Bank'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:

CZK million	2005	2004
Interest income		
– Loans and advances to financial institutions	9,984	9,590
– Loans and advances to customers	9,338	9,211
– Bonds and treasury bills	826	843
Total interest income	**20,148**	**19,644**
Interest expense		
– Amounts owed to financial institutions	(2,605)	(2,225)
– Amounts owed to customers	(3,509)	(3,987)
– Securities issued	(394)	(1,026)
Total interest expense	**(6,508)**	**(7,238)**
Total net interest income	**13,640**	**12,406**

In connection with the inception of accrual accounting for loan origination fees as a component of the effective interest rate, the line "*Interest income on loans and advances to customers*" for the year ended 31 December 2004 reflects accrued loan fees of CZK 182 million which were largely included in "*Net fees and commissions*" on the payment of the fee. In addition, the line "*Interest income on bonds and treasury bills*" for the year ended 31 December 2004 reflects CZK 592 million in interest income on debt securities held in the trading portfolio and the line "*Interest expense on securities issued*" showed CZK 52 million in interest expense arising from short sales and repurchase transactions with securities. In accordance with the presentation treatment applicable for the year ended 31 December 2005, they are reported in "*Net profit/(loss) on financial operations*".

Interest income on loans and advances to customers reflects interest on watch, substandard, doubtful and loss amounts of CZK 1,317 million (2004: CZK 1,193 million) due from customers. Interest income on securities issued includes income of CZK 359 million (2004: CZK 295 million) on securities that have suffered impairment.

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 4,844 million (2004: CZK 4,225 million) and accrued interest expense from hedging financial derivatives of CZK 2,507 million (2004: CZK 2,181 million). Net interest income from these derivatives amounts to CZK 2,337 million (2004: CZK 2,044 million).

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2005	2004
Net fees and commission from services and transactions	7,123	6,942
Net gain from foreign exchange commissions from clean payments	990	1,081
Net gain from foreign exchange commissions from other transactions	605	680
Total net fees and commissions	**8,718**	**8,703**

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 Bank and the official exchange rates as promulgated by the Czech National Bank used in re-translating transactions denominated in foreign currencies. The Bank includes foreign exchange commissions in “Net fees and commissions” because these revenues represent significant recurring income from payment and exchange transactions effected with the Bank’s customers.

For the year ended 31 December 2004, the line “*Net fees and commission from services and transactions*” presented accrued loan origination fees of CZK 182 million. Pursuant to the current year’s accounting treatment, the accrued loan origination fees are included in “*Net interest income*” for the year ended 31 December 2005.

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2005	2004
Net realised gains/(losses) on securities	170	(168)
Net unrealised gains/(losses) on securities	131	624
Dividend income on securities held for trading and available for sale	45	69
Net realised and unrealised gains/(losses) on security derivatives	(4)	157
Net realised and unrealised gains/(losses) on interest rate derivatives	(181)	(140)
Net realised and unrealised gains/(losses) on trading commodity and other derivatives	9	3
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	610	600
Total net profit/(loss) on financial operations	**780**	**1,145**

Comparative amounts for the year ended 31 December 2004 were restated to reflect the revised recognition of interest on debt securities held for trading. “*Net unrealised gains/(losses) on securities*” include CZK 592 million in interest income on debt securities held for trading and CZK 52 million in interest expense from short sales and repurchase transactions with securities which were reported in “*Net interest income*” in the previous period.

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*” reports 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 112 million (2004: a net loss of CZK 614 million) in the profit and loss statement for the year ended 31 December 2005.

A gain of CZK 19 million (2004: CZK nil) 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 recorded in the same line.

8. Dividends and other income

Dividends and other income comprises:

CZK million	2005	2004
Dividend receipts from subsidiaries and associates	121	357
Other income	150	106
Total dividends and other income	**271**	**463**

"Other income" shown above is predominantly composed of property rental income.

9. Personnel expenses

Personnel expenses comprise:

CZK million	2005	2004
Wages, salaries and bonuses	3,417	3,460
Social security costs	1,320	1,339
Total personnel expenses	**4,737**	**4,799**
Physical number of employees at the period-end	7,390	7,276
Average recalculated number of employees during the period	7,388	7,855
Average cost per employee (CZK)	**641,228**	**610,945**

"Social security costs" include costs of CZK 86 million (2004: CZK 42 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 32 million (2004: CZK 35 million) incurred in contributing to the employees' capital life insurance scheme.

10. General administrative expenses

General administrative expenses comprise:

CZK million	2005	2004
Insurance of deposits and transactions	393	646
Marketing and entertainment costs	485	412
Costs of sale and banking products	1,173	989
Staff costs	284	234
Property maintenance charges	1,053	1,251
IT support	861	797
Office equipment and other consumption	81	98
Telecommunications, post and other services	252	230
External advisory services	517	532
Other expenses	41	91
Total general administrative expenses	**5,140**	**5,280**

"Other expenses" for the year ended 31 December 2004 included debt recovery fees of CZK 3 million which the Bank has reallocated to *"Provisions for loan losses".*

"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 298 million (2004: CZK 587 million). The year-on-year decrease in the amount of the costs is attributable to the decrease of the percentage of the insured deposits from 0.2 percent to 0.1 percent.

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2005	2004
Depreciation of tangible and intangible fixed assets	1,661	1,749
Provisions for assets and net gain on the sale of assets	73	(40)
Total depreciation, impairment and disposal of fixed assets	**1,734**	**1,709**

12. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2005	2004
Balance at 1 January	(6,572)	(10,639)
Net provisioning for loan losses	(675)	1,554
Re-allocation to other provisions	0	1,684
Impact of loans written off and transferred	145	498
Exchange rate differences attributable to provisions	(214)	331
Balance at 31 December	**(7,316)**	**(6,572)**

The balance of provisions as of 31 December 2005 and 2004 comprises:

CZK million	2005	2004
Specific provisions for loans to customers (refer to Note 20)	(6,200)	(5,348)
Provisions for other loans to customers (refer to Note 20)	(19)	(17)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(1,097)	(1,207)
Total	**(7,316)**	**(6,572)**

Provisions for securities

The balance of provisions for securities comprises:

CZK million	2005	2004
Balance at 1 January	(1,493)	(1,867)
Net provisioning against securities	(196)	(85)
Impact of the sale of securities	882	284
Exchange rate differences attributable to provisions	(33)	175
Balance at 31 December	**(840)**	**(1,493)**

This portfolio of securities is held as securities available for sale and further information is given in Note 21.

Provisions for other risk expenses

The balance of *"Provisions for other risk expenses"* principally consists of the charge for provisions of CZK 1,151 million (2004: CZK 168 million) and the release of provisions of CZK 1,698 million (2004: CZK 58 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of the legal disputes of CZK 25 million (2004: CZK 21 million). Additional information about the provisions for other risk expenses is provided in Note 32.

13. Profit or loss on subsidiaries and associates

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

CZK million	2005	2004
Creation of provisions	0	(86)
Release of provisions	185 *	172
Gain/(loss) on the sale of investments in subsidiaries and associates	156	803
Total profit or loss on subsidiaries and associates	**341**	**889**

Note: * The difference between CZK 185 million and CZK 661 million presented in the above table is attributable to the use of a provision against an equity investment which was sold during the year. The use of the provision is presented in "Gain/(loss) on the sale of investments in subsidiary and associates".

The balance of provisions is as follows:

CZK million	2005	2004
Balance at 1 January	(1,154)	(1,240)
Creation of provisions	0	(86)
Release and use of provisions	661	172
Balance at 31 December	**(493)**	**(1,154)**

Provisions for investments in subsidiaries and associates principally comprise provisions charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (for further information see Note 27).

14. Income taxes

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

CZK million	2005	2004
Tax payable – current year, reported in profit or loss	(3,089)	(3,769)
Tax paid – prior year	(18)	9
Deferred tax	465	(97)
Total income taxes	**(2,642)**	**(3,857)**
Tax payable – current year, reported in equity	13	(17)
Total tax expense	**(2,629)**	**(3,874)**

"Deferred tax" for the prior period was increased by CZK 4 million in respect of the deferred tax movement arising from the retranslation of accrued fees for provided loans, guarantees and payment cards.

CZK million	2005	2004
Profit before tax	**11,790**	**13,156**
Theoretical tax credit calculated at a tax rate of 26% (28%)	3,065	3,683
Non-taxable income	(593)	(571)
Expenses not deductible for tax purposes	620	689
Tax allowance	(3)	(3)
Movement in deferred tax	(465)	97
Other	0	(12)
Tax payable on securities available for sale	0	(17)
Income tax expense	**2,624**	**3,866**
Prior period tax expense	18	(9)
Total income taxes	**2,642**	**3,857**
Tax payable on securities available for sale reported in equity *	(13)	17
Total income tax	**2,629**	**3,874**
Effective tax rate	22.40%	29.31%

* 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.
The corporate tax rate for the year ended 31 December 2005 is 26 percent (2004: 28 percent). The Bank’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 33.

15. Distribution of net profit

For the year ended 31 December 2005, the Bank generated a net profit of CZK 9,148 million.
In accordance with the resolution of the General Meeting of Shareholders held on 28 April 2005, the aggregate balance of the net profit of CZK 9,435 million made in respect of the year ended 31 December 2004 under Czech Accounting Standards (CAS) was allocated as follows: CZK 3,801 million to dividends (CZK 100 per share before tax), CZK 472 million to the reserve fund and the remaining balance of the net profit was allocated to retained earnings.

16. Earnings per share

Earnings per share of CZK 240.68 (2004: CZK 244.66 per share) have been calculated by dividing the net profit of CZK 9,148 million (2004: CZK 9,299 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average value of treasury shares held by the Bank during the period.

17. Cash and current balances with the Czech National Bank

Cash and current balances with banks comprise:

CZK million	2005	2004
Cash and cash equivalents	5,820	5,806
Balances with the Czech National Bank	3,411	4,219
Total cash and current balances with banks	**9,231**	**10,025**

The balance as of 31 December 2004 was restated by CZK 114 million in connection with the revised reporting of current accounts with banks for the current period in *"Amounts due from banks".*
Balances with the Czech National Bank represent obligatory minimum reserves. The obligatory minimum reserves bore interest at 2 percent and 2.50 percent as of 31 December 2005 and 2004, respectively.

18. Amounts due from banks

Balances due from banks comprise:

CZK million	2005	2004
Deposits with banks (current accounts)	869	114
Loans and advances to banks	10,803	5,881
Debt securities of banks acquired under initial offerings not designated for trading	16,619	15,095
Advances due from the Czech National Bank (reverse repo transactions)	166,629	173,066
Term placements with other banks	51,034	37,205
Total	**245,954**	**231,361**
Provisions	(1)	0
Total amounts due from banks	**245,953**	**231,361**

In 2004, deposits of CZK 114 million were reallocated from *"Cash and balances with central banks"* to "*Deposits with banks (current accounts)"* reported as a component of "*Amounts due from banks"*.
Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the Czech National Bank and other debt securities with fair value:

CZK million	2005	2004
Treasury bills	163,291	169,607
Debt securities issued by state institutions	10,252	5,037
Debt securities issued by other institutions	110	0
Shares	346	0
Total	**173,999**	**174,644**

Securities acquired under initial offerings not designated for trading

The Bank maintains in its portfolio two bonds issued by the parent company, Société Générale, in the aggregate nominal value of CZK 15,000 million (2004: CZK 15,000 million) which it acquired under an initial offering and normal market conditions in 2002 and 2003. Both bonds are denominated in CZK and bear fixed interest. The first issue will mature in 2012, carries interest at 4.27 percent and has a nominal value of CZK 10,000 million (2004: CZK 10,000 million). The second issue will mature in 2013, carries interest at 3.98 percent and has a nominal value of CZK 5,000 million (2004: CZK 5,000 million).
During 2005, the Bank acquired and included in this portfolio additional securities issued by financial institutions with an aggregate nominal value of CZK 1,410 million.

19. Financial assets at fair value through profit or loss

As of 31 December 2004 and 2005, financial assets at fair value through profit or loss included only trading securities. Upon initial recognition, the Bank has not designated any financial assets as at fair value through profit or loss.

Trading securities comprise:

CZK million	Fair value 2005	Cost 2005	Fair value 2004	Cost 2004
Shares and participation certificates	**68**	**67**	**19**	**19**
Fixed income debt securities	6,195	6,174	6,116	6,029
Variable yield debt securities	85	85	472	471
Bills of exchange	150	150	149	149
Treasury bills	1,095	1,096	2,886	2,886
Total debt securities	**7,525**	**7,505**	**9,623**	**9,535**
Total trading securities	**7,593**	**7,572**	**9,642**	**9,554**

The Bank's portfolio of trading securities includes treasury bills of CZK 1,095 million issued by the Czech Finance Ministry (2004: CZK 2,651 million) and Slovak Government treasury bills of CZK 235 million in 2004.
As of 31 December 2005, the portfolio of trading securities includes securities at a fair value of CZK 6,348 million (2004: CZK 6,607 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,245 million (2004: CZK 3,035 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:

CZK million	2005	2004
Shares and participation certificates		
– Czech crowns	68	19
Total trading shares and participation certificates	**68**	**19**

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

CZK million	2005	2004
Trading shares and participation certificates issued by:		
– Foreign financial institutions	0	7
– Other entities in the Czech Republic	60	12
– Other foreign entities	8	0
Total trading shares and participation certificates	**68**	**19**

Debt trading securities at fair value comprise:

CZK million	2005	2004
Variable yield debt securities		
– Czech crowns	85	472
Total variable yield debt securities	**85**	**472**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	5,953	5,959
– Other currencies	1,487	3,192
Total fixed income debt securities	**7,440**	**9,151**
Total trading debt securities	**7,525**	**9,623**

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

CZK million	2005	2004
Debt trading securities issued by:		
– State institutions in the Czech Republic	5,226	5,061
– Foreign state institutions	1,487	3,149
– Financial institutions in the Czech Republic	24	0
– Foreign financial institutions	548	353
– Other entities in the Czech Republic	208	690
– Other foreign entities	32	370
Total trading debt securities	**7,525**	**9,623**

Of the debt securities issued by state institutions in the Czech Republic, CZK 4,476 million (2004: CZK 5,012 million) represents securities eligible for refinancing with the Czech National Bank.

20. Loans and advances to customers

oans and advances to customers comprise:

CZK million	2005	2004
Loans to customers	189,955	159,252
Bills of exchange	614	759
Forfaits	738	668
Other amounts due from customers	137	65
Total gross loans and advances to customers	**191,444**	**160,744**
Provisions for loans to customers	(6,200)	(5,348)
Provisions for other amounts due from customers	(19)	(17)
Total loans and advances to customers, net	**185,225**	**155,379**

The comparative balance in "*Loans to customers*" was restated in connection with the inception of accrual accounting for loan origination fees of CZK 49 million (decrease) and increased to reflect amounts due from the Czech Consolidation Agency of CZK 2,945 million which were presented separately in 2004. In 2004, loans and advances to customers included "*Debt securities acquired under initial offerings not designated for trading*" comprised of listed state securities of CZK 1,335 million, which were reallocated to the "*Held-to-maturity investments*" portfolio in accordance with the revised requirements of IAS 39. These changes were also reflected in the detailed tables presented below.

Loans and advances to customers include interest due of CZK 697 million (2004: CZK 788 million), of which CZK 388 million (2004: CZK 236 million) relates to overdue interest.
Loans provided to customers under reverse repurchase transactions as of 31 December 2005 amounting to CZK 267 million are collateralised by securities with fair values of CZK 330 million. The Bank did not provide any such loans to customers as of 31 December 2004.

The loan portfolio of the Bank as of 31 December 2005 (net of other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	165,578	64,672	100,906	0	165,578	0
Watch	16,811	7,776	9,035	(486)	16,325	5
Substandard	3,036	1,297	1,739	(777)	2,259	45
Doubtful	1,060	357	703	(497)	563	71
Loss	4,822	223	4,599	(4,440)	382	97
Total	**191,307**	**74,325**	**116,982**	**(6,200)**	**185,107**	

Loans classified as loss in the above table include amounts of CZK 3,355 million (2004: CZK 2,883 million), on which interest is not being accrued because their net carrying amount is zero.

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

CZK million	2005	2004
Agriculture	7,346	6,776
Processing industry	35,105	32,341
Distribution and production of energy	6,767	5,825
Construction	6,912	5,993
Trade, catering, transport and communication	40,179	32,744
Insurance, banking	13,764	11,569
Other	81,234	65,431
Total loans to clients	**191,307**	**160,679**

Set out below is an analysis by category of customers:

CZK million	2005	2004
Retail customers	55,470	41,385
Corporate customers	124,725	106,640
Public sector	11,112	12,654
Total	**191,307**	**160,679**

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:

CZK million	Total client loan collateral 2005	Discounted client loan collateral value 2005	Applied client loan collateral value 2005	Total client loan collateral 2004	Discounted client loan collateral value 2004	Applied client loan collateral value 2004
Guarantees of state and governmental institutions	6,654	6,199	5,828	12,848	12,356	8,973
Bank guarantee	8,383	7,478	6,919	7,418	6,105	5,114
Guaranteed deposits	813	813	608	830	822	628
Issued debentures in pledge	266	266	0	10	2	2
Pledge of real estate	115,889	69,002	45,215	104,366	60,682	37,893
Pledge of movable assets	6,389	826	737	7,031	720	601
Guarantee by legal entity	6,281	4,174	3,494	11,434	2,417	1,533
Guarantee by individual (physical entity)	3,138	601	516	4,241	770	641
Pledge of receivables	32,467	13,206	10,010	27,682	11,239	8,730
Insurance of credit risk	865	813	812	2,088	2,068	2,021
Other	412	198	186	1,847	934	917
Total nominal value of collateral	**181,557**	**103,576**	**74,325**	**179,795**	**98,115**	**67,053**

Pledges on industrial real-estate represent 20 percent of total pledges on real estate (2004: 26 percent).

Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As of 31 December 2005, on balance sheet loans to this client included an amount of CZK 1,664 million (2004: CZK 1,516 million) that was fully provided for. The year-on-year increase in the balance arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2005 and 2004.
The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

21. Securities available for sale

Securities available for sale comprise:

CZK million	Fair value 2005	Cost 2005	Fair value 2004	Cost 2004
Shares and participation certificates	**93**	**93**	**93**	**93**
Fixed income debt securities	12,617	12,785	6,812	7,243
Variable yield debt securities	2,015	2,297	5,506	6,239
Total debt securities	**14,632**	**15,082**	**12,318**	**13,482**
Total securities available for sale	**14,725**	**15,175**	**12,411**	**13,575**

As of 31 December 2005, the available-for-sale portfolio includes securities at a fair value of CZK 12,124 million (2004: CZK 4,854 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 2,601 million (2004: CZK 7,557 million) that are not publicly traded.

Shares and participation certificates available for sale at fair value comprise:

CZK million	2005	2004
Shares and participation certificates		
– Czech Crowns	91	91
– Other currencies	2	2
Total shares and participation certificates available for sale	**93**	**93**

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

CZK million	2005	2004
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	60	60
– Non-banking entities in the Czech Republic	31	31
– Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**93**	**93**

Debt securities available for sale at fair value comprise:

CZK million	2005	2004
Variable yield debt securities		
– Czech Crowns	624	919
– Other currencies	1,391	4,587
Total variable yield debt securities	**2,015**	**5,506**
Fixed income debt securities		
– Czech Crowns	7,842	4,674
– Other currencies	4,775	2,138
Total fixed income debt securities	**12,617**	**6,812**
Total debt securities available for sale	**14,632**	**12,318**

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

CZK million	2005	2004
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	3,909	2,891
– Foreign state institutions	2,849	0
– Financial institutions in the Czech Republic	3,908	216
– Other entities in the Czech Republic	547	720
– Other foreign entities	3,419	8,491
Total debt securities available for sale	**14,632**	**12,318**

Of the debt securities issued by state institutions in the Czech Republic, CZK 3,101 million (2004: CZK 2,061 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

The Bank maintains a portfolio of asset backed securities (ABS) denominated in USD which are carried as available for sale. The Bank 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 2005, net of remeasurement and a provision for impairment, is CZK 2,508 million (2004: CZK 5,895 million).
In accordance with its strategy to reduce its exposure to the ABS, the Bank sold a portion of these securities with an aggregate nominal value of USD 142 million (CZK 3,489 million) and an aggregate loss of USD 14 million (CZK 353 million). The Bank also obtained redemption of a portion of the nominal values of these securities of USD 48 million (CZK 1,135 million). The result of these transactions is that the ABS portfolio held by the Bank as of 31 December 2005 consists of the ABS carrying A- or higher ratings at a carrying amount of USD 96 million (CZK 2,390 million) and non-rated ABS at a carrying amount of USD 5 million (CZK 118 million). The Bank established provisions for impairment of CZK 803 million as of 31 December 2005 (2004: CZK 1,441 million) against the asset backed securities and recognised a positive revaluation of CZK 23 million (2003: CZK 49 million) arising from the change of the market parameters in equity. Management of the Bank considers that this impairment charge 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 2005, the Bank acquired Government bonds with a nominal value of CZK 1,200 million, EUR 52 million and USD 39 million. The aggregate CZK equivalent is CZK 3,671 million. In 2005, the Bank also acquired securities issued by financial institutions with an aggregate nominal value of CZK 3,262 million. During the year ended 31 December 2005, debt securities (with the exception of the ABSs) with an aggregate nominal value of CZK 1,910 million were redeemed at maturity.

22. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2005	Cost 2005	Carrying value 2004	Cost 2004
Fixed income debt securities	3,423	3,423	2,320	2,320
Total investments held to maturity	**3,423**	**3,423**	**2,320**	**2,320**

The balance as of 31 December 2004 was increased to reflect listed state debt securities acquired under initial offerings of CZK 1,335 million which were presented in "*Loans and advances to customers*" in the previous period.
As of 31 December 2005, investments held to maturity include bonds of CZK 3,423 million (2004: CZK 2,320 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

CZK million	2005	2004
Fixed income debt securities		
– Czech Crowns	1,346	1,335
– Other currencies	2,077	985
Total fixed income debt securities	**3,423**	**2,320**
Total debt securities held to maturity	**3,423**	**2,320**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2005	2004
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	1,346	1,335
– Foreign state institutions	2,077	985
Total debt securities held to maturity	**3,423**	**2,320**

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,346 million (2004: CZK 1,335 million) represents securities eligible for refinancing with the Czech National Bank.
During the year ended 31 December 2005, the Bank acquired Government bonds with an aggregate nominal value of EUR 29 million and USD 10 million which represents a CZK equivalent of CZK 1,087 million.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2005	2004
Prepayments and accrued income	615	762
Settlement balances	538	228
Receivables from securities trading	155	147
Other assets	1,602	932
Total prepayments, accrued income and other assets	**2,910**	**2,069**

"Other assets" reflect a provision of CZK 152 million (2004: CZK 156 million) charged for the decrease in the carrying amount of prepaid building rentals.
"Other assets" for the year ended 31 December 2005 include an estimated asset in respect of the sale of a building amounting to CZK 707 million.

24. Assets held for sale

As of 31 December 2005, the Bank reported assets held for sale at a carrying amount of CZK 810 million (2004: CZK nil) comprising buildings and land owned by the Bank which management of the Bank decided to sell as part of the plan to optimise the distribution network. The sale of the assets is expected to take place within one year from the classification as held for sale. The depreciation of assets has been discontinued since their classification as held for sale. The aggregate impairment loss on the assets held for sale for the year ended 31 December 2005 amounted to CZK 428 million and is reported within the profit and loss statement line *"Depreciation, impairment and disposal of fixed assets"*.

25. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2005 are as follows:

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2004	2,662	1,046	494	600	4,802
Additions	756	149	50	830	1,785
Disposals/Transfers	13	0	0	955	968
31 December 2005	**3,405**	**1,195**	**544**	**475**	**5,619**
Accumulated amortisation and provisions					
31 December 2004	1,616	729	398	0	2,743
Additions	574	176	42	0	792
Disposals	7	0	1	0	8
Impairment charge	0	(6)	0	1	(5)
31 December 2005	**2,183**	**899**	**439**	**1**	**3,522**
Net book value					
31 December 2004	1,046	317	96	600	2,059
31 December 2005	**1,222**	**296**	**105**	**474**	**2,097**

During the year ended 31 December 2005, the Bank invested CZK 121 million (2004: CZK 144 million) in research and development through a charge to operating expenses.

26. Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2005 are as follows:

CZK million	Land	Buildings	Fixtures, Fittings and equipment	Assets under construction	Total
Cost					
31 December 2004	350	12,223	7,542	374	20,489
Reallocation to assets held for sale	182	2,777	2	0	2,961
Additions	0	120	408	496	1,024
Disposals/Transfers	21	143	1,248	529	1,941
31 December 2005	**147**	**9,423**	**6,700**	**341**	**16,611**
Accumulated depreciation and provisions					
31 December 2004	0	4,800	6,273	5	11,078
Reallocation of accumulated depreciation of assets held for sale	0	963	1	0	964
Additions	0	330	539	0	869
Disposals	0	28	1,193	0	1,221
Impairment charge	0	(45)	(21)	(2)	(68)
Reallocation of provisions to assets held for sale	0	474	0	0	474
31 December 2005	**0**	**3,620**	**5,597**	**3**	**9,220**
Net book value					
31 December 2004	350	7,423	1,269	369	9,411
31 December 2005	**147**	**5,803**	**1,103**	**338**	**7,391**

As of 31 December 2005, the net book value of assets held by the Bank under finance lease agreements was CZK 27 million (2004: CZK 97 million).

During 2005, the Bank undertook a review of a set of owned buildings and land which served as a basis for reallocating tangible assets at a cost of CZK 2,961 million and the related accumulated depreciation of CZK 964 million and provisions of CZK 474 million to *"Assets held for sale"*. The difference between the balance of assets held for sale as of 31 December 2005 (CZK 810 million) and the balance of assets reallocated to the *"Assets held for sale"* category (CZK 1,523 million) represents sales of these assets made during 2005.
As of 31 December 2005, the Bank recognised provisions against tangible assets of CZK 70 million (2004: CZK 580 million). In 2005, these provisions primarily included provisions charged in respect of leasehold improvements.

27. Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

CZK million	2005	2004
Investments in subsidiary undertakings	918	1,626
Investments in associated undertakings	600	220
Total investments in subsidiaries and associates	**1,518**	**1,846**

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2005:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZK million	Provisions CZK million	Carrying value CZK million
ALL IN REAL ESTATE LEASING a.s.	100	100	Support banking services	Prague	39	35	4
Komerční banka Bratislava, a.s.	100	100	Banking services	Bratislava	466	0	466
Penzijní fond Komerční banky a.s.	100	100	Pension insurance	Prague	230	0	230
Factoring KB, a s.	100	100	Factoring	Prague	90	0	90
Komercni finance, B.V.	100	100	Finance	Amsterdam	1	0	1
Bastion European Investment S.A.	99.8	99.8	Investment	Brussels	2	0	2
ESSOX s.r.o.	50.9	50.9	Consumer lending, leasing	České Budějovice	125	0	125
Total					**953**	**35**	**918**

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2005:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZK million	Provisions CZK million	Carrying value CZK million
Modrá pyramida stavební spořitelna, a.s.	40	40	Building society	Prague	220	0	220
Komerční pojišťovna, a.s.	49	49	Insurance	Prague	838	458	380
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Data collection for credit risk assessments	Prague	0 *	0	0
Total					**1,058**	**458**	**600**

Note: * The value of CBCB is CZK 240 thousand.

Set out below is an overview of year-on-year movements in investments, by issuer:

CZK million Company name	Investment at cost at 1 January 2005	Additions	Decreases	Investment at cost at 31 December 2005
ALL IN, a.s. in liquidation	45	0	45	0
ALL IN REAL ESTATE LEASING a.s.	39	0	0	39
Investiční kapitálová společnost KB, a.s.	75	0	75	0
Komerční banka Bratislava, a.s.	466	0	0	466
Penzijní fond Komerční banky, a.s.	230	0	0	230
Komerční pojišťovna, a.s.	1,708	0	1,708	0
Factoring KB, a.s.	90	0	0	90
Komercni finance B.V.	1	0	0	1
Bastion European Investment S.A.	0	2	0	2
ASSIS, a.s. in liquidation	1	0	1	0
ESSOX s.r.o.	125	0	0	125
Total subsidiaries	**2,780**	**2**	**1,829**	**953**
Modrá pyramida stavební spořitelna, a.s.	220	0	0	220
Komerční pojišťovna, a.s.	0	838	0	838
CBCB – Czech Banking Credit Bureau, a.s.	0	0	0	0 *
Total associates	**220**	**838**	**0**	**1,058**

Note: * The value of CBCB is CZK 240 thousand.

Changes in equity investments in subsidiaries and associates in 2005

In May 2005, the Bank and Société Générale Asset Management S.A. (France) entered into a contract for the sale of 100 percent of the issued share capital of Investiční kapitálová společnost KB, a.s. ("IKS"). The contracted purchase consideration was CZK 265 million and is payable in two instalments. The first instalment of the purchase consideration of CZK 131 million was payable in cash immediately at the transaction date, the second instalment of CZK 134 million will fall due for payment in 2009. The payment of the second instalment is dependent upon the fulfilment of pre-determined distribution targets for IKS's products sold through the Bank's distribution network in 2005 – 2008. The transaction was preceded by two dividend payments to the Bank amounting to CZK 187 million in 2004 and CZK 96 million in April 2005. The Bank made a gain of CZK 56 million on the sale of IKS. The Bank remains the distributor of IKS's products on the Czech market.

In May 2005 Komerční pojišťovna, a.s. decreased its share capital by CZK 205 million from CZK 808 million to CZK 603 million. The reason for the share capital decrease was the settlement of part of the company's accumulated losses brought forward of CZK 205 million. The share capital was reduced by changing the nominal value of shares from the original values of CZK 100,000 and CZK 50,000 to CZK 74,600 and CZK 37,300, respectively.

On 29 July 2005, the Bank and Sogecap S.A. (France) entered into a contract for the sale of 51 percent of the issued share capital of Komerční pojišťovna, a.s., which had been the Bank's wholly owned subsidiary. The transaction of CZK 473 million was settled in September 2005, with a gain of CZK 78 million. The Bank remains the distributor of the products of Komerční pojišťovna, a.s. on the Czech market.

The process of liquidation of ALL IN, a.s. in liquidation and ASSIS, a.s. in liquidation was completed in 2005 and a liquidation share was paid. The impact on the profit and loss statement is immaterial.

In December 2005, the Board of Directors of the Bank decided to place Komercni Finance B.V. (Netherlands) into liquidation.

In December 2005, the Bank subscribed for 99.84 percent of the issued share capital of Bastion European Investment, S.A. (Belgium) for EUR 61,900.

28. Amounts due to banks

Amounts due to banks comprise:

CZK million	2005	2004
Current accounts	2,085	1,470
Other amounts due to banks	29,441	17,078
Total amounts due to banks	**31,526**	**18,548**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 15,186 million (2004: CZK 2,474 million).

29. Amounts due to customers

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

CZK million	2005	2004
Current accounts	237,853	212,254
Savings accounts	10,357	12,236
Term deposits	85,075	88,324
Loans from customers	34,509	43,643
Other payables to customers	2,264	2,368
Total amounts due to customers	**370,058**	**358,825**

The fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 4,693 million (2004: CZK 4,823 million).

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

CZK million	2005	2004
Private companies	130,156	115,991
Other financial institutions, non-banking entities	7,657	5,623
Insurance companies	6,723	7,473
Public administration	1,417	1,526
Individuals	117,339	119,888
Deposits – bills of exchange	29,773	38,716
Private entrepreneurs	20,338	19,732
Government agencies	45,947	40,791
Other	6,314	4,378
Non-residents	4,394	4,707
Total amounts due to customers	**370,058**	**358,825**

The comparative balance of "*Other payables to clients*" was restated to reflect the presentation treatment of the current period. Amounts arising from payment transactions of CZK 3,173 million were reallocated to "*Accruals and other liabilities*".

30. Securities issued

Securities issued comprise mortgage bonds of CZK 22,672 million (2004: CZK 9,255 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.

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

CZK million	2005	2004
In one to two years	1,175	0
In two to three years	4,939	1,213
In three to four years	5,426	2,524
Ten years and thereafter	11,132	5,518
Total debt securities	**22,672**	**9,255**

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

Name	Interest rate	Issue date	Maturity date	2005 CZK million	2004 CZK million
Mortgage bonds of Komerční banka, a.s., CZ0002000151	6M PRIBOR plus 350 basis points bonds	15 September 2000	15 September 2007	1,175	1,213
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	21 August 2003	21 August 2009	5,426	5,518
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	5 August 2004	5 August 2008	4,939	2,524
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	2 August 2005	3 August 2015	5,049	0
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	21 October 2005	21 October 2015	6,083	0
Total bonds				**22,672**	**9,255**

Note: Six-month PRIBOR was 233 basis points as of 31 December 2005 (2004: 266 basis points).
Three-month PRIBID was 207 basis points as of 31 December 2005.

31. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2005	2004
Settlement balances and outstanding items	98	62
Payables from securities trading and issues of securities	774	1,983
Payables from payment transactions	6,230	3,173
Other liabilities	2,682	2,386
Accruals and deferred income	139	146
Total accruals and other liabilities	**9,923**	**7,750**

"Payables from payment transactions" include payment transaction balances which were presented within *"Amounts due to customers"* in the previous period. The 2004 comparative balance was restated to reflect this change. The balance of *"Accruals and deferred income"* as of 31 December 2004 was restated by CZK 125 million (increase) pursuant to the inception of accrual accounting for fees for payment cards and issued guarantees.

32. Provisions

Provisions comprise:

CZK million	2005	2004
Provisions for contracted commitments	2,340	3,038
Provisions for other credit commitments	1,097	1,207
Total provisions	**3,437**	**4,245**

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 loyalty and jubilee bonuses.

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

CZK million	2005	2004
Provision for off balance sheet commitments	947	902
Provision for undrawn loan facilities	150	305
Total	**1,097**	**1,207**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2005	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2005
Jubilee bonuses	68	4	2	4	0	74
Loyalty bonuses	151	14	24	6	0	147
Other provisions for contracted commitments	2,819	1,178	1,881	0	3	2,119
Total	**3,038**	**1,196**	**1,907**	**10**	**3**	**2,340**

As of 31 December 2005, the Bank held a provision of CZK 277 million (2004: CZK 388 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Bank intends to vacate. This provision is included in "*Other provisions for contracted commitments*".

33. Deferred income taxes

Deferred income taxes are calculated from temporary differences between the 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 (2005: 26 percent).

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

CZK million	2005	2004
Deferred tax assets	**1,006**	**437**
Banking reserves and provisions	400	1
Provisions for non-banking receivables	44	48
Provisions for assets	217	136
Non-banking reserves	283	150
Other temporary differences	62	95
Depreciation	0	7
Deferred tax liabilities	**(1,484)**	**(1,028)**
Depreciation	(114)	0
Leases	(6)	(19)
Revaluation of hedging derivatives – equity impact	(1,309)	(984)
Revaluation of a foreign currency equity investment – equity impact	(2)	0
Revaluation of available-for-sale securities – equity impact	(26)	0
Other temporary differences	(27)	(25)
Net deferred tax assets/(liabilities)	**(478)**	**(591)**

The comparative amount in "*Other temporary differences*" is restated to reflect deferred taxation in respect of the accrual for fees for payment cards, loans and provided guarantees of CZK 45 million.

Deferred tax recognised in the financial statements:

CZK million	2005	2004
Deferred tax asset		
Balance at the beginning of period	437	496
Movement in deferred tax asset – profit and loss impact	569	(108)
Movement in deferred tax asset – equity impact	0	49
Balance at the end of period	**1,006**	**437**
Deferred tax liability		
Balance at the beginning of period	(1,028)	(651)
Movement in deferred tax liabilities – profit and loss impact	(104)	12
Movement in deferred tax liabilities – equity impact	(352)	(389)
Balance at the end of period	**(1,484)**	**(1,028)**
Increase/decrease in deferred tax – profit and loss impact	**465**	**(97)**
Increase/decrease in deferred tax – equity impact	**(352)**	**(339)**

The increase in the deferred tax asset was attributable to the recognition of provisions against debtors in bankruptcy which were recorded during 2005. The Bank recognised the deferred tax asset after it obtained appropriate assurance that its receivable cannot be contested. The deferred tax asset will be realised when a bankruptcy ruling is issued.

In the year ended 31 December 2005, the Bank recognised, through the profit and loss statement, an increase in the deferred tax asset of CZK 569 million and an increase in the deferred tax liability of CZK 104 million. In addition, the Bank recognised through equity, an increase in the deferred tax liability of CZK 352 million arising primarily from the change in fair values of hedging derivatives.

The comparative period was restated to reflect a change in deferred taxation arising from the accrual for fees for cards, loans and guarantees of CZK 45 million, of which CZK 4 million represents a decrease in the deferred tax asset with a profit and loss impact and CZK 49 million represent an increase in the deferred tax asset with an equity impact.

34. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand 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 2005:

Company name	Registered office	Ownership (%)
Société Générale S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	5.14
The Bank of New York ADR Department	101 Barclay Street, New York	4.39
Chase Nominees Limited	125 London Wall, London	3.11

Société Générale S. A., being the only entity with a qualified holding 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.
On the basis of the consent of the Czech National Bank, The Bank of New York ADR Department holds shares to which global depository receipts (GDRs) owned by a number of foreign investors were issued.
As of 31 December 2005, the Bank held 2,000 treasury shares at a cost of CZK 7 million (2004: 1,033 treasury shares at a cost of CZK 3 million).

35. Composition of cash and cash equivalents as reported in the cash flow statement

CZK million	2005	2004	Change in the year
Cash and balances with central banks	9,231	10,025	(794)
Amounts due from banks	870	114	755
Amounts due to banks	(2,085)	(1,470)	(615)
Total	**8,016**	**8,669**	**(654)**

36. Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2005. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 1,344 million (2004: CZK 763 million) for these legal disputes (see Note 32). The Bank has also recorded an accrual of CZK 387 million (2004: CZK 113 million) for costs associated with a potential payment of interest on the pursued claims.
As of 31 December 2005, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank 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 Bank 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 Bank makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2005, the Bank had capital commitments of CZK 133 million (2004: CZK 79 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 Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank 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 Bank 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 and 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 Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Bank 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 Bank recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

Financial commitments and contingencies comprise:

CZK million	2005	2004
Non-payment guarantees including commitments to issued non-payment guarantees	14,088	11,976
Payment guarantees including commitments to issued payment guarantees	4,644	5,113
Letters of credit uncovered	1,001	863
Stand by letters of credit uncovered	598	577
Commitments from guarantees	**20,331**	**18,529**
Received bills of exchange/acceptances and endorsements of bills of exchange	51	63
Total contingent liabilities	**20,382**	**18,592**
Committed facilities	10,617	14,344
Undrawn credit commitments	24,236	20,975
Confirmed letters of credit	17	63
Unutilised overdrafts and approved overdraft loans	38,915	34,671
Unutilised discount facilities	168	199
Unutilised limits under Framework agreements to provide financial services	38,859	21,867
Total other commitments and unutilised overdrafts	**112,812**	**92,119**
Letters of credit covered	77	300
Stand by letters of credit covered	0	7
Total contingent revocable and irrevocable commitments	**133,271**	**111,018**

The Bank provides a variety of credit facilities to its largest clients. Of the Bank's committed facilities and guarantees, CZK 18,828 million (2004: CZK 14,379 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 Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2005, the Bank recorded provisions for these risks amounting to CZK 1,097 million (2004: CZK 1,207 million) – for further information see Note 32.

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

CZK million	2005	2004
Agriculture	2,179	1,684
Processing industry	29,991	27,870
Distribution and production of energy	7,833	10,696
Construction	19,506	14,260
Trade, catering, transport and communication	29,561	25,610
Insurance, banking	19,578	8,653
Other	24,623	22,245
Total	133,271	111,018

Set out below is an analysis by category of customers:

CZK million	2005	2004
Retail customers	14,224	11,435
Corporate customers	105,962	96,462
Public sector	13,085	3,121
Total	133,271	111,018

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

Finance lease commitments

Finance lease commitments were fully settled as of 31 December 2005. The balance of finance lease commitments as of 31 December 2004 was CZK 12 million.

37. 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 2005, the Bank 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 2005, the Bank had loans (including amounts due from banks) outstanding of CZK 4,513 million (2004: CZK 2,214 million) to the Group companies. The aggregate amounts of the Group companies placed with the Bank were CZK 90 million (2004: CZK 517 million).

The following table summarises loans issued to the Group companies and their deposits with the Bank:

CZK million Company name	2005	2004
Komerční banka Bratislava, a.s.	1,632	413
Factoring KB, a.s.	447	312
ESSOX s.r.o.	2,189	915
Modrá pyramida stavební spořitelna, a.s.	245	574
Total loans	**4,513**	**2,214**
Komerční pojišťovna, a.s.	x	268
Komerční banka Bratislava, a.s.	2	12
Factoring KB, a.s.	61	64
Investiční kapitálová společnost KB, a.s.	x	90
ESSOX s.r.o.	11	4
ALL IN REAL ESTATE LEASING a.s.	4	5
Modrá pyramida stavební spořitelna, a.s.	12	3
ALL IN, a.s., in liquidation	x	62
ASSIS, a.s., in liquidation	x	9
Total deposits	**90**	**517**

Note: Komerční pojišťovna, a.s. was included in the Bank's financial group as of 31 December 2004. As of 31 December 2005, it is reported as part of the Société Générale group.

As of 31 December 2005 and 2004, other amounts due to and from the Group companies were immaterial.

Interest income from loans granted to Group companies:

CZK million Company name	2005	2004
Komerční banka Bratislava, a.s.	50	4
Factoring KB, a.s.	9	6
MUZO, a.s.	x	4 *
ESSOX s.r.o.	41	16
Modrá pyramida stavební spořitelna, a.s.	38	7
Total interest from loans granted by Bank	**138**	**37**

Note: * includes only the 1st quarter of 2004.

In the years ended 31 December 2005 and 2004, the Bank realised no material amounts of other income or expenses with its Group companies.
As of 31 December 2005, the Bank reported guarantees granted to the Group companies totalling CZK 1,100 million (2004: CZK 750 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million Company name	2005	2004
Société Générale Paris	18,543	16,886
SG Equipment Finance Czech Republic s.r.o.	2,591	2,569
ALD Automotive Czech Republic s.r.o.	475	393
Komerční pojišťovna, a.s.	28	x
Société Générale Tokyo	1	9
SGBT Luxemburg	15	187
SG New York	53	0
Fimat London	45	15
Total	**21,751**	**20,059**

Principal balances owed to the Société Générale Group entities include:

CZK million Company name	2005	2004
SG Equipment Finance Czech Republic s.r.o.	25	114
SGBT Luxemburg	40	1
Société Générale Warsawa	44	11
Société Générale Paris	2,196	1,456
Komerční pojišťovna a.s.	350	x
SG Private Banking Switzerland	8	500
SG Zürich	2	15
SG London	79	34
SG New York	16	11
ALD Automotive Czech Republic s.r.o.	750	0
Fimat London	90	0
Total	**3,600**	**2,142**

Amounts due to and from the Société Générale Group entities principally comprise balances of current 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 2005, the Bank also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 104,151 million (2004: CZK 88,872 million) and CZK 100,769 million (2004: CZK 90,924 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 2005 and 2004, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2005, the Bank realised total revenue of CZK 2,074 million (2004: CZK 1,845 million) and total expenses and a net loss from trading derivatives of CZK 1,055 million (2004: CZK 1,909 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.

The Bank sold its equity investments in Investiční kapitálová společnost KB, a.s. and Komerční pojišťovna, a.s. to SGAM and Sogecap, respectively (see Note 27). The acquiring companies are included in the Société Générale Group.

In the years ended 31 December 2005 and 2004, the Bank 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:

CZK million	2005	2004
Remuneration to the Management Board members *	58	51
Remuneration to the Supervisory Board members **	5	3
Remuneration to the Directors' Committee members ***	76	84
Total	**139**	**138**

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2005 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2005 but including bonuses for 2004, figures for expatriate members of the Management Board include remuneration net of bonuses for 2005 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.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2005 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 2005 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.

CZK million	2005	2004
Number of the Management Board members	5	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members	18 *	19 *

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

As of 31 December 2004, the Bank recorded an estimated payable of CZK 19 million (2004: CZK 28 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2005, the Bank recorded loan receivables totalling CZK 7 million granted to the Directors' Committee and Supervisory Board members. The loans were provided during 2005. Of the balance of CZK 8 million reported as of 31 December 2004, the Bank does not maintain any amounts due from the Directors' Committee members.

38. Movements in the hedging reserve in the unconsolidated 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.

CZK million	2005	2004
Cash flow hedge fair value at 1 January	3,788	1,924
Deferred tax liability at 1 January	(985)	(596)
Balance at 1 January	**2,803**	**1,328**

Movements during the year:

CZK million	2005	2004
Gains/losses from changes in fair value	4,000	3,908
Deferred income tax	(960)	(1,022)
Total	**3,040**	**2,886**
Transferred to interest income/expense	(2,337)	(2,044)
Deferred income tax	636	633
Total	**(1,701)**	**(1,411)**
Balance at 31 December	5,451	3,788
Deferred income tax	(1,309)	(985)
Balance at 31 December	**4,142**	**2,803**

39. Movements in the reserve from revaluation of available-for-sale securities

CZK million	2005	2004
Reserve from fair-value revaluation at 1 January	327	265
Deferred tax liability/income tax liability at 1 January	(91)	(74)
Balance at 1 January	**236**	**191**

Movements during the year:

CZK million	2005	2004
Gains/losses from changes in fair value	108	90
Deferred tax liability/income tax liability	(26)	(26)
Total	**82**	**64**
Gains and losses from the sale and recognition and use of provisions against securities	(46)	(28)
Deferred tax liability/income tax liability	12	9
Total	**(34)**	**(19)**
Balance at 31 December	389	327
Deferred tax liability/income tax liability	(105)	(91)
Balance at 31 December	**285**	**236**

40. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Quantification of counterparty risk is derived from quantitative and qualitative criteria. The Bank applies two basic tools in rating borrowers depending upon the type and profile of the borrower – behavioural scoring and application scoring (based on the financial statements of the client).

The rating principle applies not only to the Bank's clients, but also to guarantors and sub-debtors, which enables the better assessment of the quality of accepted collateral.

In setting up a client rating, the Bank uses both external tools (e.g. the Central Loan Register – information about legal entities; the Client Information Bank Register – information about individuals) and internal tools. The use of a combination of internal and external tools calls for continuous upgrading and centralisation of monitoring and credit risk assessment tools.

Switching from the Bank's rating scale to Société Générale (the "SG") obligor rating scale, which began in 2004, represents an important step in matching the SG Group principles. The goal is to ensure that the principle "one borrower – one rating" is followed within the SG Group. The ratings are consequently reported to the SG obligor ratings database. As such, all of the Bank's ratings have gradually been adjusted to the SG scale, and the structure of the Bank's portfolio from the rating perspective and other related areas (classification, provisioning) is continuously followed up on through monthly Credit Risk Reports.

The effort to adjust rating tools resulted in, for example, the implementation of behavioural rating for the granting and monitoring of credit cards and debits for small business clients. In previous years, behavioural rating was used for debits, credit cards and consumer loans for individuals. The Bank also prepared granting and monitoring procedures based on behavioural rating for small loans. A wider use of behavioural rating results in a greater automation of credit approval and significantly simplified internal processes.

Credit risk concentration

The Bank monitors credit risk concentration on an aggregate basis (i.e. in respect of all on and off balance sheet positions). The Bank specifically monitors credit risk concentrations by countries, segments, industry sectors and by groups of economically linked entities. With regard to groups of economically linked entities, the Bank monitors the proportion of the groups' credit exposure to the Bank's capital and the concentration of corporate credit exposures by the level of rating and maturity buckets. The Bank also performs quarterly back-tests of scoring models.

Classification of receivables

The Bank performs classification of receivables arising from its financial activities into five categories according to Regulation of the Czech National Bank No. 6/2004. The classification reflects both quantitative criteria (account history, payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).

Clients classified as substandard, doubtful or loss are considered as defaulted in line with the new Basel II regulation and are subject to soft or hard collection activities.

The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and to investors.

Receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, the Bank 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 are assessed individually at least on a quarterly basis by three levels of Provisioning Committees or by recovery specialists. Provisions are made after all available information, including the estimated value of collateral and expected duration of recovery process, is considered. Remaining exposures are provisioned based on a statistical cash flow model depending on classification, product type, and segment.

Loan collateral

The amount of the recognised value of collateral is based on the Bank's internal rules on collateral valuation and discounting. More specifically, the Bank 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, expected cost of collateral realisation, length of realisation, bankruptcy rules, and the historical experience of the Bank, etc.

In 2005, the Bank implemented a new centralised database of collateral, which improved the quality and structure of data.

Final settlement of receivables

Provisions on the settlement of receivables are incorporated principally in master agreements for trading on financial markets (derivative, repo or other financial transactions). The relevant provisions are based on the Capital Markets Act and enable the Bank to close outstanding transactions in an event specified in the provisions and make relevant calculation to arrive at a single amount receivable equal to the value of the difference between mutual receivables of counterparties.

Recovery of amounts due from borrowers

The Bank's recovery activities are based on the following three pillars:
– Pre-recovery activities;
– Advisory/consulting support of recovery specialists to business units; and
– Hard collection.
In order to increase the efficiency of the recovery process, some hard recovery activities are outsourced to debt collection agencies.
In view of the current retail portfolio growth, the Bank made significant effort in 2005 to change the organisation of recovery to be able to face a significant recovery workload in the future.

Credit risk hedging instruments

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

Revocable contractual commitments

The Bank 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 2005, the revocable commitments account for 17 percent (2004: 16 percent) of all the Bank's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily calculation of counterparty risk arising from derivative instruments was revised during 2005. It is now based on two indicators: the Current Average Risk indicator (CAR), largely utilised in the past, and the new 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 and the nominal amount. 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 Bank in the event of adverse market scenarios).
As of 31 December 2005, the Bank posted a credit exposure of CZK 24,288 million (2004: CZK 21,342 million) on financial derivative instruments. Note that this amount represents the gross replacement cost at market rates as of 31 December 2005 of all outstanding agreements, i.e., excluding the effect of any netting agreement.

(B) Market risk

Segmentation of the Bank's financial operations

For market risk management purposes, the Bank 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 Bank'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 Bank operates a system of limits which monitors its market positions.

Products traded by the Bank

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

The Bank 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 Bank 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 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 management of the Bank.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR (367,000) and (EUR 270,000) as of 31 December 2005 and 2004, respectively. The average Global Value-at-Risks were EUR (316,000) and EUR (827,000) for the years ended 31 December 2005 and 2004, respectively.

In order to also take into account events with probabilities of occurrence that are lower than Value-at-Risk scenarios, the Bank has implemented daily analyses 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 Bank 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 Bank 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 to net interest income involves a stress-testing approach to interest rate risk within the Structural Book. In order to hedge against interest rate risk within the Structural Book, the Bank 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 Bank operates a system of market risk and counterparty limits which are designed to restrict inadequate exposure due to movements in market prices and counterparty concentrations. The Bank 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 (refer also to Note 3 to these financial statements).

Financial derivative instruments designated as held for trading:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2005	2005	2004	2004	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	171,058	171,058	134,576	134,576	2,843	2,848	2,147	2,268
Interest rate forwards and futures ***	177,105	177,105	247,945	247,945	101	111	247	299
Interest rate options	240	240	400	400	0	0	2	0
Total interest rate instruments	**348,403**	**348,403**	**382,921**	**382,921**	**2,944**	**2,959**	**2,396**	**2,567**
Foreign currency instruments								
Currency swaps *	61,876	61,969	69,170	68,944	415	508	1,869	1,643
Cross currency swaps *	10,533	10,343	7,125	5,432	310	75	1,775	58
Currency forwards *	6,966	6,982	5,117	5,111	111	127	102	96
Purchased options **	6,105	5,848	6,076	6,077	257	0	202	0
Sold options **	5,840	6,097	6,077	6,076	0	257	0	202
Total currency instruments	**91,320**	**91,239**	**93,565**	**91,640**	**1,093**	**967**	**3,948**	**1,999**
Other instruments								
Forwards and futures on debt securities ***	808	808	158	158	0	0	0	0
Commodity forwards	131	131	116	116	24	24	7	7
Commodity swaps	4,487	4,487	15	15	236	230	1	0
Purchased commodity options	93	93	321	321	9	0	19	0
Sold commodity options	93	93	321	321	0	9	0	19
Total other instruments	**5,612**	**5,612**	**931**	**931**	**269**	**263**	**27**	**26**
Total	445,335	445,254	477,417	475,492	4,306	4,189	6,371	4,592

Note: * Currency swaps, cross currency swaps and currency forwards are presented at discounted values.
** Purchased and sold currency options are presented at delta equivalents.
*** Fair values include only forwards, with regard to futures the Bank 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:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	57,551	74,193	39,314	171,058
Interest rate forwards and futures	163,317	13,788	0	177,105
Interest rate options	0	240	0	240
Total interest rate instruments	**220,868**	**88,221**	**39,314**	**348,403**
Foreign currency instruments				
Currency swaps *	61,876	0	0	61,876
Cross currency swaps *	1,097	8,530	906	10,533
Currency forwards *	6,350	616	0	6,966
Purchased options **	5,144	961	0	6,105
Sold options **	4,939	901	0	5,840
Total currency instruments	**79,406**	**11,008**	**906**	**91,320**
Other instruments				
Forwards and futures on debt securities	808	0	0	808
Commodity forwards	131	0	0	131
Commodity swaps	2,413	2,074	0	4,487
Purchased commodity options	93	0	0	93
Sold commodity options	93	0	0	93
Total other instruments	**3,538**	**2,074**	**0**	**5,612**
Total	**303,812**	**101,303**	**40,220**	**445,335**

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.
* Currency swaps, cross currency swaps and currency forwards are presented at discounted values.
** Purchased and sold currency options are presented at delta equivalents.

Financial derivative instruments designated as hedging:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2005	2005	2004	2004	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	144,061	144,061	104,983	104,983	6,652	135	4,962	107
Cross currency swaps for fair value hedging	1,721	1,450	0	0	270	0	0	0
Total	**145,782**	**145,511**	**104,983**	**104,983**	**6,922**	**135**	**4,962**	**107**

Remaining maturity of derivatives designated as hedging:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	23,654	53,928	66,479	144,061
Cross currency swaps for fair value hedging	1,721	0	0	1,721
Total	**25,375**	**53,928**	**66,479**	**145,782**

The Bank 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 Note 3 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 Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank'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 Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the "maturity undefined" category.

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets						
Cash and current balances with the Czech National Bank	2,206	0	0	0	7,025	9,231
Amounts due from banks	223,827	5,725	8,001	8,400	0	245,953
Financial assets at fair value through profit or loss	415	1,509	4,278	1,317	74	7,593
Positive fair values of financial derivative transactions	0	0	0	0	11,228	11,228
Loans and advances to customers, net	97,576	37,307	46,917	3,425	0	185,225
Securities available for sale	2,728	120	2,578	9,206	93	14,725
Investments held to maturity	66	0	2,206	1,151	0	3,423
Prepayments, accrued income and other assets	0	0	0	0	2,910	2,910
Income taxes receivable	0		0	0	628	628
Deferred tax asset	0	0	0	0	1,006	1,006
Assets held for sale	0		0	0	810	810
Intangible fixed assets, net	0	0	0	0	2,097	2,097
Tangible fixed assets, net	0	0	0	0	7,391	7,391
Investments in subsidiaries and associates	0	0	0	0	1,518	1,518
Total assets	**326,818**	**44,661**	**63,980**	**23,499**	**34,780**	**493,738**
Liabilities						
Amounts due to banks	30,446	834	246	0	0	31,526
Amounts due to customers	116,225	2,588	690	58	250,497	370,058
Negative fair values of financial derivative transactions	0	0	0	0	4,324	4,324
Securities issued	6,230	0	10,361	6,081	0	22,672
Accruals and other liabilities	0	0	0	0	9,923	9,923
Provisions	0	0	0	0	3,437	3,437
Income taxes payable	0	0	0	0	0	0
Deferred tax liability	0	0	0	0	1,484	1,484
Total liabilities	**152,901**	**3,422**	**11,297**	**6,139**	**269,665**	**443,424**
On balance sheet interest rate sensitivity gap at 31 December 2005	**173,917**	**41,239**	**52,683**	**17,360**	**(234,885)**	**50,314**
Derivatives *	148,332	192,200	79,035	85,151	0	504,718
Total off balance sheet assets	**148,332**	**192,200**	**79,035**	**85,151**	**0**	**504,718**
Derivatives *	215,279	209,829	52,895	26,254	0	504,257
Undrawn portion of loans **	2,892	1,447	(3,424)	(915)	0	0
Undrawn portion of revolving loans **	296	(296)	0	0	0	0
Total off balance sheet liabilities	**218,467**	**210,980**	**49,471**	**25,339**	**0**	**504,257**

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Net off balance sheet interest rate sensitivity gap at 31 December 2005	**(70,135)**	**(18,780)**	**29,564**	**59,812**	**0**	**461**
Cumulative interest rate sensitivity gap at 31 December 2005	**103,782**	**126,241**	**208,488**	**285,660**	**50,775**	**x**
Total assets at 31 December 2004	300,826	41,073	53,374	17,892	35,129	448,294
Total liabilities at 31 December 2004	144,207	4,029	9,232	49	247,199	404,716
Net on balance sheet interest rate sensitivity gap at 31 December 2004	156,619	37,044	44,142	17,843	(212,070)	43,578
Net off balance sheet interest rate sensitivity gap at 31 December 2004	**(91,070)**	**2,909**	**34,732**	**53,429**	**0**	**0**
Cumulative interest rate sensitivity gap at 31 December 2004	**65,549**	**105,502**	**184,376**	**255,648**	**43,578**	**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 Bank 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 2004 and 2005:

%		2005			2004	
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and balances with the CNB	0.59	x	x	0.80	x	x
Treasury bills and other bills eligible for refinancing	2.51	x	x	2.63	x	x
Amounts due from banks	2.18	4.38	2.28	2.66	2.44	2.21
Loans and advances to customers	4.51	4.81	3.16	5.76	3.04	3.43
Interest earning securities	3.62	5.12	3.34	4.48	3.63	3.45
Total assets	**2.12**	**7.69**	**2.90**	**3.20**	**3.69**	**2.69**
Total interest earning assets	**3.24**	**4.55**	**2.75**	**3.89**	**3.03**	**2.65**
Liabilities						
Amounts due to banks	1.41	4.29	3.14	1.70	2.30	2.54
Amounts due to customers	0.60	1.61	0.71	0.95	0.68	0.78
Securities issued	2.82	x	x	3.44	x	x
Total liabilities	**0.53**	**1.91**	**0.72**	**0.89**	**1.13**	**0.81**
Total interest bearing liabilities	**0.78**	**2.14**	**0.75**	**1.05**	**1.19**	**0.83**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	3.07	4.34	3.40	3.75	3.05	3.49
Undrawn portion of loans	3.55	x	2.69	4.68	x	3.21
Undrawn portion of revolving loans	2.87	4.31	2.00	6.10	4.59	3.14
Total off balance sheet assets	**3.07**	**4.33**	**3.38**	**3.78**	**3.08**	**3.48**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.74	4.33	2.90	3.33	3.41	2.98
Undrawn portion of loans	3.55	x	2.69	4.68	x	3.21
Undrawn portion of revolving loans	2.87	4.31	2.00	6.10	4.59	3.14
Total off balance sheet liabilities	**2.75**	**4.33**	**2.89**	**3.36**	**3.43**	**2.98**

Note: The above table sets out the average interest rates for December 2004 and 2005 calculated as a weighted average for each asset and liability category.

Short and long crown market rates fell year-on-year, which also led to the decrease of rates of individual crown products. Also, there was a moderate decrease in euro market rates while dollar market rates rose by approximately 2 percent.

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

CZK million	Fixed interest rate 2005	Floating interest rate 2005	No interest 2005	Total 2005	Fixed interest rate 2004	Floating interest rate 2004	No interest 2004	Total 2004
Assets								
Cash and balances with the CNB	0	2,205	7,026	9,231	0	2,678	7,347	10,025
Amounts due from banks	16,454	228,011	1,488	245,953	15,083	216,196	82	231,361
Financial assets at fair value through profit or loss	7,280	85	228	7,593	9,002	470	170	9,642
Positive fair values of financial derivative transactions	0	0	11,228	11,228	0	0	11,333	11,333
Loans and advances to customers, net	73,931	109,187	2,107	185,225	63,308	90,936	1,135	155,379
Securities available for sale	11,776	2,584	365	14,725	6,716	5,572	123	12,411
Investments held to maturity	3,357	0	66	3,423	2,277	0	43	2,320
Liabilities								
Amounts due to banks	0	30,979	547	31,526	0	18,180	368	18,548
Amounts due to customers	1,419	363,255	5,384	370,058	1,632	354,071	3,122	358,825
Negative fair values of financial derivative transactions	0	0	4,324	4,324	0	0	4,699	4,699
Securities issued	16, 215	6,199	258	22,672	7,916	1,192	147	9,255

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. 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 Bank 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 Bank's Management Board. Liquidity is monitored on a bank wide level, with the Market Book also having a stand-alone limit. The Bank 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 Bank has defined a set of indicators for which binding limits are established.

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

CZK million	On demand	Up to 3 monts	3 months ot 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with the Czech National Bank	6,794	0	0	0	0	2,437	9,231
Amounts due from banks	101,024	122,360	5,052	6,011	10,759	747	245,953
Financial assets at fair value through profit or loss	4	337	1,559	4,310	1,315	68	7,593
Positive fair values of financial derivative transactions	0	0	0	0	0	11,228	11,228
Loans and advances to customers, net	5,060	19,435	44,879	51,608	44,704	19,539	185,225
Securities available for sale	15	122	435	2,777	11,283	93	14,725
Investments held to maturity	0	55	11	2,206	1,151	0	3,423
Prepayments, accrued income and other assets	832	0	0	0	0	2,078	2,910
Income taxes receivable	0	0	628	0	0	0	628
Deferred tax asset	0	0	226	0	0	780	1,006
Assets held for sale	0	0	810	0	0	0	810
Intangible fixed assets, net	0	0	0	0	0	2,097	2,097
Tangible fixed assets, net	0	0	0	0	0	7,391	7,391
Investments in subsidiaries and associates	0	0	0	0	0	1,518	1,518
Total assets	**113,729**	**142,309**	**53,600**	**66,912**	**69,212**	**47,976**	**493,738**
Liabilities							
Amounts due to banks	30,445	338	514	229	0	0	31,526
Amounts due to customers	322,707	38,245	4,073	4,389	644	0	370,058
Negative fair values of financial derivative transactions	0	0	0	0	0	4,324	4,324
Securities issued	0	33	233	11,337	11,069	0	22,672
Accruals and other liabilities	9,623	300	0	0	0	0	9,923
Provisions	0	0	0	0	0	3,437	3,437
Income taxes payable	0	0	0	0	0	0	0
Deferred tax liability	0	0	0	0	0	1,484	1,484
Equity	0	0	0	0	0	50,314	50,314
Total liabilities	**362,775**	**38,916**	**4,820**	**15,955**	**11,713**	**59,559**	**493,738**
On balance sheet liquidity gap at 31 December 2005	**(249,046)**	**103,393**	**48,780**	**50,957**	**57,499**	**(11,583)**	**0**
Off balance sheet assets *	28,045	36,476	20,697	11,008	906	0	97,132
Off balance sheet liabilities *	29,283	44,866	62,561	28,836	7,567	56,859	229,972
Net off balance sheet liquidity gap at 31 December 2005	**(1,238)**	**(8,390)**	**(41,864)**	**(17,828)**	**(6,661)**	**(56,859)**	**(132,840)**
Total assets at 31 December 2004	102,720	135,159	47,670	55,806	56,324	50,615	448,294
Total liabilities at 31 December 2004	323,172	47,613	6,515	16,470	739	53,785	448,294
Net on balance sheet liquidity gap at 31 December 2004	**(220,452)**	**87,546**	**41,155**	**39,336**	**55,585**	**(3,170)**	**0**
Net off balance sheet liquidity gap at 31 December 2004	**(749)**	**(9,716)**	**(42,026)**	**(16,083)**	**(7,439)**	**(36,793)**	**(112,806)**

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 Bank's main currency exposures. The remaining currencies are shown within "Other currencies." The Bank monitors its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

CZK million	Czech crowns	Euros	US dollars	Swiss francs	Slovak crowns	Other currencies	Total
Assets							
Cash and current balances with the Czech National Bank	7,519	1,044	290	71	98	209	9,231
Amounts due from banks	210,304	16,669	16,416	1	2,074	489	245,953
Financial assets at fair value through profit or loss	6,106	13	0	0	348	1,126	7,593
Positive fair values of financial derivative transactions	11,228	0	0	0	0	0	11,228
Loans and advances to customers, net	170,411	12,207	2,066	96	422	23	185,225
Securities available for sale	8,557	2,654	3,514	0	0	0	14,725
Investments held to maturity	1,346	1,824	253	0	0	0	3,423
Prepayments, accrued income and other assets	2,606	249	46	0	1	8	2,910
Income taxes receivable	620	0	0	0	0	8	628
Deferred tax asset	1,006	0	0	0	0	0	1,006
Assets held for sale	810	0	0	0	0	0	810
Intangible fixed assets, net	2,097	0	0	0	0	0	2,097
Tangible fixed assets, net	7,391	0	0	0	0	0	7,391
Investments in subsidiaries and associates	1,049	3	0	0	466	0	1,518
Total assets	**431,050**	**34,663**	**22,585**	**168**	**3,409**	**1,863**	**493,738**
Liabilities							
Amounts due to banks	26,826	439	2,361	79	421	1,400	31,526
Amounts due to customers	329,062	30,024	9,425	260	625	662	370,058
Negative fair values of financial derivative transactions	4,324	0	0	0	0	0	4,324
Securities issued	22,672	0	0	0	0	0	22,672
Accruals and other liabilities	8,853	768	229	0	9	64	9,923
Provisions	1,915	379	1,139	0	0	4	3,437
Income taxes payable	0	0	0	0	0	0	0
Deferred tax liability	1,484	0	0	0	0	0	1,484
Equity	50,314	0	0	0	0	0	50,314
Total liabilities	**445,450**	**31,610**	**13,154**	**339**	**1,055**	**2,130**	**493,738**
Net FX position at 31 December 2005	**(14,400)**	**3,053**	**9,431**	**(171)**	**2,354**	**(267)**	**0**
Off balance sheet assets included in the FX position *	573,777	50,963	45,044	170	5,075	5,483	680,512
Off balance sheet liabilities included in the FX position *	559,154	54,335	54,427	8	7,101	5,136	680,161
Net off balance sheet FX position at 31 December 2005	**14,623**	**(3,372)**	**(9,383)**	**162**	**(2,026)**	**347**	**351**
Total net FX position at 31 December 2005	**223**	**(319)**	**48**	**(9)**	**328**	**80**	**351**
Total assets at 31 December 2004	395,961	31,886	16,735	287	1,460	1,965	448,294
Total liabilities at 31 December 2004	401,160	30,153	14,900	375	691	1,015	448,294
Net FX position at 31 December 2004	(5,199)	1,733	1,835	(88)	769	950	0
Off balance sheet net FX position at 31 December 2004	7,398	(1,774)	(2,143)	74	(718)	(912)	1,925
Total net FX position at 31 December 2004	2,199	(41)	(308)	(14)	51	38	1,925

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

(G) Operational risk

In 2005, the Operational Risks Department began implementing operational risk management techniques that are anticipated to facilitate the fulfilment of the requirements arising to the Bank under Basel II as well as general requirements of the regulator in respect of the Bank's internal management and control system. With assistance from the parent company, the Bank put in place a data collection system and launched qualitative assessment of individual processes in the Bank. During the year, the Bank established an Operational Risk Committee. The Operational Risk Report is submitted to the Management Board of the Bank. The Committee also took up responsibility for information security.

(H) Legal Risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount 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 Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

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

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 Bank'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 Bank's financial instruments, the following methods and assumptions were used:

a) Cash and balances with the central bank

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 equal to market values 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 to customers is estimated using a discounted cash flow analysis, the fair value of loss loans is equal to or reflects the appraised value of the underlying collateral. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans to customers approximates the carrying values at the balance sheet date. Provisions are taken into consideration when calculating fair values.

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 Bank is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Bank.

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

CZK million	Carrying value 2005	Fair value 2005	Carrying value 2004	Fair value 2004
Financial assets				
Cash and current balances with the Czech National Bank	9,231	9,231	10,025	10,025
Amounts due from banks	245,953	246,765	231,361	231,185
Loans and advances to customers, net	185,225	191,337	155,379	158,867
Investments held to maturity	3,423	3,474	2,320	2,332
Financial liabilities				
Amounts due to banks	31,526	31,522	18,548	18,439
Amounts due to customers	370,058	370,027	358,825	355,300
Debt securities issued	22,672	22,744	9,255	9,237

41. Assets under management

As of 31 December 2005, the Bank managed client assets in the amount of CZK 3,754 million (2004: CZK 3,274 million), of which no assets were from the Bank's subsidiaries.

42. Post balance sheet events

No significant events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Consolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2005

Deloitte.

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Registered at the Municipal Court in Prague, Section C, File 24349
Id Nr. 49620592
Tax Id Nr.: CZ49620592

Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

Having its registered office at: Praha 1, Na Příkopě 33 čp. 969, PSČ 11407
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries ("the Group"), which comprise the balance sheet as of 31 December 2005, and the related statement of income, changes in equity and cash flows for the year then ended and notes. These consolidated financial statements are the responsibility of Komerční banka's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Group as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 7 March 2006

Audit firm:
Deloitte s.r.o.
Certificate no. 79
Represented by:

Statutory auditor:
Michal Petrman
certificate no. 1105

Michal Petrman, statutory executive

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Consolidated Profit and Loss Statement for the year ended 31 December 2005

CZK million	Note	2005	2004
Interest income	5	21,212	20,582
Interest expense	5	(6,552)	(7,318)
Net interest income		**14,660**	**13,264**
Net fees and commissions	6	8,736	8,936
Net profit/(loss) on financial operations	7	1,238	1,414
Dividends and other income	8	(115)	138
Net banking income	**5**	**24,519**	**23,752**
Personnel expenses	9	(5,032)	(5,171)
General administrative expenses	10	(5,320)	(5,480)
Depreciation, impairment and disposal of fixed assets	11	(1,801)	(1,824)
Total operating expenses		**(12,153)**	**(12,475)**
Profit/(loss) attributable to exclusion of companies from consolidation	12	95	610
Income from share of associated undertakings	12	106	13
Profit before provision for loan and investment losses, other risk and income taxes		**12,567**	**11,900**
Provision for loan losses		(797)	1,542
Provisions for impairment of securities		(196)	(85)
Provisions for other risk expenses		523	(111)
Cost of risk	**13**	**(470)**	**1,346**
Profit or loss on unconsolidated equity investments		14	(15)
Share of profit of pension scheme beneficiaries		(546)	(373)
Profit/(loss) before income taxes		**11,565**	**12,858**
Income taxes	14	(2,654)	(3,920)
Net profit/(loss)		**8,911**	**8,938**
Profit attributable to the Bank's equity holders		8,960	8,960
Minority profit/(loss)		**(49)**	**(22)**
Earnings/(loss) per share (in CZK)	**16**	**234.44**	**235.15**

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

Consolidated Balance Sheet as of 31 December 2005

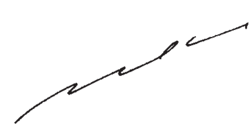
CZK million	Note	2005	2004
Assets			
Cash and current balances with central banks	17	9,328	10,135
Amounts due from banks	18	246,785	233,736
Financial assets at fair value through profit or loss	19	7,593	9,673
Positive fair value of financial derivative transactions	42	11,240	11,339
Loans and advances to customers, net	20	189,212	158,085
Securities available for sale	21	30,208	32,074
Investments held to maturity	22	3,438	2,335
Prepayments, accrued income and other assets	23	3,402	2,671
Income taxes receivable	14	618	1
Deferred tax asset	34	1,078	462
Assets held for sale	24	826	0
Investment property	25	239	250
Intangible fixed assets, net	26	2,317	2,280
Tangible fixed assets, net	27	7,627	9,772
Investments in associates and unconsolidated subsidiaries	28	1,023	598
Total assets		**514,934**	**473,411**
Liabilities			
Amounts due to banks	29	32,824	20,547
Amounts due to customers	30	388,431	373,371
Negative fair value of financial derivative transactions	42	4,317	4,700
Securities issued	31	22,672	9,255
Accruals and other liabilities	32	10,312	8,192
Provisions	33	3,488	11,093
Income taxes payable	14	5	368
Deferred tax liability	34	1,558	1,071
Total liabilities		**463,607**	**428,597**
Shareholders' equity			
Share capital	35	19,005	19,005
Share premium and reserves		32,298	25,736
Minority equity		24	73
Total shareholders' equity		**51,327**	**44,814**
Total liabilities and shareholders' equity		**514,934**	**473,411**

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

These financial statements were approved by the Board of Directors on 7 March 2006.

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 for the year ended 31 December 2005

CZK million	Share capital	Capital and reserve funds and unidistri-buted profit *	Compen-sation reserve	Hedging reserve	Revaluation gains or losses	Reserve from revaluation of available--for-sale securities	Total	Minority interest	Total, including minority interest
Balance at 31 December 2003	**19,005**	**21,080**	**18**	**1,328**	**(30)**	**0**	**41,401**	**246**	**41,647**
Change of accounting policy **	0	(131)	0	0	0	131	0	0	0
Change of accounting policy ***	0	(116)	0	0	0	0	(116)	0	(116)
Inclusion of Penzijní fond KB, a. s.	0	118	0	0	0	3	121	0	121
Balance at 1 January 2004	**19,005**	**20,951**	**18**	**1,328**	**(30)**	**134**	**41,406**	**246**	**41,652**
Cash flow hedging									
– net fair value, net of tax	0	0	0	2,896	0	0	2,896	0	2,896
– transfer to net profit, net of tax	0	0	0	(1,411)	0	0	(1,411)	0	(1,411)
Insurance provision – shadow accounting	0	0	0	0	0	(89)	(89)	0	(89)
Currency translation from foreign investments	0	0	0	0	(1)	0	(1)	0	(1)
Unrealised gains or losses on available-for-sale securities, net of tax	0	0	0	0	0	508	508	0	508
Other treasury shares	0	93	0	0	0	0	93	0	93
Equity compensation programme reserve	0	0	(18)	0	0	0	(18)	0	(18)
Dividends	0	(7,602)	0	0	0	0	(7,602)	0	(7,602)
Business combinations	0	0	0	0	0	0	0	(151)	(151)
Net profit for the period	0	8,959	0	0	0	0	8,959	(22)	8,937
Balance at 31 December 2004	**19,005**	**22,401**	**0**	**2,813**	**(31)**	**553**	**44,741**	**73**	**44,814**
Cash flow hedging									
– net fair value, net of tax	0	0	0	3,048	0	0	3,048	0	3,048
– transfer to net profit, net of tax	0	0	0	(1,705)	0	0	(1,705)	0	(1,705)
Currency translation from foreign investments	0	0	0	0	(7)	0	(7)	0	(7)
Unrealised gains or losses on available-for-sale securities, net of tax	0	0	0	0	0	66	66	0	66
Unrealised gains or losses on available-for-sale securities – associates, net of tax	0	7	0	0	0	0	7	0	7
Other treasury shares	0	(6)	0	0	0	0	(6)	0	(6)
Dividends	0	(3,801)	0	0	0	0	(3,801)	0	(3,801)
Business combinations	0	0	0	0	0	0	0	0	0
Net profit for the period	0	8,960	0	0	0	0	8,960	(49)	8,911
Balance at 31 December 2005	**19,005**	**27,561**	**0**	**4,156**	**(38)**	**619**	**51,303**	**24**	**51,327**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit and retained earnings.
** Unrealised gains or losses on the revaluation of available-for-sale securities as of 1 January 2004, net of tax.
*** Accrued fees as of 1 January 2004, net of tax; release of an insurance provision not recognised under IFRS.

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

Consolidated Cash Flow Statement for the year ended 31 December 2005

CZK million	2005	2005	2004	2004
Cash flows from operating activities				
Interest receipts	20,753		19,761	
Interest payments	(6,322)		(6,120)	
Commission and fee receipts	9,757		9,884	
Commission and fee payments	(863)		(773)	
Other income receipts	2,036		3,368	
Cash payments to employees and suppliers, and other payments	(9,185)		(9,849)	
Operating cash flow before changes in operating assets and operating liabilities	**16,176**		**16,271**	
Due from banks	(12,270)		(30,992)	
Loans and advances to customers	(31,531)		(3,528)	
Securities held for trading	1,969		16,609	
Other assets	(462)		32	
Total (increase)/decrease in operating assets	**(42,294)**		**(17,879)**	
Amounts due to banks	11,681		569	
Amounts due to customers	11,923		11,334	
Other liabilities	1,730		8,048	
Total increase/(decrease) in operating liabilities	**25,334**		**19,951**	
Net cash flow from operating activities before taxes	(784)		18,343	
Income taxes paid	(4,101)		(4,863)	
Net cash flows from operating activities		**(4,885)**		**13,480**
Cash flows from investing activities				
Dividends received	55		209	
Purchase of investments held to maturity	(1,155)		(1,045)	
Maturity of investments held to maturity *	108		273	
Purchase of securities available for sale	(13,768)		(7,490)	
Sale of securities available for sale *	9,580		13,814	
Purchase of tangible and intangible fixed assets	(1,538)		(1,579)	
Sale of tangible and intangible fixed assets	879		104	
Purchase of investments in subsidiaries and associates	(2)		(57)	
Sale of investments in subsidiaries and associates	670		880	
Net cash flow from investing activities		**(5,171)**		**5,109**
Cash flows from financing activities				
Paid dividends	(3,780)		(7,530)	
Securities issued	13,778		5,133	
Securities redeemed *	(639)		(18,191)	
Net cash flow from financing activities		**9,359**		**(20,588)**
Net increase/(decrease) in cash and cash equivalents	**(697)**		**(1,999)**	
Cash and cash equivalents at beginning of year	**8,804**		**10,803**	
Cash and cash equivalents at end of year (see Note 36)		**8,107**		**8,804**

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2005

1. Principal activities

The Financial Group of Komerční banka, a.s. (the "Group") consists of Komerční banka, a.s. (the "Bank") and 10 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. In 2005, the Bank decided to place its Dutch subsidiary Komercni Finance B.V. into liquidation.

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 (2004: 60.35 percent) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as of 31 December 2005

Company 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
Komercni Finance, B.V.	100.0	100.0	Finance	Amsterdam
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 Investments S.A.	99.84	99.84	Investing	Brussels
ESSOX s.r.o.	50.9	50.9	Consumer loans, leases	České Budějovice

In May 2005, the Bank and Société Générale Asset Management S.A. (France) entered into a contract for the sale of 100 percent of the issued share capital of Investiční kapitálová společnost KB, a.s. ("IKS").The contracted sale price was CZK 265 million and is payable in two instalments. The first instalment of CZK 131 million was payable in cash immediately at the transaction date, the second instalment of CZK 134 million will fall due for payment in 2009. The payment of the second instalment is dependent upon the fulfilment of pre-determined distribution targets for IKS's products sold through the Bank's distribution network in 2005 – 2008. The Bank remains the distributor of IKS's products on the Czech market. The transaction was preceded by two dividend payments to the Bank amounting to CZK 187 million in 2004 and CZK 96 million in April 2005. The Bank made a gain of CZK 56 million on the sale of IKS.

In May 2005 Komerční pojišťovna, a.s. decreased its share capital by CZK 205 million from CZK 808 million to CZK 603 million. The reason for the share capital decrease was the settlement of part of the company's accumulated losses brought forward of CZK 205 million. The share capital was reduced by changing the nominal value of shares from the original values of CZK 100,000 and CZK 50,000 to CZK 74,600 and CZK 37,300, respectively.

On 29 July 2005, the Bank and Sogecap S.A. (France) entered into a contract for the sale of 51 percent of the issued share capital of Komerční pojišťovna, a.s., which had been the Bank's wholly owned subsidiary. The transaction of CZK 473 million was settled in September 2005, with a gain of CZK 78 million. The Bank remains the distributor of the products of Komerční pojišťovna, a.s. on the Czech market.
The process of liquidation of ALL IN, a.s. in liquidation and ASIS, a.s. in liquidation was completed in 2005 and a liquidation gain was paid. The impact on the profit and loss statement is immaterial.
In December 2005, the Board of Directors of the Bank decided to place Komercni Finance B.V. (Netherlands) into liquidation.
In December 2005, the Bank subscribed for 99.84 percent of the issued share capital of Bastion European Investment S.A. (Belgium) for EUR 61,900.
In accordance with IAS 27 (Revised), the Bank included its subsidiary, Penzijní fond Komerční banky, a.s., in its consolidated financial statements retrospectively as of 1 January 2005. This entity is subject to regulatory restrictions regarding profit distributions which the Group reflects in the consolidated balance sheet and profit and loss statement.

The main activities of associated companies of the Bank as of 31 December 2005

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49,0	Insurance	Prague
Modrá pyramida stavební spořitelna KB, a.s.	40.0	40.0	Building society	Prague
CBCB – Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague

Under an agreement of April 2004, the Bank provided Modrá pyramida stavební spořitelna KB, a.s. with funding in the form of subordinated debt of CZK 245 million.

2. Events for the year ended 31 December 2005

The Bank's dividend in respect of the year ended 31 December 2004

At the General Meeting of the Bank held on 28 April 2005, the shareholders approved a dividend for the year ended 31 December 2004 of CZK 100 per share before tax. The dividend was approved in the aggregate amount of CZK 3,801 million in respect of the total net profit of CZK 9,435 million under Czech Accounting Standards for that year.

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 2005. 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, 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. 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 42 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 and 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*".

With effect from 1 January 2005, the Group has reported interest income on debt securities at fair value through profit or loss as a component of the fair value remeasurement 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 included them in other portfolios. 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 "*Reserve from 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 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 is not available, and all debt securities is equal to the present value of the expected future cash flows discounted at the 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 must 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 "Dividends and 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. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost of tangible and intangible fixed 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 does not depreciate land, works of art, tangible and intangible fixed 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:

	2005	2004
Machinery and equipment, computers and vehicles	4	4
Fixtures, fittings and equipment	6	6
ATMs and miscellaneous equipments of the Bank	8	4
Energy machinery and equipment	12/15	6/12
Distribution equipment	20	20
Buildings and structures	40	30
Buildings and structures - selected components:		
– Heating, air-conditioning, windows, doors	20	x
– Lift, electro-installation	25	x
– Roof, fasade	30	x
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible 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 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 for guarantees and other off balance sheet credit related commitments

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 accrual 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 Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group'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, estimated 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 accrual basis using the effective interest rate method. Interest income includes the amortisation, using the effective interest method, of any difference between the initial recognition amount and the maturity amount of debt financial instruments. 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 accrual 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 International Financial Reporting Standards. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly recorded in equity.

Deferred income tax is provided, using the balance sheet method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. 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 method.

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 and 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 Group 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 entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be 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 foreign exchange rate risk associated with selected portfolios of foreign currency assets through cross-currency swaps. The effectiveness of the hedge is 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 effective in relation to hedged risk, are recognised in the "*Hedging reserve*" 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 line "*Net profit/(loss) on financial operations*". On this basis, the Bank hedges the interest rate risk associated with selected portfolios of assets or liabilities through interest rate swaps (IRS) and FRAs. The effectiveness of the hedge is tested through prospective and retrospective tests performed at the end of each quarter.

The Group additionally hedges against the foreign exchange rate risk arising from the net investment in its subsidiary Komerční banka Bratislava, a.s. Foreign currency deposits are used as hedging instrument. Foreign exchange rate differences arising from their retranslation are included in "*Revaluation gains or losses*" in equity which also reflects foreign exchange rate differences arising from the investment in Komerční banka Bratislava, a.s.

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 42.

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 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 Group. A contingent liability is also a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will 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.
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 IFRS and revised IAS effective from 1 January 2005

All the new IFRS and revisions of the existent IAS have been implemented with effect from 1 January 2005. Set out below are the changes and their impact on the profit for the year ended 31 December 2004 and retained earnings, if relevant.

CZK million Category	The 2004 presentation in the prior period financial statements	Category	The 2004 presentation in the current period financial statements	Profit and loss impact in 2004	Equity impact in 2004
Net interest income	540	Net profit/(loss) on financial operations	540	–	–
Net fees and commissions	184	Net interest income	183	1	(171)
Loans and advances to customers	1,335	Investments held to maturity	1,335	–	–
Deferred tax asset	437	Deferred tax asset	392	(4)	45
Provisions	13	Other income	3	3	10
Provisions	–	Other income	89	89	–
Total				89	(116)

1. IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement

Measurement of financial instruments held for trading

IAS 32 and IAS 39 no longer require that interest income and expense attributable to financial assets at fair value through profit or loss be recognised separately.
In accordance with these standards, the Group, effective 1 January 2005, has recognised interest income and expense on financial assets at fair value through profit or loss (for example, debt securities held for trading) as a component of the fair value remeasurement in the "*Net profit/(loss) on financial operations*", not in the line "*Net interest income*". Reflecting the change referred to above, the Bank made a reclassification of CZK 540 million in the 2004 amounts.

Definition of loans and receivables

IAS 39 has revised the definition of the category of "loans and receivables originated by the enterprise" to "*Loans and receivables*". Under the revised definition, an entity is permitted to classify in "loans and receivables" loans that are purchased only if they are not quoted in an active market.
The Group has assessed the purchased receivables categorised as "loans and receivables" and re-allocated the receivables that do not meet the above definition into a different portfolio with effect from 1 January 2005. The re-allocation comprised securities with the carrying amount of CZK 1,335 million which the Group decided to include in the held-to-maturity investments portfolio. The impact on the profit and loss statement and retained earnings was zero. The change was also reflected in the 2004 comparative period.

2. Other changes of accounting policies

Accruals

With effect from 2005, the Group has commenced recording accruals for loan origination fees, fees from guarantees and annual fees from payment cards, which results in a fairer presentation of information.

In accordance with IAS 8, the Group applied the changes of accounting policies retrospectively. As of 1 January 2005, the net impact on retained earnings (decrease) was CZK 37 million, CZK 14 million and CZK 78 million in respect of loan origination fees, fees from guarantees and fees from payment cards, respectively. Of the aggregate impact of CZK 129 million, CZK 3 million represents the impact on the year ended 31 December 2004 and CZK 126 million is the impact on retained earnings for the periods preceding 1 January 2004.

IFRS 4 Insurance Contracts

Recognition of Komerční pojišťovna's insurance products

Insurance contracts are issued through Komerční pojišťovna within the Group. The Group has reviewed its existing products with the objective of separating insurance products (as defined in IFRS 4), financial products with a discretionary participation feature as an allocation of profit (dealt with in IFRS 4) and financial products that are not addressed by IFRS 4. All products have been designated as insurance contracts or financial instruments covered by IFRS 4.

The Group has also reviewed embedded derivatives in insurance contracts with the result that no embedded derivatives included in the existing insurance contracts need to be accounted for separately (unbundled).

The Group had additionally adopted the "shadow accounting" practice in respect of its life insurance contracts. Under shadow accounting, the Group recognised an insurance provision with a charge against capital in the amount of CZK 89 million, which will cover the estimated participation of policyholders in unrealised gains on investments in the insurer's assets (assets held for sale) which are taken directly to equity. This resulted in the release of the insurance provision of CZK 89 million through the profit and loss statement. The aggregate impact of the adoption of this accounting practice on retained earnings was zero as of 1 January 2005.

The Group has identified a provision which does not comply with IFRS 4 and will therefore no longer be reflected in the financial statements. The impact of the release of this provision on retained earnings as of 1 January 2005 was CZK 10 million and the impact on the 2004 period was CZK 3 million.

IAS 27 Consolidated and Separate Financial Statements

In accordance with IAS 27 (Revised), with effect from 1 January 2005, the Bank has retrospectively included its subsidiary Penzijní fond Komerční banky a.s. in its consolidated financial statements. This entity is subject to regulatory restrictions regarding profit distributions which are reflected in the consolidated balance sheet and profit and loss statement. The assets and liabilities of Penzijní fond Komerční banky a.s. are fully consolidated, 85 percent of net profit is reported as *"Amounts due to customers"*.

The aggregate impact on the profit and loss statement and balance sheet of the Company is as follows:

Profit and loss statement	CZK million
Interest income	361
Interest expense	0
Net interest income	**361**
Net fees and commissions	(95)
Net profit/(loss) on financial operations	238
Dividends and other income	(57)
Net banking income	**447**
Personnel expenses	(33)
General administrative expenses	(49)
Depreciation, impairment and disposal of fixed assets	(13)
Total operating expenses	**(95)**
Profit before provision for loan and investment losses, other risks and income taxes	**352**
Cost of risk	**0**
Share of profit of pension scheme beneficiaries	(374)
Profit/(loss) before income taxes	**(22)**
Income taxes	(5)
Net profit/(loss)	**(27)**

Balance sheet	CZK million
Assets	
Amounts due from banks	176
Securities available for sale	12,444
Prepayments, accrued income and other assets	316
Deferred tax asset	12
Investment property	250
Intangible fixed assets, net	10
Tangible fixed assets, net	168
Investments in associates and unconsolidated subsidiaries	(230)
Total assets	**13,146**
Liabilities	
Amounts owed to customers	12,689
Accruals and other liabilities	32
Provisions	1
Income taxes payables	1
Deferred tax liability	16
Total liabilities	**12,739**
Shareholders' equity	
Share premium and reserves	407
Total shareholders' equity	**407**
Total liabilities and shareholders' equity	**13,146**

3. Other changes with no impact on prior periods

3.1. IFRS 3 Business Combinations

Goodwill

The new IFRS 3 prohibits amortisation of goodwill acquired in a business combination. In accordance with Transitional Provisions of IFRS 3, amortisation of goodwill is discontinued at the date of the adoption of IFRS 3 (accumulated amortisation at that date is charged against the gross amount of goodwill) and the goodwill is tested for impairment for the first time. Subsequently, an impairment test is undertaken annually.

The Bank tested goodwill for impairment as of 1 January 2005. The impact on retained earnings as of 1 January 2005 was zero.

3.2. IFRS 5 Non-current assets held for sale and discontinued operations

Assets held for sale

Following the implementation of IFRS 5, the Group has reviewed its non-current assets and identified assets which meet the "assets held for sale" definition as of 1 January 2005. As of this date, assets with the carrying value of CZK 37 million, which are no longer being depreciated, were re-allocated to this category. Given that the assets met the criteria for classification as assets held for sale as of 1 January 2005, the re-allocation has no impact on prior periods.

3.3. IAS 16 Property, Plant & Equipment

Introduction of the component approach

The revised wording of IAS 16 expressly requires that an entity determines the amount of depreciation separately for each significant component of property, plant & equipment.

The application of this revision has relevance for the Group's operating buildings which can be split into components. Given that the Group owns operating buildings that were acquired a fairly long time ago, it is not possible to clearly determine the costs of individual components. The Group has made a reasonable estimate of the impact of the change of the policy which appears immaterial based upon the obtained results. Hence, the Group has applied the component approach prospectively beginning in the period from 1 January 2005. The impact on retained earnings as of 1 January 2005 was therefore zero.

(x) Changes in accounting policies arising from the adoption of new IFRS and amendments to IAS effective 1 January 2006 and thereafter

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

– IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007);
– Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective 1 January 2006);
– Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" in respect of cash flow hedge accounting (effective 1 January 2006);
– Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" for financial guarantee contracts (effective 1 January 2006); 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 IFRS and revisions of the existent IAS are implemented with effect from 1 January 2006 or 1 January 2007 as appropriate. 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:

CZK million	Universal banking		Investment banking		Elimination		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
External income (out-of-segment)	17,364	14,788	7,155	8,964	0	0	24,519	23,752
Income from other segments	6,141	8,008	(6,141)	(8,008)	0	0	0	0
Total income	**23,505**	**22,796**	**1,014**	**956**	**0**	**0**	**24,519**	**23,752**
External expenses	(11,048)	(11,285)	(563)	(503)	0	0	(11,611)	(11,788)
Segment result	**12,457**	**11,511**	**451**	**453**	**0**	**0**	**12,908**	**11,964**
Unallocated expenses							(1,343)	894
Profit/(loss) before taxation							**11,565**	**12,858**
Taxation							(2,654)	(3,920)
Profit							**8,911**	**8,938**
Assets by segment	271,914	240,014	241,379	232,798	0	0	513,293	472,812
Investments in associates and unconsolidated subsidiaries	1,023	598	0	0	0	0	1,023	598
Unallocated assets							618	1
Total consolidated assets							**514,934**	**473,411**
Liabilities by segment	221,499	197,498	242,103	230,731	0	0	463,602	428,229
Unallocated liabilities							5	368
Total consolidated liabilities							**463,607**	**428,597**
Acquisition of assets	1,332	2,295	35	57	0	0	1,367	2,352
Depreciation and amortisation	1,694	1,836	34	30	0	0	1,728	1,866

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

CZK million	2005	2004
Interest income		
– Loans and advances to financial institutions	10,026	9,664
– Loans and advances to customers	9,729	9,476
– Bonds and treasury bills	1,457	1,442
Total interest income	**21,212**	**20,582**
Interest expense		
– Amounts owed to financial institutions	(2,623)	(2,259)
– Amounts owed to customers	(3,535)	(4,051)
– Securities issued	(394)	(1,008)
Total interest expense	**(6,552)**	**(7,318)**
Total net interest income	**14,660**	**13,264**

In connection with the inception of accrual accounting for loan origination fees as a component of the effective interest rate, the line "*Interest income on loans and advances to customers*" for the year ended 31 December 2004 was restated to reflect accrued loan fees of CZK 182 million which were largely included in "*Net fees and commissions*" on the payment of the fee in 2004.

In addition, the lines "*Interest income on bonds and treasury bills*" and "*Interest expense on securities issued*" for the year ended 31 December 2004 were restated respectively by CZK 592 million of interest income on debt securities held in the trading portfolio and by CZK 52 million of interest expense arising from short sales and repurchase transactions with securities. To reflect the presentation treatment applicable for the year ended 31 December 2005, those items are reported in "*Net profit/(loss) on financial operations*".

The line "*Interest expense on amounts owed to customers*" in 2004 reflected interest of CZK 105 million on a life insurance product which is currently presented as "*Dividends and other income*".

The inclusion of PF KB in the consolidated financial statements resulted in an increase of CZK 6 million in "*Interest income on loans and advances to financial institutions*" and an increase of CZK 355 million in "*Interest income on bonds and treasury bills*" for 2004.

Interest income on loans and advances to customers reflects interest on watch, substandard, doubtful and loss amounts of CZK 1,346 million (2004: CZK 1,226 million) due from customers. Interest income on securities issued includes income of CZK 359 million (2004: CZK 295 million) on securities that have suffered impairment.

Interest income and expense also include accrued interest income from hedging financial derivatives of CZK 4,832 million (2004: CZK 4,225 million) and accrued interest expense from hedging financial derivatives of CZK 2,490 million (2004: CZK 2,181 million). Net interest income from these derivatives amounts to CZK 2,342 million (2004: CZK 2,044 million).

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2005	2004
Net fees and commission from services and transactions	7,123	7,158
Net gain from foreign exchange commissions from clean payments	1,004	1,096
Net gain from foreign exchange commissions from other transactions	609	682
Total net fees and commissions	**8,736**	**8,936**

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 the 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.

The comparative figure for the year ended 31 December 2004 in the line "*Net fees and commission from services and transactions*" was restated by accrued loan origination fees of CZK 182 million. Pursuant to the current year's accounting treatment, the accrued loan origination fees are included in "*Net interest income*". In addition, life insurance costs of CZK 2 million were re-allocated to "*Dividends and other income*".

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2005	2004
Net realised gains/(losses) on securities	604	69
Net unrealised gains/(losses) on securities	131	624
Dividend income on securities held for trading and available for sale	54	89
Net realised and unrealised gains/(losses) on security derivatives	(5)	158
Net realised and unrealised gains/(losses) on interest rate derivatives	(182)	(141)
Net realised and unrealised gains/(losses) on trading commodity and other derivatives	9	3
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	627	612
Total net profit/(loss) on financial operations	**1,238**	**1,414**

Comparative amounts for the year ended 31 December 2004 were restated to reflect the revised recognition of interest on debt securities held for trading. "*Net unrealised gains/(losses) on securities*" include CZK 592 million of interest income on debt securities held for trading and CZK 52 million of interest expense from short sales and repurchase agreements which were reported in "*Net interest income*" in the previous period.

As a result of the inclusion of PF KB in the consolidated financial statements, "*Net realised gains/(losses) on securities*" increased by CZK 212 million, "*Dividend income on securities held for trading and available for sale*" increased by CZK 20 million and "*Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities*" increased by CZK 6 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*" also reports 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 96 million (2004: a net loss of CZK 560 million) in the profit and loss statement for the year ended 31 December 2005.

A gain of CZK 19 million (2004: CZK nil) 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 recorded in the same line.

8. Dividends and other income

Dividends and other income comprise:

CZK million	2005	2004
Dividend receipts from unconsolidated investments	0	34
Other income	(115)	104
Total dividends and other income	**(115)**	**138**

"Other income" shown above is predominantly composed of the creation of life insurance technical provisions.
Interest expense of CZK 104 million and life insurance product expenses of CZK 2 million were re-allocated to *"Other income"* for 2004. Other income was additionally increased as a result of the release of the insurance provision of CZK 92 million.
The inclusion of Penzijní fond Komerční banky a.s. in the consolidated financial statements triggered the elimination of the dividends received by the Bank from Penzijní fond Komerční banky a.s., that is, comparative figures for the year ended 31 December 2004 *"Dividend receipts from unconsolidated investments"* and *"Other income"* decreased by CZK 50 million and CZK 7 million, respectively.

9. Personnel expenses

Personnel expenses comprise:

CZK million	2005	2004
Wages, salaries and bonuses	3,632	3,736
Social security costs	1,400	1,435
Total personnel expenses	**5,032**	**5,171**
Number of employees at the period-end	7,750	7,775
Average recalculated number of employees during the period	7,713	8,354
Average cost per employee (CZK)	**652,405**	**618,985**

"Social security costs" include costs of CZK 88 million (2004: CZK 45 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 32 million (2004: CZK 35 million) incurred in contributing to the employees' capital life insurance scheme.
The inclusion of PF KB in the consolidated financial statements resulted in an increase in *"Wages, salaries and bonuses"* of CZK 24 million and *"Social security costs"* of CZK 9 million in 2004. Also, the number of employees at the period-end increased by 57 employees and the average recalculated number of employees during the period increased by 56 employees.

10. General administrative expenses

General administrative expenses comprise:

CZK million	2005	2004
Insurance of deposits and transactions	368	625
Marketing and entertainment costs	554	451
Costs of sale and banking products	1,185	966
Staff costs	302	256
Property maintenance charges	1,109	1,296
IT support	895	833
Office equipment and other consumption	87	107
Telecommunications, post and other services	294	271
External advisory services	541	575
Other expenses	(15)	100
Total general administrative expenses	**5,320**	**5,480**

"Other expenses" for the year ended 31 December 2004 included debt recovery fees of CZK 3 million which the Group has reallocated to *"Provisions for loan losses"*.
"Insurance of deposits and transactions" includes an estimated balance of payments to the Deposit Insurance Fund of CZK 298 million (2004: CZK 587 million). The year-on-year decrease in the amount of the costs is attributable to the decrease of the percentage of the insured deposits from 0.2 percent to 0.1 percent.

"Other expenses" are predominantly composed of the release of life insurance technical provisions.
During the year ended 31 December 2005, the Group invested CZK 121 million (2004: CZK 144 million) in research and development through a charge to operating expenses.

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2005	2004
Depreciation of tangible and intangible fixed assets	1,728	1,866
Provisions for assets and net gain on the sale of assets	73	(42)
Total depreciation, impairment and disposal of fixed assets	**1,801**	**1,824**

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

During the year ended 31 December 2005, the Group excluded Investiční kapitálová společnost KB, a.s. from the consolidated results because the company was sold, and ASIS, a.s. v likvidaci because its liquidation was completed. Komerční pojišťovna, a.s. was excluded from full consolidation as a result of the sale of 51 percent of its issued share capital and has been accounted for using the equity method of accounting since October 2005. The aggregate impact arising from exclusion of these entities from consolidation amounted to CZK 95 million (2004: CZK 610 million).
Income from share of associated undertakings totals CZK 106 million (2004: CZK 13 million).

13. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2005	2004
Balance at 1 January	(6,873)	(10,782)
Balance of provisions of a subsidiary upon its inclusion in consolidation	0	(148)
Net provisioning for loan losses	(797)	1,543
Re-allocation to other provisions	0	1,684
Impact of loans written off and transferred	116	498
Exchange rate differences attributable to provisions	(211)	332
Balance at 31 December	**(7,765)**	**(6,873)**

The balance of provisions as of 31 December 2005 and 2004 comprises:

CZK million	2005	2004
Specific provisions for loans to customers (refer to Note 20)	(6,584)	(5,627)
Provisions for other loans to customers (refer to Note 20)	(36)	(36)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(1,145)	(1,210)
Total	**(7,765)**	**(6,873)**

Provisions for securities

The balance of provisions for securities comprises:

CZK million	2005	2004
Balance at 1 January	(1,493)	(1,867)
Net provisioning against securities	(196)	(85)
Impact of the sale of securities	882	284
Exchange rate differences attributable to provisions	(33)	175
Balance at 31 December	**(840)**	**(1,493)**

This provision relates to the portfolio of securities available for sale. Further information is given 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:

CZK million	2005	2004
Creation of provisions	0	(35)
Release of provisions	0	20
Total provision for investments in subsidiaries and associates	**0**	**(15)**

CZK million	2005	2004
Balance at 1 January	(35)	(21)
Creation of provisions	0	(35)
Release and use of provisions	0	21
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 1,155 million (2004: CZK 176 million) and the release of provisions of CZK 1,704 million (2004: CZK 86 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of the legal disputes of CZK 26 million (2004: CZK 21 million). Additional information about the provisions for other risk expenses is provided in Note 33.

14. Income taxes

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

CZK million	2005	2004
Tax payable – current year, reported in profit or loss	(3,125)	(3,835)
Tax paid – prior year	(13)	10
Deferred tax	484	(95)
Total income taxes	**(2,654)**	**(3,920)**
Tax payable – current year, reported in equity	13	(17)
Total tax expense	**(2,641)**	**(3,937)**

"Deferred tax" for the prior period was increased by CZK 4 million in respect of the deferred tax movement arising from the retranslation of accrued fees for provided loans, guarantees and payment cards and inclusion of PF KB in consolidation by CZK 2 million.

The inclusion of Penzijní fond Komerční banky a.s. in the consolidated financial statements resulted in an increase of CZK 3 million in "*Tax payable — current year, reported in profit or loss*" for 2004.

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

CZK million	2005	2004
Pre-tax profit (current tax rate)	11,562	12,858
Pre-tax profit (special tax rate)	3	0
Pre-tax profit	**11,565**	**12,858**
Theoretical tax liability calculated at a tax rate of 26% (28%)	3,006	3,600
Non-taxable income	(514)	(557)
Expenses not deductible for tax purposes	795	900
Use of tax losses carried forward	(35)	(16)
Tax allowance	(3)	(3)
Movement in deferred tax	(484)	95
Unconsolidated tax losses	35	1
Other	0	(8)
Tax payable on securities available for sale	0	(17)
Impact of various tax rates of subsidiary undertakings	(132)	(61)
Tax effect of share of profits of associated undertakings	(27)	(4)
Income tax expense	**2,641**	**3,930**
Prior period tax expense	13	(10)
Total income taxes	**2,654**	**3,920**
Tax payable on securities available for sale reported in equity *	**(13)**	**17**
Total income tax	**2,641**	**3,937**
Effective tax rate	22.95%	30.49%

* 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 non-tax deductible reserves and operating expenses.
The corporate tax rate for the year ended 31 December 2005 is 26 percent (2004: 28 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.
Further information about deferred tax is presented in Note 34.

15. Distribution of profits/Allocation of losses

The Group generated a net profit of CZK 8,911 million for the year ended 31 December 2005. Distribution of profits and settlement of losses for the year ended 31 December 2005 will be approved by the general meetings of the Group companies.

16. Earnings per share

Earnings per share of CZK 234.44 (2004: CZK 235.15 per share) have been calculated by dividing the net profit of CZK 8,911 million (2004: a profit of CZK 8,938 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average value of treasury shares held by the Bank during the period.

17. Cash and current balances with central banks

Cash and current balances with banks comprise:

CZK million	2005	2004
Cash and cash equivalents	5,840	5,830
Balances with central banks	3,488	4,305
Total cash and current balances with central banks	**9,328**	**10,135**

The balance as of 31 December 2004 was restated by CZK 124 million in connection with the revised reporting of current accounts with banks for the current period in *"Amounts due from banks"*.
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 percent and 2.5 percent as of 31 December 2005 and 2004, respectively. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.5 percent and 1.5 percent as of 31 December 2005 and 2004, respectively.

18. Amounts due from banks

Balances due from banks comprise:

CZK million	2005	2004
Deposits with banks (current accounts)	885	135
Loans and advances to banks	9,171	5,473
Debt securities of banks acquired under initial offerings not designated for trading	16,619	15,095
Advances due from central banks (reverse repo transactions)	168,702	174,939
Term placements with other banks	51,409	38,094
Total	**246,786**	**233,736**
Provisions	(1)	0
Total amounts due from banks	**246,785**	**233,736**

The comparative figure for the year ended 31 December 2004 of "*Deposits with banks (current accounts)"* was restated by the re-allocation of CZK 124 million of deposits from *"Cash and balances with central banks"*.
The inclusion of Penzijní fond Komerční banky a.s. in the consolidated financial statements resulted in an increase of CZK 11 million in "Deposits with banks (current accounts)" and an increase of CZK 165 million in *"Term placements with other banks"* in 2004.

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:

CZK million	2005	2004
Treasury bills	165,518	172,142
Debt securities issued by state institutions	10,252	5,037
Debt securities issued by other institutions	110	0
Shares	346	0
Total	**176,226**	**177,189**

Securities acquired under initial offerings not designated for trading

The Group maintains in its portfolio two bonds issued by the parent company, Société Générale, in the aggregate nominal value of CZK 15,000 million (2004: CZK 15,000 million) which it acquired under an initial offering and normal market conditions in 2002 and 2003. Both bonds are denominated in CZK and bear fixed interest. The first issue will mature in 2012, carries interest at 4.27 percent and has a nominal value of CZK 10,000 million (2004: CZK 10,000 million). The second issue will mature in 2013, carries interest at 3.98 percent and has a nominal value of CZK 5,000 million (2004: CZK 5,000 million).
During 2005, the Group acquired and included in this portfolio additional securities issued by financial institutions with an aggregate nominal value of CZK 1,410 million.

19. Financial assets at fair value through profit or loss

As of 31 December 2004 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:

CZK million	Fair value 2005	Cost 2005	Fair value 2004	Cost 2004
Shares and participation certificates	68	67	50	50
Fixed income debt securities	6,195	6,174	6,116	6,029
Variable yield debt securities	85	85	472	471
Bills of exchange	150	150	149	149
Treasury bills	1,095	1,096	2,886	2,886
Total debt securities	**7,525**	**7,505**	**9,623**	**9,535**
Total trading securities	**7,593**	**7,572**	**9,673**	**9,585**

The Group's portfolio of trading securities includes treasury bills of CZK 1,095 million issued by the Czech Finance Ministry (2004: CZK 2,651 million). In 2004, it also included Slovak Government treasury bills of CZK 235 million.
As of 31 December 2005, the portfolio of trading securities includes securities at a fair value of CZK 6,348 million (2004: CZK 6,607 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,245 million (2004: CZK 3,066 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:

CZK million	2005	2004
Shares and participation certificates		
– Czech crowns	68	50
Total trading shares and participation certificates	**68**	**50**

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

CZK million	2005	2004
Trading shares and participation certificates issued by:		
– Foreign financial institutions	0	7
– Other entities in the Czech Republic	60	43
– Other foreign entities	8	0
Total trading shares and participation certificates	**68**	**50**

Debt trading securities at fair value comprise:

CZK million	2005	2004
Variable yield debt securities		
– Czech crowns	85	472
Total variable yield debt securities	**85**	**472**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	5,953	5,959
– Other currencies	1,487	3,192
Total fixed income debt securities	**7,440**	**9,151**
Total trading debt securities	**7,525**	**9,623**

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

CZK million	2005	2004
Debt trading securities issued by:		
– State institutions in the Czech Republic	5,226	5,061
– Foreign state institutions	1,487	3,149
– Financial institutions in the Czech Republic	24	0
– Foreign financial institutions	548	353
– Other entities in the Czech Republic	208	690
– Other foreign entities	32	370
Total trading debt securities	**7,525**	**9,623**

Of the debt securities issued by state institutions in the Czech Republic, CZK 4,476 million (2004: CZK 5,012 million) represents securities eligible for refinancing with the Czech National Bank.

20. Loans and advances to customers

Loans and advances to customers comprise:

CZK million	2005	2004
Loans to customers	194,270	162,212
Bills of exchange	614	759
Forfaits	771	668
Other amounts due from customers	177	109
Total gross loans and advances to customers	**195,832**	**163,748**
Provisions for loans to customers	(6,584)	(5,627)
Provisions for other amounts due from customers	(36)	(36)
Total loans and advances to customers, net	**189,212**	**158,085**

The comparative balance in "*Loans to customers*" was restated in connection with the inception of accrual accounting for loan origination fees of CZK 49 million (decrease) and increased to reflect amounts due from the Czech Consolidation Agency of CZK 2,945 million which were presented separately in 2004. In 2004, loans and advances to customers included "*Debt securities acquired under initial offerings not designated for trading*" comprised of listed state securities of CZK 1,335 million, which were reallocated to the "*Held-to-maturity investments*" portfolio in accordance with the revised requirements of IAS 39. These changes are also reflected in the detailed tables presented below.

Loans and advances to customers include interest due of CZK 732 million (2004: CZK 795 million), of which CZK 411 million (2004: CZK 240 million) relates to overdue interest.

Loans provided to customers under reverse repurchase agreements as of 31 December 2005 amounting to CZK 267 million are collateralised by securities with fair values of CZK 330 million. The Group did not provide any such loans to customers as of 31 December 2004.

The loan portfolio of the Group as of 31 December 2005 (net of debt securities acquired under initial offerings and other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	169,007	64,893	104,114	0	169,007	0
Watch	17,092	7,875	9,217	(516)	16,576	6
Substandard	3,147	1,343	1,804	(792)	2,355	44
Doubtful	1,199	408	791	(541)	658	68
Loss	5,210	316	4,894	(4,735)	475	97
Total	**195,655**	**74,835**	**120,820**	**(6,584)**	**189,071**	

Loans classified as loss include amounts of CZK 3,730 million (2004: CZK 3,087 million), on which interest is not being accrued because their net carrying amount is zero.

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

CZK million	2005	2004
Agriculture	7,687	7,096
Processing industry	36,568	33,138
Distribution and production of energy	6,804	5,877
Construction	6,954	6,071
Trade, catering, transport and communication	42,133	34,180
Insurance, banking	11,989	10,868
Other	83,520	66,409
Total loans to clients	**195,655**	**163,639**

Set out below is an analysis by category of customers:

CZK million	2005	2004
Retail customers	57,893	42,459
Corporate customers	126,650	110,136
Public sector	11,112	11,044
Total	**195,655**	**163,639**

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:

CZK million	Total client loan collateral 2005	Discounted client loan collateral value 2005	Applied client loan collateral value 2005	Total client loan collateral 2004	Discounted client loan collateral value 2004	Applied client loan collateral value 2004
Guarantees of state and governmental institutions	6,654	6,199	5,828	12,848	12,356	8,973
Bank guarantee	8,832	7,478	6,919	7,770	6,105	5,114
Guaranteed deposits	813	813	608	830	822	628
Issued debentures in pledge	364	266	0	211	2	2
Pledge of real estate	116,510	69,106	45,318	105,022	60,730	37,941
Pledge of movable assets	7,646	1,153	1,064	8,607	1,255	1,136
Guarantee by legal entity	7,180	4,181	3,501	11,813	2,452	1,568
Guarantee by individual (physical entity)	3,138	601	516	4,241	770	641
Pledge of receivables	33,462	13,279	10,083	28,575	11,317	8,808
Insurance of credit risk	865	813	812	2,088	2,068	2,021
Other	412	198	186	2,033	934	917
Total nominal value of collateral	**185,876**	**104,087**	**74,835**	**184,038**	**98,811**	**67,749**

Pledges on industrial real-estate represent 20 percent of total pledges on real estate (2004: 26 percent).

Loans and advances to customers – leasing

CZK million	2005	2004
Due less than 1 year	11	96
Due from 1 to 5 years	242	380
Due over 5 years	30	37
Total	**283**	**513**

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 40 months (2004: 39 months), new passenger and utility vehicles with an average lease instalment period of 51 months (2004: 0 months), technology with an average lease instalment period of 32 months (2004: 36 months) and consumer goods with an average lease instalment period of 10 months (2004: 11 months). As of 31 December 2005, future interest (the difference between the gross and net leasing investment) on lease contract amounts to CZK 59 million (2004: CZK 118 million) and the provisions recognised against uncollectible lease receivables amount to CZK 158 million (2004: CZK 150 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 2005, on balance sheet loans to this client included an amount of CZK 1,664 million (2004: CZK 1,516 million) that was fully provided for. The year-on-year increase in the balance arises from a foreign exchange rate difference. The Group did not report any off balance sheet receivables or liabilities from this client in 2005 and 2004.
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:

CZK million	Fair value 2005	Cost 2005	Fair value 2004	Cost 2004
Shares and participation certificates	**420**	**326**	**794**	**565**
Fixed income debt securities	25,900	25,793	23,747	23,886
Variable yield debt securities	3,888	4,203	7,533	8,346
Total debt securities	**29,788**	**29,996**	**31,280**	**32,232**
Total securities available for sale	**30,208**	**30,322**	**32,074**	**32,797**

The inclusion of Penzijní fond Komerční banky a.s. in the consolidated financial statements resulted in an increase in *"Shares and participation certificates"* of CZK 643 million, *"Fixed income debt securities"* of CZK 9,774 million and *"Variable yield debt securities"* of CZK 2,027 million.

As of 31 December 2005, the available-for-sale portfolio includes securities at a fair value of CZK 27,607 million (2004: CZK 24,459 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 2,601 million (2004: CZK 7,615 million) that are not publicly traded.

Shares and participation certificates at fair value comprise:

CZK million	2005	2004
Shares and participation certificates		
– Czech Crowns	418	792
– Other currencies	2	2
Total shares and participation certificates	**420**	**794**

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

CZK million	2005	2004
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	60	60
– Foreign banks	60	196
– Non-banking entities in the Czech Republic	261	536
– Non-banking foreign entities	39	2
Total shares and participation certificates available for sale	**420**	**794**

Debt securities available for sale at fair value comprise:

CZK million	2005	2004
Variable yield debt securities		
– Czech Crowns	2,497	2,946
– Other currencies	1,391	4,587
Total variable yield debt securities	**3,888**	**7,533**
Fixed income debt securities		
– Czech Crowns	21,125	21,584
– Other currencies	4,775	2,163
Total fixed income debt securities	**25,900**	**23,747**
Total debt securities available for sale	**29,788**	**31,280**

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

CZK million	2005	2004
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	16,276	16,845
– Foreign state institutions	4,493	24
– Financial institutions in the Czech Republic	3,998	1,145
– Foreign financial institutions	102	1,983
– Other entities in the Czech Republic	1,462	2,632
– Other foreign entities	3,457	8,651
Total debt securities available for sale	**29,788**	**31,280**

Of the debt securities issued by state institutions in the Czech Republic, CZK 15,468 million (2004: CZK 16,015 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 fair value of these securities as of 31 December 2005, net of provision for impairment, is CZK 2,508 million (2004: CZK 5,895 million).

In accordance with its strategy to reduce its exposure to the ABS, the Group sold a portion of these securities with an aggregate nominal value of USD 142 million (CZK 3,489 million) and an aggregate loss of USD 14 million (CZK 353 million). The Group also obtained redemption of a portion of the nominal values of these securities of USD 48 million (CZK 1,135 million). The result of these transactions is that the ABS portfolio held by the Group as of 31 December 2005 consists of the ABS carrying A- or higher ratings at a carrying amount of USD 96 million (CZK 2,390 million) and non-rated ABS at a carrying amount of USD 5 million (CZK 118 million).

The Group established provisions for impairment of CZK 803 million as of 31 December 2005 (2004: CZK 1,441 million) against the ABS and recognised a positive revaluation of CZK 23 million (2003: CZK 49 million) arising from the change of the market parameters in equity. Management of the Group considers that this impairment charge represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions of the underlying assets since the purchase of the portfolio.

Other debt securities

During the year ended 31 December 2005, the Group acquired Government bonds with a nominal value of CZK 1,200 million, EUR 52 million and USD 39 million. The aggregate CZK equivalent is CZK 3,671 million. In 2005, the Group also acquired securities issued by financial institutions with an aggregate nominal value of CZK 3,262 million. During the year ended 31 December 2005, debt securities (with the exception of the ABS) with an aggregate nominal value of CZK 1,910 million were redeemed at maturity.

22. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2005	Cost 2005	Carrying value 2004	Cost 2004
Fixed income debt securities	3,438	3,438	2,335	2,335
Total investments held to maturity	**3,438**	**3,438**	**2,335**	**2,335**

The balance as of 31 December 2004 was increased to reflect listed state debt securities acquired under initial offerings of CZK 1,335 million which were presented in "*Loans and advances to customers*" in the previous period.
As of 31 December 2005, investments held to maturity include bonds of CZK 3,438 million (2004: CZK 2,335 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

CZK million	2005	2004
Fixed income debt securities		
– Czech Crowns	1,346	1,335
– Other currencies	2,092	1,000
Total fixed income debt securities	**3,438**	**2,335**
Total debt securities held to maturity	**3,438**	**2,335**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2005	2004
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	1,346	1,335
– Foreign state institutions	2,092	1,000
Total debt securities held to maturity	**3,438**	**2,335**

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,346 million (2004: CZK 1,335 million) represents securities eligible for refinancing with the Czech National Bank.
During the year ended 31 December 2005, the Group acquired Government bonds with an aggregate nominal value of EUR 29 million and USD 10 million which represents a CZK equivalent of CZK 1,087 million.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2005	2004
Prepayments and accrued income	875	912
Settlement balances	538	228
Receivables from securities trading	155	147
Other assets	1,834	1,384
Total prepayments, accrued income and other assets	**3,402**	**2,671**

'Other assets" reflect a provision of CZK 152 million (2004: CZK 156 million) charged for the decrease in the carrying amount of prepaid building rentals. They also include an estimated asset in respect of the sale of a building amounting to CZK 707 million. The inclusion of PF KB in the consolidated financial statements resulted in an increase of "*Prepayments and accrued income'* of CZK 134 million and "*Other assets'* of CZK 182 million.

24. Assets held for sale

As of 31 December 2005, the Group reports assets held for sale at a carrying amount of CZK 826 million (2004: CZK nil) 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. The sale of the assets is expected to take place within one year from the classification as held for sale. The depreciation of assets has been discontinued since their classification as held for sale. The aggregate impairment loss on the assets held for sale for the year ended 31 December 2005 amounts to CZK 429 million and is reported within the profit and loss statement line *"Depreciation, impairment and disposal of fixed assets"*.

25. Investment property

The movements in investment property during the year ended 31 December 2005 are as follows:

CZK million	
Cost	
31 December 2004	293
Additions	0
Disposals/Transfers	0
31 December 2005	**293**
Accumulated depreciation and provisions	
31 December 2004	43
Additions	11
Disposals	0
Impairment charge	0
31 December 2005	**54**
Net book value	
31 December 2004	250
31 December 2005	**239**
Fair value at 31 December 2004	230
Fair value at 31 December 2005	**175**

Net rental proceeds arising from investment property for the year ended 31 December 2005 amounted to CZK 12 million (2004: CZK 14 million), of which revenues of CZK 13 million (2004: CZK 17 million) and direct charges (including repair and maintenance) of CZK 1 million (2004: CZK 3 million).

26. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2005 are as follows:

CZK million	Goodwill	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost						
31 December 2004	197	2,662	1,206	506	609	5,180
Additions	0	756	191	50	846	1,843
Disposals/Transfers	1	13	52	5	972	1,043
31 December 2005	**196**	**3,405**	**1,345**	**551**	**483**	**5,980**
Accumulated amortisation and provisions						
31 December 2004	35	1,616	843	406	0	2,900
Additions	0	574	202	43	0	819
Disposals	0	7	37	6	0	51
Impairment charge	1	0	(6)	0	1	(5)
31 December 2005	**34**	**2,183**	**1,002**	**443**	**1**	**3,663**
Net book value						
31 December 2004	162	1,046	363	100	609	2,280
31 December 2005	**162**	**1,222**	**343**	**108**	**482**	**2,317**

27. Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2005 are as follows:

CZK million	Land	Buildings	Fixtures, Fittings and equipment	Assets under construction	Total
Cost					
31 December 2004	367	12,548	7,841	375	21,131
Reallocation to assets held for sale	184	2,796	2	0	2,982
Additions	0	122	435	521	1,078
Disposals/Transfers	24	276	1,354	544	2,198
31 December 2005	**159**	**9,598**	**6,920**	**352**	**17,029**
Accumulated depreciation and provisions					
31 December 2004	0	4,859	6,495	5	11,359
Reallocation of accumulated depreciation to assets held for sale	0	968	1	0	969
Additions	0	335	562	0	897
Disposals	0	63	1,280	0	1,343
Impairment release	0	(44)	(21)	(2)	(67)
Reallocation of provisions to assets held for sale	0	475	0	0	475
31 December 2005	**0**	**3,644**	**5,755**	**3**	**9,402**
Net book value					
31 December 2004	367	7,689	1,346	370	9,772
31 December 2005	**159**	**5,954**	**1,165**	**349**	**7,627**

As of 31 December 2005, the net book value of assets held by the Group under finance lease agreements was CZK 27 million (2004: CZK 98 million).

During 2005, the Group undertook a review of a set of owned buildings and land which served as a basis for re-allocating tangible assets at a cost of CZK 2,982 million and the related accumulated depreciation of CZK 969 million and provisions of CZK 475 million to *"Assets held for sale"*. The difference between the balance of assets held for sale as of 31 December 2005 (CZK 826 million) and the balance of assets reallocated to the "Assets held for sale" category (CZK 1,538 million) represents sales of these assets made during 2005.

As of 31 December 2005, the Group recognised provisions against tangible assets of CZK 70 million (2004: CZK 580 million). In 2005, these provisions were primarily charged in respect of leasehold improvements.

28. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

CZK million	2005	2004
Investments in subsidiary undertakings	13	62
Investments in associated undertakings	1,010	536
Total investments in subsidiaries and associates	**1,023**	**598**

CZK million Subsidiaries	Group's ownership interest (%)	Cost of investment 2005	Net book value 2005	Cost of Investment 2004	Net book value 2004
ALL IN REAL ESTATE LEASING a.s.	100.00	39	4	39	4
Komercni finance, B.V.	100.00	1	7	x	x
Bastion European Investment, S.A.	99.8	2	2	x	x
ALL IN, a.s. in liquidation	–	x	x	45	45
ASSIS, a.s. in liquidation	–	x	x	1	13
Total subsidiaries		**42**	**13**	**85**	**62**

Note: The investment in Komercni Finance, B.V. is consolidated at the residual value of its equity as of 31 December 2005 in view of the decision to place the entity into liquidation.

CZK million Associates	Group's ownership interest (%)	Net book value 2005	Share of net assets 2005	Net book value 2004	Share of net assets 2004
Komerční pojišťovna, a. s.*	49.00	379	368	x	x
Modrá pyramida stavební spořitelna, a. s.	40.00	220	642	220	536
CBCB – Czech Banking Credit Bureau, a.s. **	20.00	0	0	0	0
Total associates		**599**	**1,010**	**220**	**536**
Investments in associates and unconsolidated subsidiaries		**640**	**1,023**	**305**	**598**

Note: * As of 31 December 2004, Komerční pojišťovna, a.s. was a subsidiary.
** The cost and net book value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

CZK million Associates	Assets 2005	Revenues 2005	Profit/(loss) 2005	Assets 2004	Revenues 2004	Profit/(loss) 2004
Komerční pojišťovna, a.s.*	9,850	(195)	24	x	x	x
Modrá pyramida stavební spořitelna, a.s.	57,649	971	271	51,492	868	32
CBCB – Czech Banking Credit Bureau, a.s.	14	63	3	10	35	1

Note: * As of 31 December 2004, Komerční pojišťovna, a.s. was a subsidiary.

Additional information about the Bank's equity investments is presented in Note 1.

29. Amounts due to banks

Amounts due to banks comprise:

CZK million	2005	2004
Current accounts	2,106	1,466
Other amounts due to banks	30,718	19,081
Total amounts due to banks	**32,824**	**20,547**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 15,186 million (2004: CZK 2,474 million).

30. Amounts due to customers

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

CZK million	2005	2004
Current accounts	238,685	213,041
Savings accounts	10,367	12,255
Term deposits	86,372	89,374
Loans from customers	34,509	43,644
Other payables to customers	18,498	15,057
Total amounts due to customers	**388,431**	**373,371**

The fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 4,693 million (2004: CZK 4,823 million).

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

CZK million	2005	2004
Private companies	132,404	117,370
Other financial institutions, non-banking entities	8,062	5,644
Insurance companies	6,856	7,473
Public administration	1,417	1,526
Individuals	132,752	132,871
Deposits – bills of exchange	29,773	38,716
Private entrepreneurs	20,472	19,836
Government agencies	45,947	40,791
Other	6,315	4,379
Non-residents	4,433	4,765
Total amounts due to customers	**388,431**	**373,371**

The comparative balance of "*Other payables to clients*" was restated to reflect the presentation treatment of the current period. Amounts arising from payment transactions of CZK 3,237 million were reallocated to "*Accruals and other liabilities*" and life insurance payables to clients of CZK 5,047 million were reallocated to "*Provisions*".

31. Securities issued

Securities issued comprise mortgage bonds of CZK 22,672 million (2004: CZK 9,255 million). Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

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

CZK million	2005	2004
In one to two years	1,175	0
In two to three years	4,939	1,213
In three to four years	5,426	2,524
Ten years and thereafter	11,132	5,518
Total debt securities	**22,672**	**9,255**

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

CZK million Name	Interest rate	Issue date	Maturity date	2005	2004
Mortgage bonds of Komerční banka, a.s., CZ0002000151	6M PRIBOR plus 350 basis points	15 September 2000	15 September 2007	1,175	1,213
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	21 August 2003	21 August 2009	5,426	5,518
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	5 August 2004	5 August 2008	4,939	2,524
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10 % value of 3M PRIBID	2 August 2005	3 August 2015	5,049	0
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	21 October 2005	21 October 2015	6,083	0
Total bonds				**22,672**	**9,255**

Note: Six-month PRIBOR was 233 basis points as of 31 December 2005 (2004: 266 basis points).
Three-month PRIBID was 207 basis points as of 31 December 2005.

32. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2005	2004
Settlement balances and outstanding items	98	63
Payables from securities trading and issues of securities	774	1,983
Payables from payment transactions	6,303	3,229
Other liabilities	2,993	2,709
Accruals and deferred income	144	208
Total accruals and other liabilities	**10,312**	**8,192**

"Payables from payment transactions" include payment transaction balances which were presented within "*Amounts due to customers"* in the previous period. The 2004 comparative balance was restated to reflect this change.
The balance of "*Accruals and deferred income*" as of 31 December 2004 was restated by CZK 125 million (increase) pursuant to the inception of accrual accounting for fees for payment cards and issued guarantees.

33. Provisions

Provisions comprise:

CZK million	2005	2004
Provisions for contracted commitments	2,343	9,883
Provisions for other credit commitments	1,145	1,210
Total provisions	**3,488**	**11,093**

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 existing contracted contingent commitments, legal disputes, termination of rental agreements and the provision for loyalty and jubilee bonuses.
The balance of provisions for contracted commitments in 2004 was restated to reflect the reallocation of technical insurance provisions – life insurance payables to clients of CZK 5,047 million. The provisions were additionally decreased by CZK 13 million through the release of provisions that are not appropriate under IFRS 4.

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

Risk	2005	2004
Provision for off balance sheet commitments	994	902
Provision for undrawn loan facilities	151	308
Total	**1,145**	**1,210**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2005	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2005
Restructuring provision	29	0	29	0	0	0
Jubilee bonuses	68	4	2	4	0	74
Loyalty bonuses	151	14	24	6	0	147
Other provisions for contracted commitments	9,635	3,293	10,809	0	3	2,122
Total	**9,883**	**3,311**	**10,864**	**10**	**3**	**2,343**

The disposals of the provisions for contracted commitments in 2005 include the disposal of technical provisions of CZK 8,190 million due to the sale of the controlling shareholding in Komerční pojišťovna, a.s.
As of 31 December 2005, the Group held a provision of CZK 277 million (2004: CZK 388 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*".

34. 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 (2005: 26 percent) in the Czech Republic, and 19 percent from 2006 onwards in Slovakia (2005: 19 percent).

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

CZK million	2005	2004
Deferred tax assets	**1,078**	**462**
Banking reserves and provisions	406	1
Provisions for non-banking receivables	54	51
Provisions for assets	217	137
Non-banking reserves	283	150
Loss brought forward from previous periods	33	0
Other temporary differences	85	116
Depreciation	0	7
Deferred tax liabilities	**(1,558)**	**(1,071)**
Depreciation	(121)	(9)
Leases	(49)	(36)
Revaluation of hedging derivatives – equity impact	(1,313)	(984)
Revaluation of a foreign currency equity investment – equity impact	(2)	0
Revaluation of available-for-sale securities – equity impact	(45)	(15)
Other temporary differences	(28)	(27)
Net deferred tax assets/(liabilities)	**(480)**	**(609)**

Deferred tax recognised in the financial statements:

CZK million	2005	2004
Deferred tax asset		
Balance at the beginning of period	462	524
Movement in deferred tax asset – profit and loss impact	617	(107)
Movement in deferred tax asset – equity impact	0	48
Consolidation adjustments – inclusion in/exclusion from consolidation	(1)	(3)
Balance at the end of period	**1,078**	**462**
Deferred tax liability		
Balance at the beginning of period	(1,071)	(679)
Movement in deferred tax liabilities – profit and loss impact	(134)	11
Movement in deferred tax liabilities – equity impact	(359)	(402)
Consolidation adjustments – inclusion in/exclusion from consolidation	6	(1)
Balance at the end of period	**(1,558)**	**(1,071)**
Increase/decrease in deferred tax – profit and loss impact	**483**	**(96)**
Increase/decrease in deferred tax – equity impact	**(359)**	**(354)**

The increase in the deferred tax asset was attributable to the recognition of provisions against debtors in bankruptcy which were recorded during 2005. The Group recognised the deferred tax asset after it obtained appropriate assurance that its receivable cannot be contested. The deferred tax asset will be realised when a bankruptcy ruling is issued.

In the year ended 31 December 2005, the Group recognised, through the profit and loss statement, an increase in the deferred tax asset of CZK 617 million and a decrease in the deferred tax liability of CZK 134 million. In addition, the Group recognised through equity, an increase in the deferred tax liability of CZK 356 million arising primarily from the change in fair values of hedging derivatives.
The comparative period was restated to reflect a change in deferred taxation arising from the accrual for fees for cards, loans and guarantees of CZK 45 million, of which CZK 4 million represents a decrease in the deferred tax asset with a profit and loss impact and CZK 49 million represent an increase in the deferred tax asset with an equity impact.

35. Share capital

The Bank’s share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand 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 2005:

Company name	Registered office	Ownership (%)
Société Générále S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	5.14
The Bank of New York ADR Department	101 Barclay Street, New York	4.39
Chase Nominees Limited	125 London Wall, London	3.11

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.
On the basis of the consent of the Czech National Bank, The Bank of New York ADR Department holds shares to which global depository receipts (GDRs) owned by a number of foreign investors were issued.
As of 31 December 2005, the Group held 2,000 treasury shares at a cost of CZK 7 million (2004: 1,033 treasury shares at a cost of CZK 3 million).

36. Composition of cash and cash equivalents as reported in the cash flow statement

CZK million	2005	2004	Change in the year
Cash and balances with central banks	9,328	10,135	(807)
Amounts due from banks	885	135	750
Amounts due to banks	(2,106)	(1,466)	(640)
Total	**8,107**	**8,804**	**(697)**

37. Sale/disposal of subsidiary companies

The net assets of companies disposed of:

CZK million	At the date of disposal in 2005	31 December 2004
Total assets	10,633	8,051
Total liabilities	(9,705)	(7,091)
Total net assets of companies disposed of	**928**	**960**
Transfer to equity accounting	(377)	
Decrease in the reserve from revaluation of available-for-sale securities in respect of sold companies	(34)	
Profit/(loss) on the exclusion from consolidation	**95**	
Total	**612**	
Total paid in cash	**612**	
Cash flow arising on disposal		
Payment for companies disposed of	604	
Cash of companies disposed of	(9)	
Net cash flow arising on disposal of companies	**595**	

Additional information is presented in Notes 1 and 12.

38. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2005. 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 1,345 million (2004: CZK 773 million) for these legal disputes (see Note 33). The Group has also recorded an accrual of CZK 387 million (2004: CZK 113 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2005, 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 2005, the Group had capital commitments of CZK 133 million (2004: CZK 79 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 and 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:

CZK million	2005	2004
Non-payment guarantees including commitments to issued non-payment guarantees	14,422	12,157
Payment guarantees including commitments to issued payment guarantees	3,507	4,338
Letters of credit uncovered	1,001	866
Stand by letters of credit uncovered	598	577
Commitments from guarantees	**19,528**	**17,938**
Received bills of exchange/acceptances and endorsements of bills of exchange	51	63
Total contingent liabilities	**19,579**	**18,001**
Committed facilities	11,418	15,302
Undrawn credit commitments	27,159	21,088
Confirmed letters of credit	17	63
Unutilised overdrafts and approved overdraft loans	39,099	34,825
Unutilised discount facilities	168	199
Unutilised limits under Framework agreements to provide financial services	38,859	21,867
Total other commitments and unutilised overdrafts	**116,720**	**93,344**
Letters of credit covered	100	300
Stand by letters of credit covered	0	7
Total contingent revocable and irrevocable commitments	**136,399**	**111,652**

The Group provides a variety of credit facilities to its largest clients. Of the Group's committed facilities and guarantees, CZK 18,846 million (2004: CZK 14,476 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 2005, the Group recorded provisions for these risks amounting to CZK 1,145 million (2004: CZK 1,210 million) - for further information see Note 33.

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

CZK million	2005	2004
Agriculture	2,222	1,684
Processing industry	33,216	28,355
Distribution and production of energy	7,838	10,696
Construction	19,525	14,263
Trade, catering, transport and communication	29,842	25,821
Insurance, banking	16,513	7,488
Other	27,243	23,345
Total	**136,399**	**111,652**

Set out below is an analysis by category of customers:

CZK million	2005	2004
Retail customers	16,788	12,519
Corporate customers	106,526	96,012
Public sector	13,085	3,121
Total	**136,399**	**111,652**

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

Finance lease commitments

Finance lease commitments of CZK 13 million were settled during the year ended 31 December 2005. The balance of finance lease commitments to be settled in 2006 is CZK 1 million.

39. 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 2005, 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 2005, the Group had loans outstanding of CZK 245 million (2004: CZK 574 million) to the associates. The amounts of associated undertakings placed with the Bank totalled CZK 362 million (2004: CZK 3 million).

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

CZK million Company name	2005	2004
Modrá pyramida stavební spořitelna, a.s.	245	574
Total loans	**245**	**574**
Komerční pojišťovna, a.s. *	350	x
Modrá pyramida stavební spořitelna, a.s.	12	3
Total deposits	**362**	**3**

Note: * As of 31 December 2004, Komerční pojišťovna, a.s. was a subsidiary.

As of 31 December 2005 and 2004, other amounts due to and from the companies of the Bank's Group were immaterial.
As of 31 December 2005, the Group recorded interest income from loans granted to associates of CZK 38 million (2004: CZK 7 million).
In the years ended 31 December 2005 and 2004, 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:

CZK million Company name	2005	2004
Société Générale Paris	18,545	16,886
SG Equipment Finance Czech Republic s.r.o.	2,591	2,611
ALD Automotive Czech Republic s.r.o.	475	483
Société Générale Tokyo	1	9
SGBT Luxemburg	15	187
SG New York	53	0
Fimat London	45	15
Total	**21,725**	**20,191**

Principal balances owed to the Société Générale Group entities include:

CZK million Company name	2005	2004
SG Equipment Finance Czech Republic s.r.o.	25	114
SGBT Luxemburg	40	1
Société Générale Warsaw	44	11
Société Générale Paris	2,225	1,456
SG Private Banking Switzerland	8	500
SG Zürich	2	15
SG London	79	34
SG New York	16	11
ALD Automotive Czech Republic s.r.o.	750	0
Inter Europe Conseil	0	450
Fimat London	90	0
Total	**3,279**	**2,592**

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 2005, 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 104,867 million (2004: CZK 88,872 million) and CZK 101,449 million (2004: CZK 90,924 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 2005 and 2004, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2005, the Bank realised total revenue of CZK 2,074 million (2004: CZK 1,845 million) and total expenses and a net loss from trading derivatives of CZK 1,055 million (2004: CZK 1,909 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.

The Bank sold its equity investments in Investiční kapitálová společnost KB, a.s. and Komerční pojišťovna, a.s. to SGAM and Sogecap, respectively (see Note 1). The acquiring companies are included in the Société Générale Group.

In the years ended 31 December 2005 and 2004, 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:

CZK million	2005	2004
Remuneration to the Management Board members *	58	51
Remuneration to the Supervisory Board members **	5	3
Remuneration to the Directors' Committee members ***	76	84
Total	**139**	**138**

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2005 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2005 but including bonuses for 2004, figures for expatriate members of the Management Board include remuneration net of bonuses for 2005 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.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2005 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 2005 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.

CZK million	2005	2004
Number of the Management Board members	5	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members	18 *	19 *

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

As of 31 December 2005, the Bank recorded an estimated payable of CZK 19 million (2004: CZK 28 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2005, the Bank recorded loan receivables totalling CZK 7 million granted to the Directors' Committee and Supervisory Board members. The loans were provided during 2005. Of the balance of CZK 8 million reported as of 31 December 2004, the Bank does not maintain any amounts due from the Directors' Committee members.

40. Movements in the hedging reserve 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.

CZK million	2005	2004
Cash flow hedge fair value at 1 January	3,798	1,924
Deferred tax liability at 1 January	(985)	(596)
Balance at 1 January	**2,813**	**1,328**

Movements during the year:

CZK million	2005	2004
Gains/losses from changes in fair value	4,013	3,918
Deferred income tax	(965)	(1,022)
	3,048	**2,896**
Transferred to interest income/expense	(2,342)	(2,044)
Deferred income tax	637	633
	(1,705)	**(1,411)**
Balance at 31 December	5,469	3,798
Deferred income tax	(1,313)	(985)
Balance at 31 December	**4,156**	**2,813**

41. Movements in the reserve from revaluation of available-for-sale securities

CZK million	2005	2004
Reserve from fair-value revaluation at 1 January	659	209
Deferred tax liability/income tax liability at 1 January	(106)	(75)
Balance at 1 January	**553**	**134**

Movements during the year:

CZK million	2005	2004
Gains/losses from changes in fair value	897	801
Shadow accounting – insurance company	(296)	(89)
Deferred tax liability/income tax liability	(49)	(52)
	552	**660**
Gains and losses from the sale and recognition and use of provisions against securities	(469)	(262)
Exclusion of companies from consolidation	(50)	0
Deferred tax liability/income tax liability	33	21
	(486)	**(241)**
Balance at 31 December	741	659
Deferred tax liability/income tax liability	(122)	(106)
Balance at 31 December	**619**	**553**

42. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Quantification of counterparty risk is derived from quantitative and qualitative criteria. The Group applies two basic tools in rating borrowers depending upon the type and profile of the borrower – behavioural scoring and application scoring (based on the financial statements of the client).

The rating principle applies not only to the Group's clients, but also to guarantors and sub-debtors, which enables the better assessment of the quality of accepted collateral.

In setting up a client rating, the Group uses both external tools (e.g. the Central Loan Register – information about legal entities; the Client Information Bank Register – information about individuals) and internal tools. The use of a combination of internal and external tools calls for continuous upgrading and centralisation of monitoring and credit risk assessment tools.

Switching from the internal rating scale to Société Générale (the "SG") rating scale, which began in 2004, represents an important step in matching the SG Group principles. The goal is to ensure that the principle "one borrower – one rating" is followed within the SG Group. The ratings are consequently reported to the SG ratings database. As such, all of the Group's ratings have gradually been adjusted to the SG scale, and the structure of the Group's portfolio from the rating perspective and other related areas (classification, provisioning) is continuously followed up on through monthly Credit Risk Reports.
The effort to adjust rating tools resulted in, for example, the implementation of behavioural rating for the granting and monitoring of credit cards and debits for small business clients. In previous years, behavioural rating was used for debits, credit cards and consumer loans for individuals. The Group also prepared granting and monitoring procedures based on behavioural rating for small loans. A wider use of behavioural rating results in a greater automation of credit approval and significantly simplified internal processes.

Credit risk concentration

The Group monitors credit risk concentration on an aggregate basis (i.e. in respect of 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 regard to groups of economically linked entities, the Group monitors the proportion of the groups' credit exposure to the Group's capital and the concentration of corporate credit exposures by the level of rating and maturity buckets. The Group also performs quarterly back-tests of scoring models.

Classification of receivables

The Group performs classification of receivables arising from its financial activities into five categories according to Regulation of the Czech National Bank No. 6/2004. The classification reflects both quantitative criteria (account history, payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).
Clients classified as substandard, doubtful or loss are considered as defaulted in line with the new Basel II regulation and are subject to collection activities.
The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and to investors.

Receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, 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 receivables that arise from business arrangements that do not represent financial activities, specifically amounts receivable from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Provisioning for receivables

All significant exposures are assessed individually at least on a quarterly basis by three levels of Provisioning Committees or by recovery specialists. Provisions are made after all available information, including the estimated value of collateral and expected duration of recovery process, is considered. Remaining exposures are provisioned based on a statistical cash flow model depending on 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 Asset Valuation and Recovery Department for real estate collateral, which represents the most frequent collateral type. The methods used in defining values and discounts take into account all relevant risks, expected cost of collateral realisation, length of realisation, bankruptcy rules, the historical experience of the Group, etc.
In 2005, the Group implemented a new centralised database of collateral, which improved the quality and structure of data.

Final settlement of receivables

Provisions on the settlement of receivables are incorporated principally in master agreements for trading on financial markets (derivative, repo or other financial transactions). The relevant provisions are based on the Capital Markets Act and enable the Group to close outstanding transactions in an event specified in the provisions and make relevant calculation to arrive at a single amount receivable equal to the value of the difference between mutual receivables of counterparties.

Recovery of amounts due from borrowers

The Group's recovery activities are based on the following three pillars:
– Pre-recovery activities;
– Advisory/consulting support of recovery specialists to business units; and
– Hard collection.

In order to increase the efficiency of the recovery process, some hard collection activities are outsourced to debt collection agencies. In view of the current retail portfolio growth, the Group made significant effort in 2005 to change the organisation of recovery to be able to face a significant recovery workload in the future.

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 2005, the revocable commitments account for 16 percent (2004: 16 percent) of all the Group's commitments.

Credit risk of financial derivatives

The daily calculation of counterparty risk arising from derivative instruments was revised during 2005. It is now based on two indicators: the Current Average Risk indicator (CAR), largely utilised in the past, and the new 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 and the nominal amount. 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 2005, the Group posted a credit exposure of CZK 24,551 million (2004: CZK 21,492 million) on financial derivative instruments. Note that this amount represents the gross replacement cost at market rates as of 31 December 2005 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 which 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 trading 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 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 management of the Group.
The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR (367,000) and EUR (265,000) as of 31 December 2005 and 2004, respectively. The average Global Value-at-Risks were EUR (316,000) and EUR (829,000) for the years ended 31 December 2005 and 2004, 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 analyses 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 to net interest income involves a stress-testing approach to 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 exposure 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 (refer also to Note 3 to these financial statements).

Financial derivative instruments designated as held for trading:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2005	2005	2004	2004	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	170,560	170,560	134,506	134,506	2,842	2,846	2,146	2,268
Interest rate forwards and futures ***	177,105	177,105	247,945	247,945	101	111	247	299
Interest rate options	120	120	400	400	0	0	2	0
Total interest rate instruments	**347,785**	**347,785**	**382,851**	**382,851**	**2,943**	**2,957**	**2,395**	**2,567**
Foreign currency instruments								
Currency swaps *	61,434	61,513	69,358	69,124	416	495	1,870	1,639
Cross currency swaps *	10,533	10,343	7,125	5,432	310	75	1,775	58
Currency forwards *	7,352	7,383	5,522	5,526	111	141	103	105
Purchased options **	6,886	6,620	6,942	6,955	268	0	208	0
Sold options **	6,217	6,483	6,438	6,427	0	268	0	208
Total currency instruments	**92,422**	**92,342**	**95,385**	**93,464**	**1,105**	**979**	**3,956**	**2,010**
Other instruments								
Forwards and futures on debt securities	808	808	158	158	0	0	0	0
Commodity forwards	131	131	116	116	24	24	7	7
Commodity swaps	4,487	4,487	15	15	236	230	1	0
Purchased commodity options	93	93	321	321	9	0	19	0
Sold commodity options	93	93	321	321	0	9	0	19
Total other instruments	**5,612**	**5,612**	**931**	**931**	**269**	**263**	**27**	**26**
Total	**445,819**	**445,739**	**479,167**	**477,246**	**4,317**	**4,199**	**6,378**	**4,603**

Note: * Currency swaps, cross currency swaps and currency forwards are presented at discounted values.
** Purchased and sold currency options are presented at delta equivalents.
*** Fair values include only forwards, with regard to futures the Bank 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:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	57,540	73,706	39,314	170,560
Interest rate forwards and futures	163,317	13,788	0	177,105
Interest rate options	0	120	0	120
Total interest rate instruments	**220,857**	**87,614**	**39,314**	**347,785**
Foreign currency instruments				
Currency swaps *	61,434	0	0	61,434
Cross currency swaps *	1,097	8,530	906	10,533
Currency forwards *	6,736	616	0	7,352
Purchased options **	5,925	961	0	6,886
Sold options **	5,316	901	0	6,217
Total currency instruments	**80,508**	**11,008**	**906**	**92,422**
Other instruments				
Forwards and futures on debt securities	808	0	0	808
Commodity forwards	131	0	0	131
Commodity swaps	2,413	2,074	0	4,487
Purchased commodity options	93	0	0	93
Sold commodity options	93	0	0	93
Total other instruments	**3,538**	**2,074**	**0**	**5,612**
Total	**304,903**	**100,692**	**40,220**	**445,819**

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.
* Currency swaps, cross currency swaps and currency forwards are presented at discounted values.
** Purchased and sold currency options are presented at delta equivalents.

Financial derivative instruments designated as hedging:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2005	2005	2004	2004	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	143, 936	143,936	104,621	104,621	6,652	118	4,961	97
Cross currency swaps for fair value hedging	1,721	1,450	0	0	270	0	0	0
Total	**145,657**	**145,386**	**104,621**	**104,621**	**6,922**	**118**	**4,961**	**97**

Remaining maturity of derivatives designated as hedging:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	23,629	54,037	66,270	143,936
Cross currency swaps for fair value hedging	1,721	0	0	1,721
Total	**25,350**	**54,037**	**66,270**	**145,657**

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 Note 3 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 interest rate 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 interest rate before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the "maturity undefined" category.

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Cash and current balances with central banks	2,284	0	0	0	7,044	9,328
Amounts due from banks	224,786	5,598	8,001	8,400	0	246,785
Financial assets at fair value through profit or loss	415	1,509	4,278	1,317	74	7,593
Positive fair value of financial derivative transactions	0	0	0	0	11,240	11,240
Loans and advances to customers, net	100,191	38,038	47,543	3,440	0	189,212
Securities available for sale	6,677	2,555	6,555	14,001	420	30,208
Investments held to maturity	66	0	2,221	1,151	0	3,438
Prepayments, accrued income and other assets	0	0	0	0	3,402	3,402
Income taxes receivable	0	0	0	0	618	618
Deferred tax asset	0	0	0	0	1,078	1,078
Assets held for sale	0	0	0	0	826	826
Investment property	0	0	0	0	239	239
Intangible fixed assets, net	0	0	0	0	2,317	2,317
Tangible fixed assets, net	0	0	0	0	7,627	7,627
Investments in associates and unconsolidated subsidiaries	0	0	0	0	1,023	1,023
Total assets	**334,419**	**47,700**	**68,598**	**28,309**	**35,908**	**514,934**
Liabilities						
Amounts due to banks	31,744	834	246	0	0	32,824
Amounts due to customers	117,870	2,603	690	58	267,210	388,431
Negative fair value of financial derivative transactions	0	0	0	0	4,317	4,317
Debt securities	6,230	0	10,361	6,081	0	22,672
Accruals and other liabilities	205	1	0	0	10,106	10,312
Provisions	0	0	0	0	3,488	3,488
Income taxes payable	0	0	0	0	5	5
Deferred tax liability	0	0	0	0	1,558	1,558
Total liabilities	**156,049**	**3,438**	**11,297**	**6,139**	**286,684**	**463,607**
On balance sheet interest rate sensitivity gap at 31 December 2005	**178,370**	**44,262**	**57,301**	**22,170**	**(250,776)**	**51,327**
Derivatives *	147,948	192,360	78,516	85,151	0	503,975
Total off balance sheet assets	**147,948**	**192,360**	**78,516**	**85,151**	**0**	**503,975**
Derivatives *	214,829	210,059	52,581	26,045	0	503,514
Undrawn portion of loans **	3,417	165	(2,667)	(915)	0	0
Undrawn portion of revolving loans **	296	(296)	0	0	0	0
Total off balance sheet liabilities	**218,542**	**209,928**	**49,914**	**25,130**	**0**	**503,514**
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**
Total assets at 31 December 2004	307,549	45,720	60,740	23,514	35,888	473,411
Total liabilities at 31 December 2004	146,794	5,428	13,164	2,132	261,079	428,597
Net on balance sheet interest rate sensitivity gap at 31 December 2004	160,755	40,292	47,576	21,382	(225,191)	44,814
Net off balance sheet interest rate sensitivity gap at 31 December 2004	(91,476)	2,919	34,733	53,643	0	(181)
Cumulative interest rate sensitivity gap at 31 December 2004	**69,279**	**112,490**	**194,799**	**269,824**	**44,633**	**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 2004 and 2005:

%	2005			2004		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and balances with the CNB	0.59	x	x	0.80	x	x
Treasury bills and other bills eligible for refinancing	2.51	x	x	2.63	x	x
Amounts due from banks	2.18	4.38	2.28	2.66	2.44	2.21
Loans and advances to customers	4.51	4.81	3.16	5.76	3.04	3.43
Interest earning securities	3.62	5.12	3.34	4.48	3.63	3.45
Total assets	**2.12**	**7.69**	**2.90**	**3.20**	**3.69**	**2.69**
Total interest earning assets	**3.24**	**4.55**	**2.75**	**3.89**	**3.03**	**2.65**
Liabilities						
Amounts due to banks	1.41	4.29	3.14	1.70	2.30	2.54
Amounts due to customers	0.60	1.61	0.71	0.95	0.68	0.78
Debt securities	2.82	x	x	3.44	x	x
Total liabilities	**0.53**	**1.91**	**0.72**	**0.89**	**1.13**	**0.81**
Total interest bearing liabilities	**0.78**	**2.14**	**0.75**	**1.05**	**1.19**	**0.83**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	3.07	4.34	3.40	3.75	3.05	3.49
Undrawn portion of loans	3.55	x	2.69	4.68	x	3.21
Undrawn portion of revolving loans	**2.87**	**4.31**	**2.00**	**6.10**	**4.59**	**3.14**
Total off balance sheet assets	**3.07**	**4.33**	**3.38**	**3.78**	**3.08**	**3.48**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.74	4.33	2.90	3.33	3.41	2.98
Undrawn portion of loans	3.55	x	2.69	4.68	x	3.21
Undrawn portion of revolving loans	2.87	4.31	2.00	6.10	4.59	3.14
Total off balance sheet liabilities	**2.75**	**4.33**	**2.89**	**3.36**	**3.43**	**2.98**

Note: The above table sets out the average interest rates for December 2004 and 2005 calculated as a weighted average for each asset and liability category.

Short and long crown market rates fell year-on-year, which also led to the decrease of rates of individual crown products. Also, there was a moderate decrease in euro market rates while dollar market rates rose by approximately 200 b.p.

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

CZK million	Fixed interest rate 2005	Floating interest rate 2005	No interest 2005	Total 2005	Fixed interest rate 2004	Floating interest rate 2004	No interest 2004	Total 2004
Assets								
Cash and current balances with banks	0	2,282	7,046	9,328	0	2,764	7,371	10,135
Amounts due from banks	16,684	228,612	1,489	246,785	15,083	218,570	83	233,736
Financial assets at fair value through profit or loss	7,280	85	228	7,593	9,002	470	201	9,673
Positive fair values of financial derivative transactions	0	0	11,240	11,240	0	0	11,339	11,339
Loans and advances to customers, net	74,914	112,159	2,139	189,212	63,673	93,245	1,167	158,085
Securities available for sale	25,059	4,457	692	30,208	23,513	7,737	824	32,074
Investments held to maturity	3,372	0	66	3,438	2,292	0	43	2,335
Liabilities								
Amounts due to banks	0	32,277	547	32,824	0	20,179	368	20,547
Amounts due to customers	1,419	365,393	21,619	388,431	1,632	355,927	15,812	373,371
Negative fair values of financial derivative transactions	0	0	4,317	4,317	0	0	4,700	4,700
Debt securities	16,215	6,199	258	22,672	7,916	1,192	147	9,255

Note: Individual balance sheet products are categorised as "Fixed interest rate', "Floating interest rate" and "No interest" according to contractual parameters defining the construction of the interest rate. If a product does not have a parametrical definition of the construction of its interest rate, it is categorised as "No interest".

(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 bank 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 buckets (the remaining maturity is the remaining period from the balance sheet date to the contractual maturity date).

CZK million	On demand within 7 days	Up to 3 monts	3 months ot 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	6,891	0	0	0	0	2,437	9,328
Amounts due from banks	102,024	122,319	4,925	6,011	10,759	747	246,785
Financial assets at fair value through profit or loss	4	337	1,559	4,310	1,315	68	7,593
Positive fair value of financial derivative transactions	0	0	0	0	0	11,240	11,240
Loans and advances to customers, net	4,732	22,025	45,241	52,482	44,847	19,885	189,212
Securities available for sale	15	3,057	2,101	7,044	17,571	420	30,208
Investments held to maturity	0	55	11	2,221	1,151	0	3,438
Prepayments, accrued income and other assets	832	210	0	3	0	2,357	3,402
Income taxes receivable	0	0	618	0	0	0	618
Deferred tax asset	0	0	226	0	0	852	1,078
Assets held for sale	0	0	826	0	0	0	826
Investment property	0	0	0	0	0	239	239
Intangible fixed assets, net	0	0	0	0	0	2,317	2,317
Tangible fixed assets, net	0	0	0	0	0	7,627	7,627
Investments in associates and unconsolidated subsidiaries	0	0	0	0	0	1,023	1,023
Total assets	**114,498**	**148,003**	**55,507**	**72,071**	**75,643**	**49,212**	**514,934**
Liabilities							
Amounts due to banks	30,537	1,479	579	229	0	0	32,824
Amounts due to customers	324,363	39,078	4,157	4,390	644	15,799	388,431
Negative fair value of financial derivative transactions	0	0	0	0	0	4,317	4,317
Debt securities	0	33	233	11,337	11,069	0	22,672
Accruals and other liabilities	9,624	577	3	0	0	108	10,312
Provisions	0	0	0	0	0	3,488	3,488
Income taxes payable	0	5	0	0	0	0	5
Deferred tax liability	0	0	0	0	0	1,558	1,558
Shareholders' equity	0	0	0	0	0	51,327	51,327
Total liabilities and shareholders' equity	**364,524**	**41,172**	**4,972**	**15,956**	**11,713**	**76,597**	**514,934**
On balance sheet liquidity gap at 31 December 2005	**(250,026)**	**106,831**	**50,535**	**56,115**	**63,930**	**(27,385)**	**0**
Off balance sheet assets *	27,964	37,024	21,307	11, 184	906	0	98,385
Off balance sheet liabilities *	33,077	45,580	63,855	29,646	8,050	56,859	237,067
Net off balance sheet liquidity gap at 31 December 2005	**(5,113)**	**(8,556)**	**(42,548)**	**(18,462)**	**(7,144)**	**(56,859)**	**(138,682)**
Total assets at 31 December 2004	103,777	139,272	52,018	63,739	63,394	51,211	473,411
Total liabilities at 31 December 2004	324,532	49,952	8,007	20,421	2,831	67,668	473,411
Net on balance sheet liquidity gap at 31 December 2004	(220,755)	89,320	44,011	43,318	60,563	(16,457)	0
Net off balance sheet liquidity gap at 31 December 2004	2,385	8,911	43,856	14,329	5,732	35,554	110,767

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.

CZK million	Czech crowns	Euros	US dollars	Swiss francs	Slovak crowns	Other currencies	Total
Assets							
Cash and current balances with central banks	7,522	1,047	292	71	187	209	9,328
Amounts due from banks	210,449	16,516	16,415	1	2,915	489	246,785
Financial assets at fair value through profit or loss	6,106	13	0	0	348	1,126	7,593
Positive fair value of financial derivative transactions	11,223	0	0	0	17	0	11,240
Loans and advances to customers, net	172,080	12,928	2,116	96	1,964	28	189,212
Securities available for sale	24,040	2,654	3,514	0	0	0	30,208
Investments held to maturity	1,345	1,824	253	0	16	0	3,438
Prepayments, accrued income and other assets	3,086	252	46	0	9	9	3,402
Income taxes receivable	610	0	0	0	0	8	618
Deferred tax asset	1,078	0	0	0	0	0	1,078
Assets held for sale	810	0	0	0	16	0	826
Investment property	239	0	0	0	0	0	239
Intangible fixed assets, net	2,310	0	0	0	7	0	2,317
Tangible fixed assets, net	7,600	0	0	0	27	0	7,627
Investments in associates and unconsolidated subsidiaries	1,014	9	0	0	0	0	1,023
Total assets	**449,512**	**35,243**	**22,636**	**168**	**5,506**	**1,869**	**514,934**
Liabilities							
Amounts due to banks	27,928	439	2,361	79	619	1,398	32,824
Amounts due to customers	345,135	30,617	9,472	260	2,278	669	388,431
Negative fair value of financial derivative transactions	4,290	0	0	0	27	0	4,317
Debt securities	22,672	0	0	0	0	0	22,672
Accruals and other liabilities	9,144	813	230	0	59	66	10,312
Provisions	1,918	426	1,139	0	1	4	3,488
Income taxes payable	0	0	0	0	5	0	5
Deferred tax liability	1,553	0	0	0	5	0	1,558
Shareholders' equity	50,740	6	0	0	581	0	51,327
Total liabilities and shareholders' equity	**463,380**	**32,301**	**13,202**	**339**	**3,575**	**2,137**	**514,934**
Net FX position at 31 December 2005	**(13,868)**	**2,942**	**9,434**	**(171)**	**1,931**	**(268)**	**0**
Off balance sheet assets included in the FX position *	574,095	51,140	45,080	170	5,455	5,650	681,589
Off balance sheet liabilities included in the FX position *	559,512	54,452	54,466	8	7,499	5,301	681,238
Net off balance sheet 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**
Total assets at 31 December 2004	417,641	32,089	16,660	182	4,864	1,975	473,411
Total liabilities at 31 December 2004	422,934	30,950	14,942	374	3,192	1,019	473,411
Net FX position at 31 December 2004	(5,293)	1,139	1,718	(192)	1,672	956	0
Off balance sheet net FX position at 31 December 2004	7,238	(1,187)	(1,972)	173	(1,415)	(917)	1,920
Total net FX position at 31 December 2004	1,945	(48)	(254)	(19)	257	39	1,920

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

(G) Operational risk

In 2005, the Operational Risks Department began implementing operational risk management techniques that are anticipated to facilitate the fulfilment of the requirements arising to the Group under Basel II as well as general requirements of the regulators in respect of the Group's internal management and control system. With assistance from Societe Generale, the Group put in place a data collection system and launched qualitative assessment of individual processes. During the year, the Bank established an Operational Risks Committee. The Operational Risks Report is submitted to the Management Board of the Bank. The Committee also took up responsibility for information security.

(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 central banks are deemed to correspond to their fair value.

b) Investments held to maturity

Fair values of securities carried in the "Held to maturity" portfolio are equal to market values 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 to customers is estimated using a discounted cash flow analysis, the fair value of loss loans is equal to or reflects the appraised value of the underlying collateral. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans to customers approximates the carrying values at the balance sheet date. Provisions are taken into consideration when calculating fair values.

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:

CZK million	Carrying value 2005	Fair value 2005	Carrying value 2004	Fair value 2004
Financial assets				
Cash and current balance with central banks	9,328	9,328	10,135	10,135
Amounts due from banks	246,785	247,597	233,736	233,560
Loans and advances to customers, net	189,212	195,324	158,085	161,573
Investments held to maturity	3,438	3,492	2,335	2,351
Financial Liabilities				
Amounts due to banks	32,824	32,820	20,547	20,438
Amounts due to customers *	388,431	388,400	373,371	369,845
Debt securities	22,672	22,744	9,255	9,236

Note: * The fair value of amounts was approximated by the carrying value of companies Penzijní fond Komerční banky a.s., ESSOX s. r. o., a Factoring KB, a.s.

43. Assets under management

As of 31 December 2005, the Group managed client assets in the amount of CZK 3,754 million (2004: CZK 3,274 million), of which no assets were from the Group's subsidiaries.

44. Post balance sheet events

No significant events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Survey of Financial Results 2001 – 2005

According to International Reporting Standards (IFRS)

CZK mil.	Unconsolidated data	2005	2004	2003	2002	2001
Financial Performance	Net Interest Income	13,640	12,406	11,937	12,447	12,989
	Net Fees and Commissions	8,718	8,703	8,711	8,320	8,394
	Net Banking Income	23,409	22,717	21,844	22,597	23,809
	Total Operating Costs	(11,611)	(11,788)	(11,750)	(12,760)	(15,065)
	Net Profit/(Loss)	9,148	9,299	9,262	8,763	2,532
	Net Profit/(Loss) per Share (CZK)	240.68	244.66	243.68	230.55	66.62
	Total Assets	493,738	448,294	447,565	439,753	421,720
	Loans and Advances to Customers, net	185,225	155,379	131,042	121,154	135,197
	Amounts Due to Customers	370,058	358,825	349,505	341,114	321,345
	Total Shareholders' Equity	50,314	43,578	40,399	33,758	23,598
	Return on Average Equity, ROAE (%)	19.49	22.15	24.98	30.56	11.56
	Return on Average Assets, ROAA (%)	1.94	2.08	2.09	2.03	0.61
	Net Interest Margin (%)	3.14	3.04	3.00	3.25	3.64
	Cost/Income Ratio (%)	49.60	51.89	53.79	56.47	63.27
	Operating Costs on an Employee (CZK th.)	(1,572)	(1,501)	(1,353)	(1,428)	(1,526)
	Net Profit on an Employee (CZK th.)	1,238	1,184	1,067	981	256
	Total Assets on an Employee (CZK th.)	66,830	57,071	51,545	49,217	42,714
	Number of Employees (Average)	7,388	7,855	8,683	8,935	9,873
	Number of Points of Sale	360	335	335	331	323
Capital Adequacy *	Capital Adequacy (%)	13.58	12.83	15.37	13.35	14.30
	Tier 1	34,543	29,312	27,734	22,138	19,951
	Tier 2	0	0	2,272	6,091	9,607
	Tier 3	0	0	0	0	0
	Deductible Items From Tier 1 and Tier 2	3,100	3,178	2,590	1,896	1,387
	Capital Requirement A	19,077	16,680	14,543	15,164	15,071
	Capital Requirement B	736	906	776	638	688

CZK mil.	Consolidated data	2005	2004	2003	2002	2001
Financial Performance	Net Banking Income	24,519	23,752	22,491	25,359	26,433
	Total Operating Costs	12,153	12,475	12,529	15,356	18,302
	Net Profit/(Loss)	8,911	8,938	8,669	9,026	2,904
	Net Profit/(Loss) per Share (CZK)	234.44	235.15	228.07	237.46	76.40
	Total Assets	514,930	473,411	456,663	446,092	431,433
	Loans and Advances to Customers, net	189,212	158,085	131,130	122,978	136,681
	Amounts Due to Customers	388,432	373,371	353,569	341,708	323,018
	Total Shareholders' Equity	51,327	44,814	41,401	35,366	24,927
	Cost/Income Ratio (%)	49.6	52.5	55.7	60.6	62.2
	Return on Average Equity, ROAE (%)	18.5	20.7	22.6	29.9	12.6

* Data for 2001 – 2003 according to Czech Accounting Standards

Legal Information

Identification Details of the Company Entered in the Commercial Register as of 2 January 2006

(identical with the details of the company entered in the Commercial Register as of 17 October 2005)
maintained with the Municipal Court of Prague, Section B, File No. 1360

Date of entry:	5 March 1992
Business name:	Komerční banka, a.s.
Registered office:	Prague 1, Na Příkopě 33, building identification number 969, postcode 114 07
Identification number:	45 31 70 54
Legal form:	Public limited company
Shares:	38,009,852 dematerialised ordinary bearer shares of a nominal value of CZK 500 each
Share capital:	CZK 19,004,926,000 of which paid up 100%

Objects of business in accordance with Section 2 of KB's Articles of Association:

I. **The Bank shall carry on business pursuant to Act No 21/1992 Coll., the Banking Act as Amended. The business activities of the Bank shall include:**

a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services,
k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (foreign exchange purchase),
n) provision of depository services,
o) provision of banking information,
p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a) – q)

II. The Bank shall further carry on business activities for business enterprises that provide supporting banking services and for financial institutions that are controlled by the Bank. The extent of the business activities shall cover:

a) accounting consultants activities, bookkeeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real estate,
e) organization of specialized courses, training, and other educational programs including teaching,
f) business, financial, organizational, and economic consultants activity,
g) data processing, database services, network (web) administration.

Authorized body – Board of Directors:

Function	Name	Birth Number/ Date of Birth	Address	Date of Assumption of Position	Member of the Board of Directors since
Chairman	Laurent Goutard	610513/7379	Prague 6, Heineho 342/4, postcode 160 00	7 October 2005	1 September 2004
Vice-Chairman	Philippe Rucheton	480909/955	Prague 1, Břehová 8/208, postcode 110 00	7 October 2005	2 May 2002
Member	Didier Colin	20 April 1963	Prague 1, Vlašská 5/361, PSČ 110 00		9 October 2004
Member	Peter Palečka	591103/6692	Černošice, Jahodová 1565, Prague-West District, postcode 252 28		6 October 2005
Member	Matúš Púll	490625/214	Vrané nad Vltavou, Nad školkou 530, Prague-West District, postcode 252 46		6 October 2005

Acting on behalf of the Bank:

The Board of Directors, as the authorized body, shall act on behalf of the Bank in all matters; action shall be taken either by all members of the Board of Directors jointly or by any two members jointly.

Supervisory Board:

Function	Name	Birth Number/ Date of Birth	Address	Date of Assumption of Position	Member of the Supervisory Board since
Member	Petr Laube	490708/118	Prague 5, Košíře, Kvapilova 958/9	29 April 2005	
Member	Pavel Krejčí	631108/0644	Olomouc, Rolsberská 30, postcode 772 00		28 May 2005
Member	Nina Trlicová	495713/056	Ústí nad Labem, Jeseniova 401/30		28 May 2005
Member	Jan Kučera	511030/013	Náchod, Ovocná Str. 1576, postcode 574 01		28 May 2005
Member	Jan Juchelka	710919/5148	Poděbrady, Jižní 1339, Nymburk District, postcode 290 01	29 April 2005	
Member	Didier Alix	16 August 1946	14, bis Rue Raynouard, 75116 Paris, French Republic	29 April 2005	
Member	Jean-Louis Mattei	8 September 1947	24, Rue Pierre et Marie Curie, 75005 Paris, French Republic	29 April 2005	
Member	Christian Achille Frederic Poirier	30 November 1948	19, Rue Mademoiselle, 78000 Versailles, French Republic	29 April 2005	
Member	Séverin Cabannes	21 July 1958	14, Rue de Voisins, 78430 Louveciennes, French Republic Person responsible for the performance of the activities of a brokerage house.	29 April 2005	

Other facts:

Manner of the Company's establishment:

In accordance with the privatisation project for the state financial institution, Komerční banka, with its registered office in Prague, Na Příkopě 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a.s., based on a Founding Deed of 3 March 1992 under section 172 of the Commercial Code.

Information on Komerční banka Securities

Komerční banka Shares

Type:	ordinary share
Form:	bearer share
Representation:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value of 1 share:	CZK 500
ISIN:	CZ0008019106

Public trading

Komerční banka shares are publicly traded on public capital markets in the Czech Republic – the Prague Stock Exchange and RM-SYSTÉM (the organiser of the off-exchange market of securities). For further information about trading in shares, share prices and dividends please refer to the chapter Komerční banka Share Price.

Rights vested in the shares

Rights pertaining to ordinary shares are derived from Act No. 513/1991 Coll., the Commercial Code, as amended, and have no special rights attached.

Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of the nominal value of the share is equivalent to one vote.

Shareholders are entitled to a share of the Bank's profit (dividend) approved for distribution by the annual general meeting based upon the Bank's financial result and in accordance with the conditions stated in the generally binding legal regulations. Dividend rights belong to shareholders who own shares 30 calendar days following the date of the annual general meeting that approved the payment of the dividend. If the Board of Directors decides to register the rights for the payment of a dividend in the records of dematerialised securities, those shareholders shall have a right to a dividend whose right is registered in the records of dematerialised securities 30 calendar days after the date of the annual general meeting that approved the dividend. The dividend is payable 30 days after the decisive day on which the shareholder's right arose, in accordance with the previous sentence of this provision. The right to the payment of the dividend is time-barred from four years after its date of payment. In the event of the shareholder's death his legal inheritor shall be authorised to exercise all rights attached to the shares.

On the Bank's liquidation and dissolution the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the annual general meeting in the proportion of the nominal value of the shares held by the Bank's shareholders.

Acquisition of own shares

During 2005, KB acquired and sold its own stock only as a market maker in Komerční banka shares' trading activities.
As a member of the Prague Stock Exchange (PSE) and a market maker for Komerční banka shares, it is obliged to maintain both buy and sell prices in KB shares in the SPAD market (a trading segment based on price quotations of market makers). This obligation stems from an agreement with the PSE on market making activities of Komerční banka. For market making purposes, the Bank acquired KB shares during 2005 for prices outside of the limits set by the Annual General Meeting's resolution of 28 April 2005. In that market making was the only reason for acquiring KB shares, the Bank decided to fulfil its commitments arising from the agreement with the PSE and to trade with KB shares outside of these limits.

Information on the acquisition of own shares by KB

	Number/ nominal value as at 1 January 2005 (pcs/CZK th.)	Proportion of share capital as at 1 January 2005 (%)	Number/ nominal value as at 31 December 2005 (pcs/CZK th.)	Proportion of share capital as at 31 December 2005 (%)
Trading portfolio (Trading book)	1,033	0.003	2,000	0.005
	516.5		1,000.0	
Portfolio available for sale (Banking book)	0	0	0	0
	0		0	

	Number/ nominal value of acquired shares (pcs/CZK th.)	Number/ nominal value of sold shares (pcs/CZK th.)	Sum of purchase prices of acquired shares (CZK th.)	Min. and max. acquisition price (CZK)	Sum of selling prices of sold shares (CZK th.)	Min. and max. selling price (CZK)
Trading portfolio (Trading book)	1,767,996	1,767,029	5,863,802	2,630.0	5,855,920	2,626.0
	883,998.0	883,514.5		3,787.0		3,783.0
Portfolio available for sale (Banking book)	0	0	0	0	0	0
	0	0		0		0

Komerční banka Global Depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (that are held on its proprietary account at the Securities Centre). In principle, GDRs bear the same rights as shares of the Bank and they may be re-converted into shares. One GDR represents one-third of a share of Komerční banka.
The GDR programme was launched at the end of June 1995. In issuing the first block, Komerční banka entered the international capital markets. The second issue was in 1996.
From the start, the GDRs have been traded on the London Stock Exchange and in the PORTAL system (the market of the National Association of Securities Dealers, Inc.) in the United States. The number of GDRs issued as at 31 December 2005 was 6,249,402.

United Kingdom tax considerations

The following comments are of a general nature and are based on current United Kingdom (UK) tax law and Her Majesty's Revenue and Customs (HMRC) practice as at the date of this document, both of which are subject to change at any time, and possibly with retrospective effect. These comments represent a summary of the principal UK tax consequences to a holder, who or which is resident or ordinarily resident in the UK or is carrying on a trade or business in the UK through a permanent establishment (collectively, "UK Holders"), of owning GDRs or shares delivered upon surrender of GDRs. It deals only with GDRs or shares held as capital assets and does not deal with certain special classes of holders, such as dealers.

Taxation of dividends and other distributions

Distributions, including cash dividends paid with respect to the underlying shares to a UK Holder, will generally be taxed as income of the UK Holder. Any Czech withholding tax paid in respect of such distributions to a UK Holder will generally be available as a credit against any UK tax liability of such UK Holder (and not recoverable from the Czech authorities) in respect of such distribution.

Where dividends are paid by or through a UK paying agent or collected by a UK collecting agent, such agent may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the UK Holder (including the UK Holder's name and address). HMRC published practice indicates that HMRC will not exercise its power to obtain information where such dividends are paid or received during the 2005/2006 tax year, which ends on 5 April 2006. It has not yet been announced whether this practice will continue for the 2006/2007 tax year, which begins on 6 April 2006. Any information obtained may, in certain circumstances, be provided by HMRC to the tax authorities of other jurisdictions.

Sale or other disposition of GDRs

A UK Holder of GDRs may, depending on individual circumstances and subject to any available exemption or relief, be subjected to UK tax on a disposition or deemed disposition of a GDR (or of shares acquired upon surrender of GDRs). Relief may be available for any Czech tax paid on such a disposal. There should be no liability for UK stamp duty or stamp duty reserve tax on a disposition of a GDR provided the disposition is undertaken by delivery.

Surrender of GDRs

Upon surrender of GDRs to the Depositary in return for shares, no liability for UK taxation should arise provided the GDR holder is the beneficial owner of the shares. Generally, the shares acquired from the Depositary will be acquired at a base cost equal to the cost to the UK Holder of acquiring the GDR surrendered.

Each prospective purchaser should consult his, her or its own tax adviser as to the specific tax consequences of an investment in the GDRs.

Bonds of Komerční banka

List of outstanding bonds issued by Komerční banka

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs.	Interest Rate	Pay-out of Interest
1.	HZL 2000/2007 ISIN: CZ0002000151	15. 9. 2000 15. 9. 2007	1,100,000,000 11,000	6month PRIBOR + 3.50 p. p.	Half-yearly
2.	HZL 2003/2009 ISIN: CZ0002000268	21. 8. 2003 21. 8. 2009	5,000,000,000 500,000	5.5% p.a.	Yearly
3.	HZL 2004/2008 ISIN: CZ0002000383	5. 8. 2004 5. 8. 2008	4,800,000,000 480,000	4.5% p.a.	Yearly
4.	HZL 2005/2015 ISIN: CZ0002000565	2. 8. 2005 2. 8. 2015	5,200,000,000 520,000	3M PRIBID +min.(-0.10% p.a.; [-0.1*3MPRIBID]%p.a.)	Quarterly
5.	HZL 2005/2015 ISIN: CZ0002000664	21. 10. 2005 21.10.2015	10,000,000,000 1,000,000	4.40% p.a.	Yearly

HZL = mortgage bonds

All bonds are issued in CZK, registered, made out to the bearer in dematerialised form, and have a nominal value of CZK 10,000, except for the mortgage bonds ISIN: CZ0002000151, which have a nominal value of CZK 100,000.
The mortgage bonds HZL ISIN CZ0002000268, ISIN CZ0002000383 and ISIN CZ0002000565 were issued within the KB Debt Issuance Programme approved by a decision of the Securities Commission dated May 6, 2003. The 10-Year Debt Issuance Programme with the maturity of any single issue of up to 10 years enables the Bank to issue mortgage bonds with a maximum amount of CZK 15 billion outstanding.
Unredeemed bonds were issued in the relevant years in accordance with the Bonds Act and Securities Act, as amended. The Bonds Prospectuses or Pricing Supplements were approved by the Czech Securities Commission.

Public trading

All unredeemed bonds are accepted for trading on the official free market of the Prague Stock Exchange. The request of Komerční banka, a.s. for admission of HZL ISIN CZ0002000664 to the official free market of the Prague Stock Exchange was filed on December 19, 2005.
The transferability of bonds is unlimited. Bonds are transferred upon registration of their ownership in the account of the new owner in the Securities Centre.

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed by and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the Terms and Conditions of each issue.
Bonds bear interest from the date of issue and payments of the coupon are made at quarterly, half-yearly or yearly intervals. The coupon of the securities is paid by the issuer – Komerční banka, a.s., registered office Na Příkopě 33, Prague 1, through its Headquarters and branches.
The bonds will be paid by Komerční banka, a.s., Na Příkopě 33, Prague 1, through the Bank’s Headquarters and branches in a lump-sum of the nominal value on the maturity date.

Emoluments and Benefits of the Management and Statutory Bodies

Remuneration for members of the Board of Directors is closely linked with the results of the Bank. Payment for performing the duties of the Board of Directors is proposed by the Remuneration Committee of the Supervisory Board and is subject to approval by the annual general meeting. The annual general meeting approves both the fixed annual remuneration and bonus ranges for serving on the Board of Directors. After the close of the financial year, the Remuneration Committee of the Supervisory Board evaluates the performance of duties in fulfilling contracts for the members of the Board of Directors. Based on this performance evaluation, it proposes individual bonus amounts to be paid to the members of the Board of Directors within the ranges previously approved by the annual general meeting. Bonuses is subsequently approved by the Supervisory Board.

Members of the Supervisory Board are remunerated in accordance with the principles included in the resolution of the annual general meeting held on 17 June 2004. It sets both fixed monthly remuneration and remuneration for the members' attendance at Supervisory Board meetings, the number of which is limited to the maximum of six meetings per year.

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings and in line with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all non-monetary income and income in-kind received by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer, specified by each director, during the financial reporting period 2005. The data are published in the structure described in Section III. – 5.3 of the Commission Recommendation:

(A) the total amount of salary paid or due for the services performed under the relevant financial year, including where appropriate the attendance fees fixed by the annual general share-holders meeting;
(B) the remuneration and advantages received from any undertaking belonging to the same group;
(C) remuneration paid in the form of profit sharing and/or bonus payments for 2004;
(D) any significant remuneration paid for special services outside the scope of the usual functions;
(E) the compensation paid to or receivable by each former member of the Board of Directors or Supervisory Board in connection with the termination of his activities during that financial year;
(F) total estimated value of non-cash benefits considered as remuneration, other than the items covered in points (a) to (e).

In the following tables all the emoluments of KB directors are presented in the above-described structure unless they amounted to zero and were not paid to KB directors at all.

CZK	(A)	(C)	(D)	(F)	Total
Board of Directors:					
Laurent Goutard [1]	2,726,905	0	3,241,470	1,974,371	7,942,746
Philippe Rucheton	2,460,000	2,040,000	4,160,968	1,566,103	10,227,071
Didier Colin	2,460,000	720,000	2,999,648	2,949,547	9,129,195
Peter Palečka	2,460,000	2,400,000	1,434,285	672,164	6,966,449
Matúš Púll	2,460,000	2,600,000	2,039,747	433,350	7,533,097
Alexis Juan [2]	2,757,143	10,830,000	2,938,299	1,568,965	18,094,407
Olivier Flourens [3]	0	1,305,000	341,582	0	1,646,582

[1] In the position of Chairman of the Board of Directors since 7 October 2005. The bonus paid in 2005 in respect of 2004 duties was not borne by KB.
[2] In the position of Chairman of the Board of Directors until 6 October 2005, leaving KB as at 20 October 2005. The bonuses paid in 2005 are in respect of 2004 and 2005 duties.
[3] Leaving the position as at 8 October 2004

CZK	(A)	(D)	(F)	Total
Supervisory Board:				
Didier Alix, chairman	825,000	0	0	825,000
Jean-Louis Mattei, vice-chairman	330,000	0	0	330,000
Severin Cabannes	330,000	0	0	330,000
Jan Juchelka	0	0	0	0
Pavel Krejčí *	346,500	324,000 [1]	12,690 [1]	683,190
Jan Kučera *	346,500	263,292	44,753	654,545
Petr Laube	346,500	0	0	346,500
Christian Achille Frederic Poirier	346,500	0	0	346,500
Miroslava Šmídová *[2]	139,447	420,233	54,076	613,756
Nina Trlicová *[3]	207,053	363,851	46,565	617,469

* elected by KB employees, total emoluments include regular salaries
[1] Refunded by KB Trade Unions
[2] In the Supervisory Board until April 2005
[3] In the Supervisory Board since May 2005

Information on the number of shares issued by the issuer and held by members of the Board of Directors and Supervisory Board, including individuals related to these individuals; information on option and long-term contracts and similar agreements whose underlying assets are interim certificates issued by the issuer, and whose contractual parties are the listed individuals, or which were entered into in the interest of the listed individuals:

	As of 31 December 2005
Board of Directors:	
Laurent Goutard, chairman	None
Philippe Rucheton, vice-chairman	None
Didier Colin	None
Peter Palečka	4,700 shares
Matúš Púll	None
Supervisory Board:	
Didier Alix, chairman	None
Jean-Louis Mattei, vice-chairman	None
Severin Cabannes	None
Jan Juchelka	None
Pavel Krejčí	1,050 shares
Jan Kučera	2,280 shares
Petr Laube	2,175 shares
Christian Achille Frederic Poirier	None
Nina Trlicová	None

Information on Remuneration to Auditors for Services Provided in 2005

For services performed during 2005, KB and the consolidated KB Group provided remuneration to the auditors as follows:

Type of service – CZK thousand, excl. VAT	KB	KB consolidated group *
Statutory audit	14,212	21,586
Audit related services	1,478	1,498
Legal and tax related services	0	291
Other	26	248
Total:	**15,716**	**23,623**

* KB consolidated group comprise Komerční banka, ESSOX, Factoring KB, Komerční banka Bratislava, Komerční pojišťovna, Penzijní fond Komerční banky, Modrá pyramida stavební spořitelna, Komercni Finance BV.

Description of Real Estate Owned by the Bank

Komerční banka owns real estate used mostly for the business activities for which it is licensed under existing legislation.

Summary of the real estate owned by the Bank:

As of 31 December 2005	Number	Area in m^2
Land	449	244,688
Buildings	440	540,187

See also Notes to the Unconsolidated Financial Statements according to IFRS, Notes No 24 – Assets for sale and No 26 – Tangible fixed assets.

Investments

Investments made by the company

(balance as of the end of the year)

CZK million, IFRS	As at 31 December 2004	As at 31 December 2005
Bonds	24,261	25,580
Shares	112	161
Equity investments in subsidiary and associated undertakings	1,846	1,518
Total	**26,219**	**27,259**

Main investments – excluding financial investments *

(balance as of the end of the year)

CZK million, IFRS	As at 31 December 2004	As at 31 December 2005
Tangible fixed assets	9,314	7,364
Intangible fixed assets	2,059	2,097
Total tangible and intangible fixed assets	11,373	9,461
Tangible fixed assets held under finance leases	97	27

* Net book value of investments
See also Notes to the Unconsolidated Financial Statements according to IFSR, Notes No 25 – Tangible Fixed Assets and 26 – Intangible Fixed Assets.

Main ongoing investments – excluding financial investments

In 2005, the Bank made non-financial investments in a total of CZK 1.3 billion. Most of that amount was invested in the area of information technologies for the purchase and upgrading of software and hardware and for consultancy services. Significant amounts were also invested into constructing KB's new points of sale and real estate owned by the Bank.
All of the non-financial investments were made in the Czech Republic and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2006 will not exceed CZK 2.1 billion. The biggest portion of the total amount represents investments related to information technologies. The Bank's investment plans may change in the future depending on developments in related conditions, i.e. the actual investments may differ from the plan.

Legal Disputes

As at 31 December 2005, Komerční banka was a plaintiff or a creditor in bankruptcy in a total of 32 important legal proceedings. The proceedings had or could have material implications for the Bank's financial results. The total sum involved in these legal proceedings is approximately CZK 12.7 billion. Of these legal proceedings, 13 are petitions for payment in a total amount of CZK 820 million. The remaining 19 are bankruptcy actions (in some cases, these concern conditional accounts receivable or claims that have been filed in more than one action) and include a total amount of CZK 11.9 billion.
The total number of important disputes in which the Bank is a defendant (the sum in each dispute exceeding CZK 10 million) totalled CZK 3.3 billion, USD 67 million and EUR 920 million as at 31 December 2005.
With respect to its overall financial situation, Komerční banka regards as material all disputes involving amounts in excess of CZK 10 million and all bankruptcy proceedings individually including amounts exceeding CZK 50 million. The reason for the higher threshold for bankruptcy proceedings is the fact that the average recovery from bankruptcies usually does not exceed 20%. Therefore, the outcomes of bankruptcy proceedings have in general less significant implications on the Bank's financial position than do other legal disputes of similar amounts.
Information concerning balances of reserves created for all passive legal disputes are enclosed in the Notes to the Unconsolidated Financial Statements according to IFRS, Note No 36 – Commitments and contingent liabilities.

Licences and Trademarks

If using any third party rights that are governed by the relevant statutory provisions on the protection of intellectual property (mainly copyrights) or intangible property rights, Komerční banka rigorously monitors the fulfilment of all statutory requirements. Any such rights are used in accordance with valid laws and international conventions or under a relevant licence, as appropriate.
Komerční banka also owns (has registered) approximately 70 trademarks entered in the public register of trademarks maintained by the Industrial Property Office of the Czech Republic, and another 15 trademarks have been entered into the registration process. The Bank uses these trademarks for the protection and diversification of its products. Komerční banka has also registered (applied for registration of) trademarks in the Slovak Republic.

Expenses on Research and Development

In 2005, Komerční banka spent over one hundred million Czech crowns on research and development. These expenses comprise mainly expenses related to development studies and realisation of individual projects, particularly in the area of information technologies and systems including development of internet applications.

Organisational Chart

Board of Directors

Marketing	Distribution	Strategy and Finance	Corporate Secretariat
Operations	Corporate Banking	Risk Management	Communication
Support Services	Investment Banking	Information Technologies	Human Recources
			Internal Audit

All organizational units are based in the Czech Republic

Report on Relations Among Related Entities

(hereinafter the "Report on Relations")

Komerční banka, a.s., having its registered office address at Na Příkopě 33/969, Prague 1, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies, Section B, File 1360, maintained at the Municipal Court in Prague (hereinafter referred to as "KB" or the "Bank"), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter referred to as "related entities") exist.
This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2005, that is, from 1 January 2005 to 31 December 2005 (hereinafter referred to as the "reporting period").

I. Introduction

In the period from 1 January 2005 to 31 December 2005, KB was a member of the Société Générale S.A. Group, having its registered office address at 29, BLD Hausmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter referred to as "SG" or "SG Paris").
During the course of the reporting period, the Bank entered into arrangements with the following related entities:

(a) SG's Head Office and branch offices

Company	Registered office
SG Paris	29,BLD Hausmann, Paris, France
SG London	Exchange House, Primrose Street, London, Great Britain
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Tokyo	Ark Mori Building, 12-32 Akasaka 1Chrome, Minato-ku,107-6015 Tokyo, Japan
SG Zurich	Sighlguai 253, 8031 Zurich, Switzerland
SG Warsaw	Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Mainzer Landstrasse 36, D60325,Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1069 HA Amsterdam, Netherlands

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power
Barep	3, Rue Lafayette 75009 Paris, France	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SG Montreal *	1501 Av. McGill College, Montreal, Quebec, Canada	100.00
SG Asset Management	2 Place de la Coupole, 92078 Paris La Défense, France	100.00
SG Equipment Finance Czech republic s.r.o	Antala Staška 2027/79, Prague 4 – Krč, 140 00, Czech Republic	100.00
SG Private banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211, Geneva, Switzerland	77.62
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.58
Sogecap S.A.	12-46 Bd. A. Martin, 45000 Orleans, France	100.00
N.S.G.B.	5 Champollion Street, Cairo, Egypt	78.38
B.R.D.	Boulevard Ion Mihalache no. 1-7 sector 1, Bucharest, Romania	58.32
FIMAT International banque SA (UK branch)	SG house, 41 Tower Hill, London, Great Britain	100.00
FIMAT International banque SA Germany	Neue Mainzer Strase 52, 60311 Frankfurt am Main, Germany	100.00
Franfinance S.A.	59 Avenue de Chatou, 92853 Rueil Malmaison, France	99.99
Inter Europe Conseil	Tour Société Générale 17 Cours Valmy, 92987 Paris La Défense, France	100.00
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 10040, Czech Republic	100.00
SG Cyprus Ltd.	7/9 Grivas Dighemis Avenue, Nicosia, Cyprus	51.00
Komerční pojišťovna a.s. **	Karolinská 1/650, Prague 8, 186 00, Czech Republic	100.00
Investiční kapitálová společnost KB, a.s. ***	Dlouhá 34/713, Prague 1, 110 15, Czech Republic	100.00

* SG Canada in 2004.
** As of 30 September 2005, KB sold a 51 percent shareholding in Sogecap S.A.
*** As of 11 May 2005, KB sold a 100 percent share in SG Asset Management.

II. Arrangements with Related Entities

A. Contracts and Agreements with the Controlling Entity and Other Related Entities

Banking Transactions

During the reporting period, KB entered into the following contractual agreements with related entities that were subject to banking secrecy restrictions:

Deposit Arrangements

In the deposit segment, KB entered into arrangements with 26 branches and subsidiaries of the SG Group. At the end of 2005, KB maintained a total of 44 open accounts, of which 20 were loro accounts for branches and subsidiaries of the SG Group, 20 were current accounts and four overdraft accounts opened for non-banking entities of the SG Group. The average overdraft balance on loro accounts (borrowing) was CZK 295.2 million, the average credit balance (deposit) was CZK 637.4 million. During the reporting period, the average credit balance on current and overdraft accounts was CZK 21.9 million; the average overdraft balance on those accounts was CZK 78.2 million. During the reporting period, the debit interest on overdraft accounts and overdrafts on current accounts was CZK 1.8 million; income fees associated with the maintenance of accounts and related transactions amounted to CZK 4.4 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, SG Tokyo, SG New York, SG Frankfurt, SG Zurich and SG Warsaw. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 17.8 million; the average overdraft balance on nostro accounts was CZK 19.3 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 8.0 million; income fees (i.e. provided discounts from credit operations on nostro accounts) were CZK 1.8 million. KB's income arising from the fees from loro accounts was CZK 0.6 million. Interest expenses paid by KB on loro accounts amounted to CZK 1.8 million and interest income amounted to CZK 1.9 million in the reporting period.

Three SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average balance of these deposits was CZK 316.0 million in the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements

In the loan segment, KB provided 78 loans in the aggregate amount of CZK 3,054.6 million at the reporting period-end. The average balance of the loans during the reporting period was CZK 2,960.6 million. The aggregate amount of interest income was CZK 94.4 million. As of 31 December 2005, the aggregate number of payment guarantees issued for the benefit of related entities was nine in the amount of CZK 4.2 million, and the number of non-payment guarantees was 30 in the amount of CZK 71.2 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.4 million in the reporting period.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with ten related parties and subsidiaries from within the SG Group. The total number of transactions was 10,424. The amount of on-balance sheet transactions was CZK 170,606.9 million and off-balance sheet transactions was CZK 1,007,810.3 million, of which:

a) 2,095 transactions in the aggregate amount of CZK 117,466.1 million were foreign currency transactions (spots, forwards, swaps);
b) 4,139 transactions in the aggregate amount of CZK 843,429.6 million were interest rate derivatives (swaps and futures);
c) Option contracts with foreign currency instruments, a total of 3,090 contracts in the aggregate amount of CZK 46,914.6 million;
d) Depository transactions – KB implemented 1,036 transactions in the amount of CZK 156,461.2 million; and
e) Securities held for trading – a total of 64 transactions in the amount of CZK 14,145.7 million.

Transactions with commodity instruments were conducted with SG Paris, the amounts receivable and payable under these transactions were CZK 2,464.6 million at the reporting period-end.

KB holds no equity investment in the SG Group entities, the only exception being equity holdings in the companies controlled by KB and companies where KB has substantial influence. All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

I. Contracts and Agreements Entered into during the Reporting Period

Type of agreement (or subject matter of the agreement if not clear from the name of the agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Agreement on the lease of movable assets	ALD automotive, s.r.o.	Rent	Rent of a car	None
Finance lease agreement, including an amendment thereto	ALD automotive, s.r.o.	Lease instalments	Car lease	None
Acceptance of two guarantees for KB's exposure to clients that are members of the SG Group	Inter Europe Conseil	Fee	Provision of guarantee	None
Custody agreement including amendment no. 1	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the escrow, administration and settlement of investment transactions	Investiční kapitálová společnost KB, a.s.	Escrow, administration and settlement of investment transactions	Contractual fee	None
Contract for the exercise of the activities of a depository including two amendments No. 1	Investiční kapitálová společnost KB, a.s.	Activity as a depository for funds	Contractual fee	None
Distribution agreement including amendments no. 1 and 2	Investiční kapitálová společnost KB, a.s.	Mediation of the sale of participation certificates	Contractual fee	None
General agreement	Investiční kapitálová společnost KB, a.s.	Cooperation in distribution, marketing, communication and data processing	Contractual fee	None
General agreement on payment for services including amendments no. 1 and 2	Investiční kapitálová společnost KB, a.s.	Provision of depository and other services	Contractual fee	None
Cooperation agreement	Komerční pojišťovna a.s.	Cooperation in development of products and other business activities	Cooperation in development of products and other business activities	None
General agreement on distribution	Komerční pojišťovna a.s.	Mediation of entering into insurance agreements	Commission	None
Agreement on a trade agency in the sale of products within the Vital Programme and Vital Plus Programme in the wording of amendment no. 1	Komerční pojišťovna a.s.	Activities leading to an opportunityto enter into insurance agreements	Commission	None
Contract for cooperation in implementing the 'VITAL GRANT' competition of banking advisors	Komerční pojišťovna a.s.	Organisiing and performing the competition	Provision of prizes for the competition	None
Contract for the lease of non-residential premises (Brno)	Komerční pojišťovna a.s.	Provision of premises	Rent	None
Share purchase agreement of Investiční kapitálová společnost KB, a.s. – sale of a 100 percent share	SG Assets Management SA	Transfer of shares	Payment of purchase price	None
Service Level Agreement	SG Frankfurt	Fees	Implementation of clients' payments	None
Appointment Letter – Amendment to Process Agent	SG London	Commission	Mediation of securities sale	None
Amendment to Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody activities for Max worldwide guaranteed fund 1	None
Sub-Custodian Service Agreements	SG Paris	Contractual fees	Provision of custody	None
Agreement relating to the Structured Products	SG Paris	Mediation of the sale of structured products	Contractual fee	None
Hosting Contract (contract on data processing)	SG Paris	Contractual fee, sale of main frame (two IBM processors)	Data processing, purchase price	None
Master licence agreement	SG Paris	Fee	Provision of software and licence as part of anti-money laundering activities	None
Insurance agreement – insurance of bank risks	SG Paris	Insurance premium	Provision of insurance	None
Insurance agreement – insurance of professional liability	SG Paris	Insurance premium	Provision of insurance	None
Service Agreement – SNAP services	SG Paris	Fees	Transfer of SWIFT reports	None
Agreement on provision of telecommunication services	SG Paris	Fees	Provision of telecommunication services	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody for Max worldwide guaranteed fund 3	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody for investment funds Fénix and IKS Global	None
Word Pay (Agreement on processing of payments for transfers for clients of low amounts, e.g. pensions, dividends).	SG Paris	Fees	Processing and transfer of payments	None
Agreements on review activities in segments of Sourcing/Procurement, Retail banking and Internal banking	SG Paris	Contractual fee	Review activity	None
Clearing agreement	SG Zurich	Fees	Maintenance of nostro account	None
Share purchase agreement (Agreement on sale of Komerční pojišťovna, a.s. shares – sale of 51.002 percent share	Sogecap S.A.	Transfer of shares	Payment of purchase price	None

II. Performance Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or subject matter of the agreement if not clear from the name of the agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Clearing agreement	FIMAT International banque SA	Fees according to the price list	Settlement of transactions (futures,options) concluded by KB in EUREX or OTC through FIMAT	None
Full Service Agreement	FIMAT International banque SA	Fees according to the price list	Transactions with securities and forward operations	None
General Agreement on Securities	FIMAT International banque SA	Fees according to the price list	Securities lending	None
Master Netting Agreement	FIMAT International banque SA	Fees according to the price list	Trading with commodity futures	None
Two guarantees for KB's exposure to clients that are members of the SG Group	Inter Europe Conseil	Fee	Provision of guarantee	None
Licence agreement	Investiční kapitálová společnost KB, a.s.	Provision of trademark	Contractual fee	None
Mandate agreement on secure handover of participation certificates within IKS "Rodina fondů", including amendments no. 1 and 2	Investiční kapitálová společnost KB, a.s.	Provision of registering of participation certificates	Contractual fee	None
Insurance agreement – insurance of risk resulting from misuse of payments cards insurance benefit	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None and
Agreement on payroll administration	Komerční pojišťovna, a.s.	Payroll maintenance	Contractual fee	None
Licence agreement	Komerční pojišťovna, a.s.	Provision of trademark	Contractual fee	None
Agreement on cooperation in provision of insurance to American Express payment cards	Komerční pojišťovna, a.s.	Insurance premium	Commission	None
Agreement on cooperation in provision of insurance to EC/MC and VISA payment cards	Komerční pojišťovna, a.s.	Insurance premium	Commission	None
Contract for the lease of non-residential premises – Jihlava	Komerční pojišťovna, a.s.	Provision of premises	Rent	None
Brokerage Conformity Agreement	SG Asset Management	Mediation of the sale of SGAM's participation certificates	Contractual fees	None
Agreement on cooperation	SG Equipment Finance Czech Republic, s.r.o.	Mediation of finance leases within the "KB leasing" product	Fee for mediation	None
Appointment of process Agent for KB for ISDA Masters Agreement	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Appointment of process Agent for KB for ISDA Masters Agreement	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the USA	None
Service Level Agreement – processing of issued smooth payments through nostro accounts	SG New York	Fees according to the price list	Mediation of payments	None
ACPI – subscribing product of SG on KB points of sale	SG Paris	Mediation of sale of selected SG products	Contractual fee	None
Custody Contract	SG Paris	Administration of securities traded on the stock market	Fees according to the price list	None
Agreements and contracts related to provision of management and advisory services – "Management support agreement", incl. amendments no. 1 and 2	SG Paris	Contractual fee	Provision of management and advisory services	None
ISDA Master Agreement	SG Paris	Fees for mediation	Mediation of derivatives trading	None
Agency Contract	SG Paris	Processing and mediation of purchase and sale of securities and their transfer in the Securities Centre	Contractual fee	None
Insurance agreement – insurance of banking risks	SG Paris	Paid insurance premiums	Provision of insurance	None
Insurance agreement – insurance of professional liability	SG Paris	Paid insurance premiums	Provision of insurance	None
Service Level Agreement incl. amendment no. 1	SG Paris	Fees according to the price list	Mediation of services	None
SG – LABO Agreement	SG Paris	Fees according to the price list	Review of SWIFT reports in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Sub-Custodian Service Agreement	SG Paris	Fees according to the price list	Administration of securities traded in France	None
Agreement on the provision of advisory services	Sogecap	Contractual fees	Provision of insurance advisory services	None

B. Other Legal Acts Implemented by the Bank in the Interest of the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 28 April 2005, the shareholder, SG Paris, received dividends of CZK 2,294,022,700 in respect of KB's shares for the year ended 31 December 2004.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 433.1 million, for the year ended 31 December 2005.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 3.9773 percent p.a., that is, CZK 201.7 million, for the year ended 31 December 2005.

C. Measures Taken or Implemented by the Bank in the Interest of or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Management Board of the Bank has reviewed all arrangements put in place between the Bank and the related entities during the reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 28 February 2006

Laurent Goutard
Chairman of the Board of Directors and CEO

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

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