Komerční banka, a.s.
Annual Report 2007

In 2007, KB served

1.58 million

clients

www.kb.cz

My world. My bank.

Different people, different products

Komerční banka continuously improves its products and services to reflect changing needs of clients and to be able to offer tailored solutions.

Komerční banka served
1.58 million clients in 2007
under a Guaranteed Services
Level Commitment
based on 5 pillars:
security, reliability,
speed, trustworthiness
and individual
approach.

Komerční banka

Komerční banka


has a leading position among Central European universal banks as measured by operating efficiency. It provides a comprehensive range of services in retail, corporate and investment banking. KB serves its clients through 386 points of sale throughout the Czech Republic and 661 ATMs. It is a member of Société Générale Group, one of the largest banking groups in the euro zone.

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Profile of Komerční banka

Komerční banka, a.s. (KB) is the parent company of KB Group. KB is also a member of the Société Générale Group and ranks among the leading banking institutions in the Czech Republic and Central and Eastern Europe.

Vision and Mission

Long-term profitable relationships with clients
Komerční banka is a universal bank based on a multi-channel model. KB offers its clients a comprehensive range of financial products and services. Through constant innovations, the Bank endeavours to meet its customers' evolving needs and to tailor its offer to suit specific clients.

To create value for shareholders, customers and employees
KB focuses on continuously developing its business activities. Co-operation with other members of the KB Group, with companies from the SG Group, and with other, independent partners allows the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully competitive.

Komerční banka is aware that its position as a fully integrated and leading Czech financial institution brings with it certain responsibilities, as well.

History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception, and global depository receipts (GDRs) representing KB shares have been traded on the London Stock Exchange since 1995. In 2001, the state's holding in Komerční banka was purchased by Société Générale. Following that acquisition, KB began significantly developing its activities for individual customers and entrepreneurs, in addition to building on its traditionally strong position in the enterprises and municipalities market. In 2006, Komerční banka acquired the remaining 60% of shares in Modrá pyramida stavební spořitelna, a.s. (MPSS), thus attaining full control over the Czech Republic's third largest building society.

Komerční banka and KB Group in 2007

KB provides a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services, such as pension fund and building society schemes, factoring, consumer lending and insurance. These are distributed through KB's branch network or the subsidiaries' own sales networks.

The Bank's almost 1.58 million clients can access its banking services via internet, telephone and mobile phone banking channels, as well as through 386 branches and using 661 ATMs across the Czech Republic. Komerční banka's branch network includes 35 business centres designed for medium enterprises and municipalities, as well as four centres dedicated to large corporations.

Among the other KB Group companies, MPSS serves almost 771,000 clients, while Penzijní fond KB has registered more than 470,000 participants in its pension schemes. The number of active clients at the consumer finance company ESSOX rose to 172,000 during 2007. Through Komerční banka Bratislava, the Group is also active on the Slovak market.

The average number of employees within KB Group reached 8,534 during 2007.

In 2007, Komerční banka was recognised with several awards. In the prestigious MasterCard competition, KB was conferred with the titles "Bank of the Year 2007" and "Corporate Bank of the Year 2007" while MPSS was named "Building Society of the Year 2007".

KB's economic stability is reflected also in the Bank's ratings. As of the end of 2007, Komerční banka's long-term ratings stood at A1 from Moody's Investors Service, A+ from Standard & Poor's, and AA- from Fitch Ratings. Penzijní fond KB held a national-scale rating of Aa1.cz from Moody's Investors Service, which is the highest possible rating for a pension fund in the Czech Republic.

Société Générale Group

Komerční banka has been a part of the Société Générale Group since October 2001. The Société Générale Group's activities are organised into five divisions: French Networks, International Retail Banking, Financial Services, Global Investment Management and Services Corporate and Investment Banking.

Komerční banka represents an important part of the International Retail Banking business. This arm of Société Générale Group serves 8.8 million individual customers around the world.

Financial Highlights

Consolidated data		IFRS *	
CZK million	**2007**	**2006**	**2005**
Financial Results			
Net Banking Income	29,665	26,421	24,502
of which Net Interest Income	18,674	16,274	14,643
of which Net Fees and Commissions	9,283	8,769	8,736
Total Operating Costs	(13,558)	(12,400)	(12,135)
Net Profit	11,225	9,211	8,911
Balance Sheet			
Total Assets	661,819	598,090	513,856
Loans to Customers, net	304,521	252,505	189,212
Amounts Due to Customers	540,756	481,294	388,431
Total Shareholders' Equity	50,654	50,257	51,327

Consolidated data		IFRS *	
%	**2007**	**2006**	**2005**
Ratios			
Return on Average Equity, ROAE	22.2	18.1	18.5
Return on Average Assets, ROAA	1.8	1.7	1.8
Capital Adequacy – CNB (Basel I)	10.1	11.9	13.2
Net Interest Margin	3.2	3.2	3.2
Cost/Income Ratio	45.7	46.9	49.5

Note: * IFRS – International Financial Reporting Standards

Consolidated cost-to-income ratio in 2007 reached

45.7%.

The number of KB's clients rose by 62,000. Komerční banka opened 8 new branches in new residential and commercial centres.

Unconsolidated data	2007	2006	2005
Other Data			
Number of Employees, Average	7,764	7,552	7,388
Number of Points of Sale	386	378	360
Number of Clients (thousands)	1,577	1,515	1,467
Number of ATMs	661	649	607

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

Note: * As of end of March 2008

Interview with the Chairman of the Board of Directors

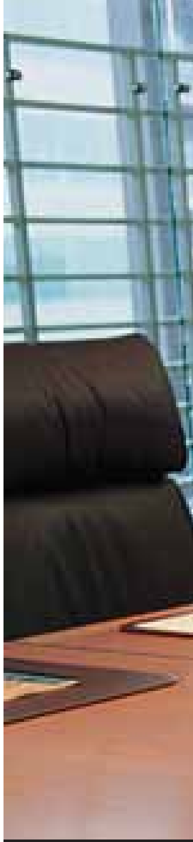
Komerční banka Group significantly improved its earnings for 2007. Can you explain the main reasons for this good financial performance?

Yes, the Group's net profit increased by 21.9% year on year to CZK 11,225 million, which is the best result in the Bank's history. These earnings confirm KB's very strong position among the banks on the Czech market. This achievement is attributable to several factors. I am convinced that KB's business model, which is based on building long-term relationships with corporate clients, on developing retail activities, as well as on operating efficiency and wise risk management, has been designed very well. The good result also vindicates the successful acquisition of the Modrá pyramida stavební spořitelna in 2006. We also should point out that rapid economic growth in the Czech Republic and Slovakia had created a favourable environment for pursuing banking activities and that the liquidity crisis caused by the US subprime mortgage market has had only a very limited impact on the Czech market.

From KB's point of view, 2007 might also be described as a year of innovations. In 2007 alone, the Bank launched more than 50 new or innovated products. Does this mean that the offer of products and services had not been satisfactory up until that time?

No, it definitely does not mean that. I am convinced that our clients can find all the products and services they need at Komerční banka. But it is also true that we have to continuously think about the ways in which their needs will evolve and then adjust our offer to these changing needs. That we truly are doing this is also borne out by the fact that in 2007 we were the first on the market to launch a number of innovations, and we can certainly say, too, that we are helping to push the market forward.

Of the 50 mentioned, I would like to highlight, for example, a revolutionary product for property financing, the Flexible Mortgage, which allows consumers to increase, decrease or defer instalments on their mortgage loans depending on their current financial situations. Then, too, we were the first bank on the market to offer consumers the option to design their own payment cards. For entrepreneurs, medium-sized enterprises and municipalities, very important was the launch of the KB EU Point programme, which opens the door for them to money from the European Union's structural funds.



I am convinced that Komerční banka is excellently positioned to remain a successful player on the market over the long term. We are the most efficiently run bank in the Central European region. Our very prudent cost management and maintaining a reasonable measure of risk in our banking products and services are the main pillars of our long-term strategy.

If one looks at the unquestionably successful television campaign that accompanied the launch of new products, it seems that KB focused mainly on retail customer segments in 2007. Isn't this breaking somewhat from your position and reputation as a leader on the market for medium-sized and large companies?

Komerční banka has traditionally been a leader in this corporate segment. We are proud of this tradition and want to continue developing it. These clients' needs are also changing rapidly; this is not only related to overall globalisation but also to the way in which Czech companies are expanding abroad, their international development. We must be able to adjust to these changes, because otherwise we would scarcely be able to maintain our position. We have put into place a new organisation for services to corporate clients, and

Laurent Goutard, Chairman of the Board of Directors and CEO

so today we are using a new, but in fact already well-settled structure.

Our future development in services to corporate clients will rely on the continuing further reinforcement of co-operation within the Komerční banka and Société Générale Groups, providing services with a high value added, a personalised approach to clients, and our ability to provide highly qualified advice. Development in these areas means that we will have the capability to provide high-quality services to these clients and, at the same time, to help them also to find new business opportunities.

You have mentioned co-operation within the Komerční banka Group, that is to say, collaboration with the Bank's subsidiaries and affiliates. But couldn't it happen that the broad range of products on offer will, paradoxically, result in competition between the Group's companies and their trying to woo clients away from one another?

It is just the other way around, actually. Thanks to the co-operation within the Group, we are able to offer our clients truly comprehensive services. That means we are not enticing clients away from one another; precisely because they find all they need within our Group, they do not need to go and look for it elsewhere. Our subsidiaries did very well in 2007. On the extremely competitive building society market, Modrá pyramida stavební spořitelna was able to increase by one third the volume of its lending for housing investment. The growth in the Komerční banka Group's exposure in consumer finance is greatly supported by our ESSOX subsidiary. Penzijní fond Komerční banky also did very well, and in 2007 it exceeded the 470,000 client mark. Then, too, Factoring KB celebrated the tenth year of its existence by achieving a record turnover in excess of CZK 18 billion. The dynamic growth experienced by all of our subsidiaries vindicates the business model we have chosen, which separates the development of products from their marketing. Co-operation among all companies across the Group not only brings significant cost optimisation effects but also a number of synergies and overall development of the whole Group's selling potential.

KB benefited from the general strong economic growth in 2007, but you have also mentioned the need to adjust to new conditions. From this perspective, what are your main targets for 2008 and how do they fit within the overall strategy of the Société Générale Group, of which KB is a part?

The Czech Republic has experienced several years of strong economic growth. A number of people are asking already today – and quite rightly so – how long the Czech economy can sustain such a strong rate of growth. To my mind, however, an even more important question is: who can be successful on the market when the rate of growth will slow. I am convinced that Komerční banka is excellently positioned to remain a successful player on the market over the long term. We are the most efficiently run bank in the Central European region. Our very prudent cost management and maintaining a reasonable measure of risk in our banking products and services are the main pillars of our long-term strategy. Product innovation and a well-developed distribution network create the best preconditions for the further growth of our customer base.

Komerční banka is part of an international bank, and its results contribute significantly to that whole Group's profit. The importance of retail banking in general, and therefore of KB in particular, will continuously grow; it will be one of the pillars for the development of the SG Group. In this respect, Komerční banka must continue in its successful development and to carry out its strategy.

But social responsibility and an environmentally friendly approach are inseparable parts of business success. Can a company such as a bank contribute in any significant way to sustainable development?

Not only can it do so – it must. We have to think of future generations and the quality of their lives. The Bank, therefore, must introduce environmentally friendlier approaches. In the first phase, we are focusing on energy and paper savings, and we will look for opportunities to achieve savings across our entire operation. That includes the development of new products, and the electronic account statement presents a good example.

Through the KB – Jistota Foundation, the Bank and its employees have contributed to restoring forests in the Šumava region damaged by the disastrous Kyrill windstorm. Through its sponsorship and charitable projects, the Bank shows that it accepts responsibility, and in particular for preserving the country's cultural heritage, as well as in supporting amateur sports, talented young people, health and welfare facilities, and our disabled fellow citizens. Komerční banka has long been working with the National Theatre, Prague Zoo, Czech Rugby Union, and a number of universities. Komerční banka is a Czech bank, and its development is inseparably tied to the development of Czech society. We feel, therefore, that it is our obligation to support this development.

The year 2007 was successful. What key tasks is the Bank facing in 2008?

We regard the good results of 2007 as a commitment to further responsible work. In 2008, we will focus on further developing our lending business. Our target remains to achieve a 25% share of the market for mortgage loans to individuals over the medium term while keeping in mind long-term profitability and an appropriate level of risk. By offering sophisticated products, we will strive to maintain our dominant position in the corporate segment. We attach great strategic importance to cross-selling products within the Group in all customer segments.

I believe that with its comprehensive and high-quality product portfolio, the Komerční banka Group is able to meet the needs of even the most discerning customers. I would like to express thanks to all our clients for their trust in us, and I looking forward to our continuing co-operation in 2008.

8,534

employees worked
for KB Group in 2007.

Major Events in 2007

February

KB received the prestigious "Best Deal of 2006" award from Global Trade Review. The recognised transaction was an export buyer's credit in the amount of EUR 17 million for financing a project in Russia. This deal is unique in that, in co-operation with the credit insurer EGAP, it was the first multi-source export financing in the Czech Republic's history to be arranged with a Czech bank as the lead bank.

In the tenth anniversary year of the prestigious Rhodos survey for the best corporate image, Komerční banka was awarded first place in the banks category.

March

During the first quarter, Komerční banka gradually enlarged its group of relationship managers who are prepared to provide mortgages. Their number increased from approximately 250 to nearly 1,200. Thus, a mortgage loan can now be concluded at almost any KB branch.

April

The General Meeting approved paying a dividend of CZK 150 per share. The total amount of the proposed dividend payout was CZK 5,701 million.

In connection with KB clients' growing interest in direct banking services, Komerční banka announced its intention to open a second call centre. While the original call centre had been established in 1998 in Liberec, the second call centre will be opened in Zlín during 2008's first quarter. Komerční banka will thus bring some 230 new jobs to Zlín by 2012.

May

KB introduced and began selling a number of product innovations. It is the first bank in the country to offer its clients a mortgage loan (dubbed the "Flexible Mortgage") with an option to suspend monthly payments or change their amount. Moreover, the Bank introduced an advantageous account package for start-up businesses, new internet banking features, an option to change a payment card's design, and new secured mutual funds.

June

Komerční banka was named MasterCard Corporate Bank of the Year 2007. The award is based upon the views of finance directors (i.e. corporate banking clients) from the Czech Republic's most important companies.

July

As the sole shareholder, KB increased the share capital of Factoring KB by CZK 1.1 billion to CZK 1.184 billion.

September

As part of the ongoing integration of MPSS into the KB Group, the clients of MPSS were offered a range of products prepared in collaboration with other companies in the Group – Blue accounts, Blue loans, and Blue credit cards – that may be obtained at both Komerční banka branches and Modrá pyramida stavební spořitelna points of sale. Clients may also invest in select mutual funds at MPSS locations.

The number of Penzijní fond Komerční banky's active clients exceeded 450,000. Growth in the number of active participants in this, the Czech Republic's fourth largest, pension fund was faster than the overall market average.

October

The Standard and Poor's rating agency boosted Komerční banka's long-term rating from A to A+.

November

Komerční banka was named "Bank of the Year 2007" in the prestigious MasterCard competition, and MPSS won the title "Building Society of the Year 2007". Both companies received these awards for the third time.

KB became the first major Czech bank to sign an accession agreement to provide SEPA non-cash transfers. Thus, it confirmed its readiness, beginning from the second quarter of 2008, to process clients' non-cash transfers denominated in euros in accordance with uniform European standards.

A CZK 903 million increase in ESSOX's share capital was approved, while Komerční banka's shareholding remained unchanged at 51%.

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 prestigious 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.

Net profit of KB Group increased to

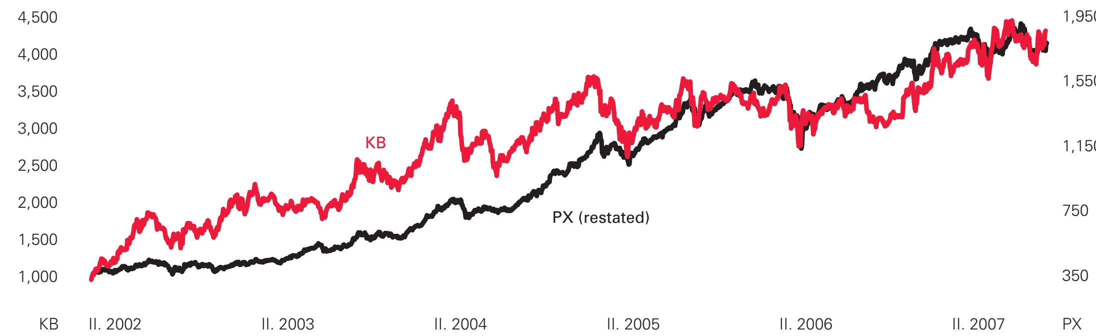
CZK **11.2** billion.

Share Price Development

Capping a year of successful price development, Komerční banka's shares closed out 2007 at a price of CZK 4,371. Strong growth in the Czech economy especially contributed to this improvement, but so did the fact that KB announced a succession of excellent quarterly results. The Bank's share price rose faster through the year than did the overall Czech market as measured by the PX Index. A short-term decline in early March was influenced by the sudden slump on Asian markets. Moreover, the stock began trading without dividend rights in May, which caused an additional technical drop by the CZK 150 of the dividend payout. From the middle of August till the end of 2007, shares of financial institutions across the world were under pressure due to the credit crunch in the USA caused by the mortgage crisis there. After this short-term downturn, however, KB shares benefited from the Bank's transparency regarding its exposure to structured debt securities, as well as from its strong liquidity position, and their price began rising again. KB's share price reached its maximum level for the year, at CZK 4,509, in the first half of October. The total return on Komerční banka shares in 2007 was 49%. This consisted of a price gain of 41% and a dividend yield of 5%. With an average daily trading volume of some CZK 540 million and a market capitalisation exceeding CZK 166 billion, Komerční banka remained one of the most important issues traded on the PSE.

Development of KB share price in 2007 (% change)

Development of KB share price vs. PX Index during 2002–2007



Information on Komerční banka shares

	2007	2006	2005	2004	2003
Number of outstanding shares [1]	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Market capitalisation (CZK billion)	166.1	117.8	130.8	124.4	91.9
EPS (CZK) [2]	295.7	242.5	234.4	235.2	228.0
BVPS (CZK) [3]	1,332.7	1,322.2	1,350.4	1,179.0	1,089.2
Share price (CZK)					
maximum	4,509	3,663	3,754	3,452	2,655
minimum	3,119	2,815	2,673	2,418	1,837
closing price at the end of period	4,371	3,099	3,441	3,272	2,418

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

Dividend Payment

In April 2007, the Komerční banka Annual General Meeting (AGM) approved a dividend payment for 2006 of CZK 150 per share before tax, which amounted to 61.9% of (restated) consolidated net profit. According to the Bank's Articles of Association, shareholders holding KB stock on the thirtieth calendar day following the date of the AGM are entitled to received the dividends.

	2006	2005	2004	2003	2002
Dividend (CZK) [1]	150.0	250.0	100.0	200.0	40.0
Payout ratio (%) [2]	61.9	106.6	42.5	87.7	16.8

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

Macroeconomic Development 2007

The year 2007 brought further progress in the process of convergence with developed Western European economies. Economic development, as measured by GDP per capita on a purchasing power parity basis, came close to 75% of the euro zone average. There were signs, however, that the economic cycle had reached its peak. A marked decline in the unemployment rate also means that a shortage of appropriately qualified labour represents an important threat to future economic growth and raises concerns over inflationary pressures. The Czech currency appreciated against both the US dollar and the euro, and especially at the end of the year.

The year 2007 reconfirmed the strong activity in the Czech economy that is contributing to the ongoing process of convergence with Western Europe's developed economies. Nevertheless, some signs appeared during the year to signal that the economy has already reached the peak of the business cycle. The structure of domestic demand was balanced, as household consumption increased by 5.7% year on year and investment demand rose by 6.1%. Overall GDP growth was 6.5% for the year. The level of economic development as measured by GDP per capita in real purchasing power parity terms was very close to 75% of the euro zone average during 2007.

The main driver of GDP growth on the supply side continued to be manufacturing industry, whose share in GDP remained at around one quarter. Industrial output grew by 8.2% during 2007. The expansion in industry was predominantly attributable to solid growth in the automotive industry, as well as to the electrical equipment and general machinery segments. The role of foreign-controlled industrial companies continued to strengthen, as these accounted for approximately one half of gross value added in manufacturing. Moreover, the export orientation of foreign-controlled companies is increasing, and around three quarters of their production was exported.

Generally, Czech industry's good results are strongly aligned with its continuing solid export performance. The trade balance for the full year showed a surplus of CZK 85 billion, which was more than double the 2006 surplus and the best result in the country's history. The excellent trade balance is largely attributable to improving terms of trade, which strengthened by 2.5% year on year and demonstrated the growing competitiveness of the country's products on world markets. The rate of expansion in foreign trade has exceeded that of GDP, and so the Czech economy is steadily becoming more open. Indeed, the Czech economy is one of the most open within the EU 27. The European Commission estimates that its goods and services exports for 2007 stood at 80% of GDP, by which measure the Czech Republic ranks sixth among EU countries.

Construction output rose by 6.7% in 2007 and was driven in particular by

public sector orders – especially for such infrastructure projects as highway bypasses for large cities, motorway networks, railroad corridors, and additions to Prague's underground network. Construction growth has been fuelled also by the activities of foreign investors and housing construction. Booming demand for new apartments has been driven, in part, by demographic developments, as the children of the 1970s population bubble have higher incomes. Playing a role in 2007, too, were expectations that the VAT rate would be increased for housing construction. Rapidly developing residential construction supported demand for construction materials and for housing-related durable goods, the latter of which, along with strong demand for other consumer goods, contributed to the 7.7% record retail sales growth. Consumer demand was strengthened by both strong wage gains and dynamic increase in borrowing.

Investment demand increased by 6.1%.

Household consumption rose by 5.7% and retail sales by 7.7%.

Higher employment was another factor supporting demand. Unemployment fell significantly in 2007 – from the 7.7% rate in December 2006 to just 6.0% at the end of 2007. Although the main unemployment indicators have returned to the levels from before restructuring of the Czech economy, the macroeconomic background is now quite different. While over-employment accounted for the apparently favourable figures in the 1990s, a shortage of appropriately qualified labour now represents an important threat to future economic growth. Due to labour market rigidities and a still rather generous and de-motivating social system, a record high number of vacancies cannot be filled by domestic workers. Long-term unemployment, therefore, stands among the highest in the EU.

Strong economic activity that is driven predominantly by domestic demand, along with labour shortage in several areas that is accompanied by rising pressure on wages, is resulting in demand-driven inflationary pressures. At the same time, high raw materials, fuel and energy prices are being passed through to producer prices. A new factor has been a turnaround in food prices. After falling for two years, food prices began to rise due to increasing world demand and the developing production of biofuels. The year-end consumer price index rose by 5.4% versus December 2006, and average inflation was 2.8% for 2007.

Appreciation of the Czech currency, which had been a very important brake on inflationary pressures in the past two years, paused in the second and third quarters of 2007. Nevertheless, the crown began rising again with unprecedented intensity in the last four months of the year. The currency actually depreciated from January 2007's average of 27.8 CZK/EUR to 28.5 in June 2007. Beginning to strengthen again in August 2007, by December the crown's average exchange rates had reached 26.3 CZK/EUR and 18.0 CZK/USD. Strong appreciation relative to the dollar thus compensated for high world prices for oil and some other raw materials. The year's average appreciation relative to the euro and dollar was 1.8% and 10.2%, respectively.

Increasing inflation led the Czech National Bank to tighten monetary policy. Until May 2007, its key two week repo rate had stood at 2.5%. The CNB Board raised basic interest rates four times during 2007, by a cumulative 100 basis points, thus leaving the two week repo rate at 3.5% at the end of 2007. Consequently, 3M PRIBOR rose from January's starting value of 2.6% to 4.1% in December. Its average for 2007 was 3.1%. Nevertheless, even after four increases, Czech interest rates remained the lowest in the EU 27. The negative differential relative to the the European Central Bank's refinancing rate thus contracted to 50 basis points and the differential between 3M PRIBOR and 3M EURIBOR narrowed to 80 basis points by December 2007.

Global financial turbulence had little effect on Czech banks' lending activities. They continued to fund their credit provision mainly from domestic deposits. Total borrowing rose by 26% year on year and was equivalent to 50.5% of GDP at the close of 2007. Credit to households registered the most rapid growth – at 33% year on year – and household indebtedness thus reached CZK 708 billion. Housing loans, with an 86% share in all households loans, grew at a very fast pace of between 30% and 40% year on year throughout 2007. In spite of that rapid growth, the financial stability of households remains solid. According to a CNB analysis, the rise in household indebtedness represents no threat either to the households sector or to the banking sector. The proportion of loans assessed as risky or non-performing does not exceed 3%. Households' indebtedness had reached 20.5% of GDP by the end of 2007, which is only about one third of the levels in developed EU countries.

Komerční banka was the first bank in the Czech Republic to sign the SEPA Adherence Agreement.

Development
of the Regulatory Environment

SEPA

Single Euro Payments Area (SEPA) is a pan-European payment initiative aiming to unify fragmented national markets for euro-denominated payments into a single zone in order to improve the efficiency of cross-border payments. Under SEPA, there will be four basic euro payment operations – credit transfer (SCT), direct debit (SDD), cards framework (SCF) and cash area (SECA) – and these will be made under unified standards. SEPA includes countries in the European Economic Area (EU countries, Norway, Liechtenstein, Iceland) plus Switzerland. The process of implementing these standards officially begun on 28 January 2008 for credit transfers. The initiation of SEPA direct debits is expected at the end of 2009, and in the cards area this will occur sometime in 2008–2010.

Individual banks – not countries – will join the SEPA initiative. KB and KB Bratislava (KBB) signed the pertinent Adherence Agreement on 19 November 2007 and thus must implement the relevant standards within six months from the signing date. Komerční banka was the first bank in the Czech Republic to sign this agreement.

KB and KB Bratislava will begin offering SEPA credit transfers from 1 April 2008, while implementation proceeds with the Euro Programme Project already initiated in 2006. We expect to offer SEPA direct debits and collective transfers by the end of 2009. We should note that we are already issuing payment cards in accordance with SEPA framework standards.

The Euro Programme primarily involves technological preparations by both KB and KBB for SEPA implementation. This process requires implementing related changes into all current payment systems used in KB and KBB. At the turn of 2007/2008, the individual systems were adjusted and the testing phase was prepared.

For clients, SEPA will bring in particular greater convenience, and especially in the extent of transferred information and the possibility to use XML format in internet banking. SEPA will enable people to make cashless payments throughout the euro area as quickly, safely and easily as they make domestic payments. In SEPA, all euro-denominated payments are considered domestic and are made with the same set of payment instruments.

SEPA does not in any way determine fees. Pricing of SEPA instruments remains solely at the discretion of each bank, and any discussions on this issue would be in direct contradiction with provisions on free economic competition within the common market.

For KB, the launch of SEPA is a strategic project within the integration of financial markets, which means it will bring to the Bank both more business opportunities as well as more competition.

The main principles of non-cash SEPA transfers, which are always executed in EUR, are the following:

- transferred amounts and currencies are unlimited;
- instructions are transferred in XML format according to UNIFI (ISO 20022);
- IBAN and BIC provide the only and unique identification for the client's account and his or her bank;
- no deductions are made from the transferred amount, as both payer and payee defray the fees of their own banks;
- the maximum end-to-end transfer time is 3 days;
- the process is automated, involving no manual intervention;
- a sender-to-receiver message can have up to 140 characters (and must be transferred in full and without change to the receiver).

MiFID

Three objectives are to be achieved in adopting Directive 2004/39/EC on Markets in Financial Instruments (MiFID). The first is to finalise creation of the single European market for investment services. The second is to accommodate regulations to changes and innovations that have occurred in securities markets. The third is to protect investors by making markets transparent and more competitive. MiFID makes significant changes to the regulatory framework and reflects developments in financial services and markets with a strong impact on firms. The Directive will affect all such companies as banks, brokers, sales intermediaries for investment products, and other providers of investment services.

MiFID fully applies to Komerční banka and Komerční banka Bratislava, but the building savings, pension fund, and insurance products are not affected. As a sales intermediary for investment products, Modrá pyramida stavební spořitelna will be subject to MiFID for some part of its business. Consequently, MiFID requirements will be implemented there, as well.

MiFID mainly focuses on the following areas:

- client categorisation (retail clients, professional clients, and eligible counterparties);
- rules of conduct regarding clients (ex ante information obligations, ex post reporting, best execution, and orders handling);
- market transparency and integrity; and
- internal organisational requirements for securities dealers, including rules for outsourcing, the compliance function and internal audit, as well as managing conflicts of interest.

In view of KB's product structure, MiFID affects products and services of the Investment Banking Arm, including investment research. It also impacts on the acceptance and transmission of orders to buy or to sell shares, bonds and other securities, including units of collective investment undertakings, within Komerční banka's distribution network and direct banking channels.

MiFID regulations should have come into force on 1 November 2007 throughout the EU, though there are still many uncertainties associated with their implementation. The Czech Republic is one of several countries in delay, and enabling legislation is expected to be finalised in 2008's second quarter. In spite of this, Komerční banka has assumed an active role in implementing MiFID and has participated intensively in discussions with regulators and trade associations. KB has been strongly supported by SG specialists, who have extensive experience in implementing MiFID within countries of the European Union.

KB's major project efforts are focused on adapting the information systems, clients' documentation, and internal methodologies. Effectively implementing MiFID into business processes would not be possible without a proper training program. Such a program, to be launched in 2008, will cover both general awareness instruction and more specialised training.

Although Komerční banka has already implemented most of the changes, this undertaking will only be fully completed in 2008. KB will continue in its best efforts to ensure that the MiFID principles are effectively and reliably fulfilled for the benefit of its customers.

KB assumed an active role in MiFID implementation.

Basel II

Basel II comprises new banking regulations effective from 1 January 2008. These impact the calculation of capital adequacy while also expanding upon and refining the existing Basel I principles. KB must adhere to certain minimal standards in risk management. The new rules bring changes in credit risk management. These especially emphasise the quality of the internal rating system and its everyday use in practice, as well as broaden banking regulation to include management of operational risk (which will impact the minimum capital requirement). For details on Basel II implementation in KB, see chapter Risk management.

Report of the Board of Directors

Strategy

Komerční banka, together with its subsidiaries, is a leading financial group that is fully integrated into the Czech environment. Being a universal bank based on a multi-channel distribution model, KB's ambition is to develop long-term and profitable relationships with its clients while offering them a comprehensive range of financial products and services.

The Group's retail market strategy focuses on further developing business activities and leveraging on that market's significant growth potential. KB's objective is to continue increasing the number of clients in all sub-segments of the individuals market through organic growth with limited opening of new points of sale, and building on the recent Modrá pyramida stavební spořitelna acquisition. Students and young people will be targeted with a dedicated sales effort. KB intends to further develop lending activities and cross-selling on this still under-penetrated market.

KB aims to fortify further its leading position on the small and medium enterprises market while maintaining its unique position in serving large corporations in the Czech Republic. Expanding the loans portfolio and increasing cross-selling of advanced products also are among the main objectives in the business segment.

Already one of the operationally most efficient banks in Central Europe, Komerční banka continues to optimise its processes and functions.

In order to achieve these strategic targets, Komerční banka will emphasise the following areas:

- continuously improving products and services to reflect or anticipate the needs of clients,
- adhering to and further developing the quality commitments to clients, including to improve transparency in the relations with its clients,
- enhancing the individualised approach to clients and emphasising the development of tailor-made products and services based on the relationships developed by dedicated relationship managers in the retail branch network, business centres and Top Corporate divisions,
- developing investment banking activities and sales to corporate clients,
- properly identifying and prudently managing all types of risks,
- enabling the clients to easily access the Bank via the full range of classic and direct banking channels,
- further improving efficiency of sales through interconnecting all distribution channels and capitalising on alternative channels, including the agent network, internet and call centres,
- exploiting synergies and expertise arising from co-operation within the KB and SG groups,
- identifying and exploiting potential for optimising such operations as back office, IT and support services.

Client Services

- To effectively meet clients' needs, Komerční banka endeavours to offer a wide range of sophisticated products developed either by KB itself or by companies from KB/SG Group and external partners.
- Komerční banka plans to finalise the expansion of its branch network in 2008. At the same time, KB is installing new ATMs and further developing the services of the telephone, mobile, internet and PC banking channels, as well as sales through the acquired network of MPSS agents.
- The Bank strives continuously to improve the quality of services and transparency in the relations with its clients. With the start of 2008, KB extended its commitment to provide a guaranteed level of services based on principles of security, reliability, speed, trustworthiness and individualised approach.

Expected Developments in the Financial Situation

KB's financial performance in 2007 was impacted by the one-off effect of fully consolidating MPSS from the fourth quarter of 2006. After adjusting for this and some other, less significant items, Komerční banka still achieved solid growth in both revenues and net profit. Management expects that KB's business strategy will:

- sustain positive development of revenues generation and recurring profitability,
- achieve a high level of efficiency due to faster growth in revenues than in costs,
- lead to gradual increase in the loans/deposits ratio, and
- enable such growth while keeping the cost of risk under control.

Management also expects that Komerční banka will maintain its very good liquidity and strong capital base, as reflected in the Tier 1 capital-adequacy ratio's being targeted close to 10%.

Main Challenges for the Bank

- Although we may see somewhat lower appetite for borrowing in the retail segment, higher market interest rates and expected slower economic growth in the Czech Republic in 2008, as compared to 2007, should be compensated by higher disposable income for individuals and companies following the tax reform effective from 1 January 2008.
- Challenging global macroeconomic conditions have not significantly affected the open Czech economy so far, although increased inflation and the record-high currency raise certain concerns. KB's prudent lending and risk management policies have resulted in a healthy balance sheet and have positioned the Bank well to face potentially unstable conditions.
- Growing the number of clients will remain of strategic importance for the Bank. Special emphasis will be directed to client acquisition in the mass market and youth sub-segments.
- The Bank will continue in building its lending activities in both the retail and corporate segments, and one of the main targets will be to further expand its mortgage lending. KB's medium-term objective is to acquire and maintain a 25% share on the individual mortgage market while holding portfolio yield and cost of risk within acceptable levels.
- Upon its completion, the development of the branch network will result in some 400 points of sale in 2008. Full attention will be devoted to integrating the MPSS agent network into the Group's sales force, as well as to exploiting the full potential of the second call centre opening in Zlin during 2008's first quarter.
- Enhancement of cross-selling projects will continue, and not only with MPSS but also between other companies of the KB Group. The comprehensive offer of the integrated KB Group, complemented by the sophisticated products and services from SG Group and external partners, is aimed at boosting the clients' satisfaction and loyalty.
- In order to retain its leading market position in the corporate segment, the Bank will concentrate on developing tailor-made products and services while promoting its individualised approach to the clients. Solid groundwork for reaching this goal was laid through an extensive reorganisation within the distribution network for the business segments that was carried out with effect from January 2007.

Standard and Poor's upgraded KB's long-term rating from A to A+.

Komerční banka was the first bank to offer its clients a mortgage with an option to suspend or change monthly payments – the Flexible Mortgage.

Clients and Markets

The central aim of Komerční banka's customer relations strategy is to build long-term relationships with its customers. At the same time, KB strives to create products and services that answer to the individual needs of clients while also continuously improving these products and services.

Segmentation and Banking Network

Client segmentation is the primary instrument for adapting services and the product line to customers' demands. KB carries out segmentation at the highest level according to quantitative criteria – in particular turnover – and then gives special consideration to individual customers. The Individuals and Small Businesses sub-segments fall within the Retail Banking segment. As of the end of 2007, in addition to the direct banking and ATM channels, a network of 386 branches, including a branch for private banking, was available to clients in those categories. In Corporate Banking, 35 business centres were devoted to serving enterprises and municipalities. The Bank develops relationships with the largest corporations through its four Top Corporate divisions.

The year 2007 brought further expansion to the sales network of branches. KB opened eight new points of sale. New kiosks constitute an absolute innovation on the Czech banking market. These are standalone points of sale with a very modern design and are located near hypermarkets or in other high-traffic locations. The range of services offered is the same as in small points of sale. Komerční banka opened its first kiosk in 2007, and it should open even more in coming years.

By the year's end, KB had 661 ATMs, which represents a year-on-year increase of 12 new machines.

Individuals

Komerční banka is the third largest retail bank on the Czech market, and in 2007 it further strengthened its position in the Individuals segment. KB acquired more than 167,000 new clients, the total number of clients reached 1.293 million at the year's end.

Products and Services

For KB, the year 2007 was also one of product innovations. The Bank introduced to the market over the last 12 months a record number of more than 50 product improvements, thereby increasing the flexibility of services and client convenience. The majority of these improvements are intended for clients in the Individuals segment. Key innovations include the Flexible Mortgage, PIN change and personal design for payments cards, new "all inclusive" packages, electronic account statements, 18 new mutual funds, and the youth portal www.g2.cz. This strategy and its successful implementation were acknowledged by the Bank's being named "Bank of the Year 2007".

KB continues to maintain its leading market position in the youth segment

Individuals	2007	2006	Change
Total number of mortgages	66,600	53,000	+26%
Total volume of mortgages (CZK billion)	75.0	56.9	+32%
Total number of consumer loans	192,300	168,900	+14%
Total volume of consumer loans and current account debits (CZK billion)	15.3	12.1	+26%
Total volume of credit card loans (CZK billion)	2.1	1.7	+24%
Number of active credit cards	154,500	136,700	+13%
Number of active packages	932,500	871,800	+7%
Number of child accounts	163,600	146,700	+12%

KB unconsolidated data

with nearly 158,000 student accounts. The unique UNIkarta – a combined payment and university ID card currently used by five universities – was introduced to the market in 2006 and continued to spread in the Czech Republic during 2007. KB achieved significant success with its new lifestyle youth portal, www.g2.cz, which has recorded almost 500,000 visits since its launch in March 2007. Komerční banka also continued the G2 JoyRide tour (the biggest sport-music festival in Central Europe), whose various events bring KB's products to the attention of a wide spectrum of young people.

The Bank continued in developing its lending activities in the Individuals segment, where mortgages, consumer loans and credit cards took priority. The successful financing strategy was demonstrated by the splendid results for all loan products (see table). The unique Flexible Mortgage, introduced to the market in the spring, also contributed to the outstanding success. The first mortgage on the Czech market that truly conforms to a client's individual needs, it enables not only payment deferral by up to 12 months but also decrease, increase or postponement of payments. Another significant change for clients was a new sales organisation that introduced mortgages sales at all KB branches.

In the consumer loans area, one innovation was a loan for purchasing a Dell notebook, provided to student clients and only on the basis of a confirmation of studies. The new possibility to obtain a credit card or consumer loan on-line via the internet banking system represents another attractive offer.

KB enhanced its offer with the new "all inclusive" Extra and Premium account packages. Our new offering for entrepreneurs, dubbed Program DUO, provides free maintenance of the personal Duo account to all business account holders.

The first bank in the Czech Republic to do so, Komerční banka has enabled its clients to receive fully personalised payment cards. A KB client may place an image of his or her choosing on the front side of the payment card and may easily change that card's PIN number at any of the Bank's ATMs.

KB launched new functionalities in the Mojebanka internet banking application. Via the internet, clients may obtain new as well as archived account and payment card statements as far back as 2003, authorise collection orders or SIPO payments, invest in mutual funds, recharge prepaid cards of mobile phone operators, or request the electronic sending of account and payment card statements.

In the investment products area, the innovated KB Ametyst line of secured and guaranteed funds was introduced to the market. The range of foreign funds managed by Société Générale Asset Management, too, has been significantly expanded. KB thus offers a total of 25 funds in its sales network, including new KB funds that specialise in finding attractive investment opportunities on the money, bond and equity markets. One such fund is the special KB Realitních společností mixed fund. Some five months after the funds came onto the market, clients had already invested more than CZK 1 billion into the KB funds.

In co-operation with Komerční pojišťovna, KB extended its offer of the VITAL Invest investment life insurance funds, where clients may now choose from among a total of five funds. Two newly incorporated funds were the Guaranteed Appreciation Fund and the Dynamic PLUS Fund.

The Bank continued its close co-operation with other companies from the SG Group active in the Czech Republic, which grew in 2006 through the addition of Modrá pyramida stavební spořitelna (building society). Last year, the Bank prepared new and attractive products for MPSS clients: the Blue Account, Blue Account PLUS, Blue credit card and Blue consumer loan. Sales of "Blue" products are made through a network of MPSS representatives under the MPSS name.

Distribution

Among the main tasks of the distribution network in the Individuals area was the acquisition of new clients. That effort built not only upon the synergy potential within the financial group (particularly from MPSS and PF KB) but also upon the new university ID cards aimed at acquiring student clients. Mortgages represented an equally important area, where fundamental changes took place in the sales process to make mortgages a standard product offered at all KB branches. Great attention was given also to the sale of non-purpose loans, resulting in very welcome year-on-year growth dynamics. In the investment products area, the greatest attention was given to broadening sales capacity by boosting relationship managers' know-how and certifications. During 2007, a brand new sales tool (the so-called "Map of Needs") was also introduced, much improving how a client's actual needs are identified and accommodated.

Loan products – including mortgages, consumer loans and credit cards – will continue to be a priority in 2008. In the next year, there will be a series of innovations and changes in mortgages that will certainly make these more attractive for applicants. Consumer loans and credit cards will also see changes. In addition to non-purpose loans, KB will continue to offer purpose loans for students and other specific client groups.

In its efforts to acquire new customers, KB will further develop co-operation with the companies of KB Group. Activities in innovating and creating new products will be unambiguously linked to acquisition operations. Strengthening synergies should contribute to increasing the numbers of the Bank's and its subsidiaries' customers. The broader offering of products and services should, in turn, help boost KB Group clients' satisfaction and strengthen their loyalty.

Private Banking

KB also launched new business activities in the Private Banking area, and on 1 March 2007 it opened a specialised branch with nationwide competence. This branch provides comprehensive financial services to the wealthiest individual clients.

The basis of the Private Banking offer is advisory and management of the client's financial assets, including a unique offer of non-public investment products. Moreover, this branch offers high quality day-to-day banking services with an emphasis on an individualised approach and confidentiality. The Private Banking branch's offer is prepared in co-operation with the partners of SG Group, and particularly SG Corporate & Investment Banking, SG Private Banking, and SG Asset Management. KB's new business activities in Private Banking benefit from the Bank's traditionally solid position on the local market, the stable growth of the Czech economy, and the internationally powerful position and know-how of SG Group.

Small Businesses

Serving some 262,000 clients at all of KB's 386 points of sale, Komerční banka continues to retain its leading position on the small business market. Entrepreneurs meet with experienced relationship managers trained specially to know their needs and present services to entrepreneurs and small businesses.

Products and Services

In the past year, Komerční banka added to its portfolio of small business products and services designed for specific groups of entrepreneurs as well as some products that are beneficial for nearly all entrepreneurs.

The main innovations in the product range during 2007 were the Efekt Start services package, for start-up businesses and entrepreneurs, and Program DUO, which is specifically for entrepreneurs and comprises services for managing both business and personal finances. Through this program, an entrepreneur or company representative obtains personal account maintenance entirely free of charge. By managing both accounts with one relationship manager, the client saves time as well as money.

Another innovation for entrepreneurs is the possibility to set up delivery of electronic account statements. Electronic statements fully replace printed statements and conserve not only money but also the environment. They are available through direct banking services and thus provide the entrepreneur even greater convenience.

An appealing innovation in payment cards is the possibility to change the card's PIN. Using any Komerční banka ATM, the cardholder may select a PIN number that is easy for him or her to remember.

There were even more developments in the financing area. M-guarantee is a product from ČMRZB that helps start-up businesses and entrepreneurs, among others, to finance their firms' take-off. Komerční banka accepts M-guarantee as a high-quality security instrument in providing business loans.

During 2007, current clients of the Bank welcomed the expanded offer of business loans provided without documentation of the client's income. In order to receive such a loan, the client must already have maintained a current account at Komerční banka for a minimum of 6–12 months. Most loans to entrepreneurs and small businesses are provided using this simplified method.

Serving 262,000 clients, KB retains its leading position on the small business market.

Small Businesses	2007	2006	Change
Number of business loans	26,400	19,400	+36%
Number of authorised overdrafts and credit lines	65,560	67,330	-3% *
Number of business credit cards	51,930	40,500	+28%
Drawn volume of business loans, current account debits, and on business credit cards (CZK billion)	15.5	12.2	+27%
Number of financial packages	170,560	160,100	+7%

KB unconsolidated data

Note: * The decline in the number of authorised overdrafts reflects a transition to different forms of financing (business loans), which, with adjustments to their parameters, in certain cases now better correspond to the entrepreneur's immediate needs.

In this way, it is now possible to obtain a short-term (maturity up to 1 year) Profi loan of up to CZK 1 million or a medium-term (maturity up to 3 years) Profi loan with a CZK 500,000 limit. Such modified maximum limits are consistent with the current needs of entrepreneurs for financing their business activities. If an entrepreneur or small business intends to carry out an investment in an amount larger than these limits, then KB uses a modified scoring model, implemented in the last quarter of 2007, to rate the applicant's creditworthiness. This model takes into consideration specific characteristics of small businesses and, consequently, reduces the influences of financial indicators obtained from firms' financial statements and gives greater emphasis to such non-financial indicators for the given business entity as its business history, as well as the quality and experience of the management.

In 2008, the Bank will focus especially on actively reaching out to entrepreneurs and firms newly entering the market. With simplified administrative conditions and a more positive economic climate favourable to new businesses, the number of entrepreneurs and small businesses will increase year to year. Komerční banka has the answers to their needs – not only through its comprehensive products offer but also via corresponding advisory.

Company packages complemented with management of personal finances and simple, fast and readily available loan products will remain key products for 2008. These products especially enable entrepreneurs to flexibly finance their companies' operating needs. KB wants to get closer to its business clients and to simplify entrepreneurs' path to drawing grants from EU structural funds. The latter includes to provide funds for pre-financing and co-financing a grant for a relevant project. The Bank also will offer quality advice in this area.

Distribution

KB wishes to reaffirm its position as the entrepreneur's partner, and not just as a provider of financial services. Quality advice is seen as an important pillar of our clients' satisfaction. Therefore, the Bank will continue to develop its concept of serving our most important entrepreneurs through specialised relationship managers, who will provide this advisory at most branches. KB also will prepare specialised internet pages for entrepreneurs where it will be possible to obtain answers to an array of questions concerning business enterprises and their related needs. Moreover, it will prepare new printed materials, such as the publication "Enterprise Advisor", which has been greatly sought out by entrepreneurs since its release last year.

KB's share of the banking services market for firms stood at 40% in 2007.

Enterprises and Municipalities

KB succeeded during 2007 in maintaining its share on the banking services market for enterprises at 40%. Significant growth in the volume of loans drawn and funds maintained in our clients' accounts supported KB's position as the leading bank on the enterprises and municipalities market. The main priorities are long-term client partnerships that are supported by a comprehensive offer of products. Understanding clients' needs allows for creating individually "made-to-measure" solutions.
In 2007, KB was again awarded the title "Corporate Bank of the Year", underlining the quality of its services.

Products and Services

Komerční banka continues to maintain its long-term relationships with clients in co-operation with the associated companies of the SG Group. Excellent sales results were achieved in leasing machinery and equipment as well as in automotive leasing. There continues to be significant potential, too, in intermediating pension and life insurance, which our clients provide

Year-on-year increase in lending to municipalities came to

27%.

as benefits to their employees. In co-operation with SG Equipment Finance, a new real estate leasing offer was prepared. The award "Bronze Crown 2007" in the category Best Leasing Product for Corporate Clientele recognises the quality of the ALD Automotive offer. Thanks to the synergies of SG Group, KB's offer is so comprehensive as to be a paradigm of the motto "All under one roof".

The loan portfolio's year-on-year growth of 16%, to total some CZK 77.7 billion, reflected a successful year for the Czech economy and corresponds also to KB's strong position in the segment. In the municipal segment, the loan portfolio achieved significant growth of 27% year to year. In that 52% of Czech municipalities have selected KB as their primary bank, Komerční banka recorded the highest interest ever in this segment for its day-to-day banking services.

In spite of the crown's strengthening exchange rate, Czech foreign trade proved competitive. KB's earnings and increasingly prominent position in trade finance are also indicative of this competitiveness. This was demonstrated by the volume of newly granted guarantees, which grew by more than 30%. Trade finance specialists providing advisory directly in the regions also deserve great credit for this. In addition, KB significantly increased client awareness of the individual phases of processing import collection orders and letters of credit in real time. In February 2007, KB signed an agreement with Export Guarantee and Insurance Company (Exportní garanční a pojišťovací společnost – EGAP), on the basis of which it provides insured pre-export loans and guarantees to small and medium enterprise exporters. All are subject to a simplified procedure with minimal administration demands upon the client.

In 2007, KB strengthened its position in the area of financing projects with EU grant support. Also, there came into being the program KB EU POINT, the purpose of which is comprehensive advice and financing for clients requesting grants from EU funds. By appointing regional EU specialists, the expert capacity in the business network was enhanced. In recent years, the certified Ponte financing product has been adapted to the conditions of the new cycle of European grants (Ponte II) and expanded with a service for selecting grant programs (Grant Survey). An integral part of KB EU POINT services is co-operation with specialised consulting agencies, which provide KB clients with expert processing of grant applications and project administration.

In the business loans area, the Profi loan offering was adapted to the demands of middle-sized companies, among others, by increasing the maximum limit amount to CZK 1 million for clients with a minimum six-month history in KB and without submitting financial statements.

Other examples of innovations for enterprises and municipalities include the non-public offer of collective investing funds intended for qualified investors, the Diners Club Corporate Card, Profi guarantees for securing toll obligations, the offering of pre-export financing and provision of bank guarantees insured by the state-sponsored Exportní garanční a pojišťovací společnost (EGAP), and the new comprehensive offer of benefits for employees of KB's business clients under the name Corporate Program Domino.

The most significant activities for 2008 are rationalisation of the lending process, innovations for municipality and operating capital financing, and intensive activities at KB EU POINT in connection with the expected interest in financing projects supported by European grants. Another priority is the introduction of payment products corresponding with SEPA standards for the payment system within the European Economic Area.

Distribution

With the start of 2007, a new service structure was established at all 35 KB business centres specialised in providing services to enterprises and municipalities. The service provided to clients was adapted to meet their size and needs, as well as to optimising the availability of individual support from the assigned relationship manager. A positive reaction from clients confirms that this development succeeded in strengthening the long-term partnership with clients, as well as the expert advisory and comprehensive care that KB business centres provide.

Events arranged in co-operation with long-term partners are characteristic of the enterprises and municipalities segment. A prime example is the partnership with the agency CzechTrade that already has been going on for five years. Together in 2007, we organised five seminars oriented to the markets of Eastern Europe, Russia, China and India. Foreign trade activities are bolstered, too, by a partnership with the Chamber of Trade and Industry for CIS Countries, with which it was arranged for Komerční banka's CEO to participate in a business delegation accompanying President Václav Klaus on a state visit to the Russian Federation in April 2007. KB's participation at the International Engineering Fair in Brno, too, is a long-standing tradition.

Also important is the partnership (already ongoing for three years) with the Union of Towns and Municipalities of the Czech Republic. In 2007, KB was a general partner at 13 regional meetings, the 10th Union Assembly, and the 10th National Financial Conference. This platform offered the possibility to introduce the new EU POINT concept to the most prominent entities applying to the EU for co-financing of projects.

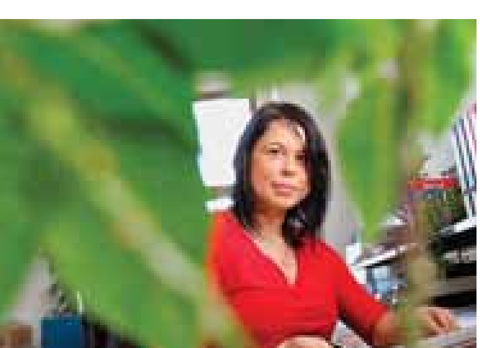
As in previous years, KB organised for exporters and importers a series of professional seminars for presenting and exchanging experiences of the Bank's prominent clients from trading in important foreign markets. Further significant growth in the volume and number of executed trade finance transactions confirmed the Bank's privileged position in financing foreign trade.

Top Corporates

In the largest corporates segment, Komerční banka had again in 2007 a dominant position and the highest market penetration. Surveys also confirmed high retention of client loyalty and satisfaction.

In step with restructuring of the business network, since the beginning of 2007 the largest corporate clients have obtained services at four new points of sale where they are served by specialised staff of the Top Corporations department. One of the positive results of the new organisation is that the Bank this year substantially extended its loan portfolio in the corporate segment – by 18.7% to approximately CZK 85 billion. The new access and high level and quality of the Bank's services in this market segment were recognised when it again was awarded the title "MasterCard Corporate Bank of the Year 2007" in the third year of that competition.

In 2007, Komerční banka continued to strengthen synergies within the KB and SG financial groups. For example, a large number of corporate clients' employees use retail banking services, including pension and life insurance. In accordance with the strategy of using high-level expertise for providing comprehensive services to clients, the selling of products from associated companies in the KB network (e.g. SGEF providing leasing of technologies and trucks, ALD offering automotive fleet management, and ECS offering IT and other leasing) also increased.



The high level and quality of services were recognised by the title "MasterCard Corporate Bank of the Year 2007".

Komerční banka achieved a record year for the number of debt financings arranged.

In its product innovation plans for large corporations, the Bank targeted the lucrative international cash management area, among others, an important segment of which is so-called cash pooling. KB offers these services to large domestic and foreign corporate groups – both within the Czech Republic and internationally. An example is the successful implementation of these services for the Veolia Group, including a combined structure of domestic and cross-border cash pooling with the involvement of 26 Czech companies. In trade finance, the most significant innovation related to administration of import collections and letters of credit. Clients receive real-time information on progress of the documentary payments. Clients can also participate in seminars focused on individual regions that are organised by KB in co-operation with its partners.

A new direct banking channel is being designed for member companies of international groups and companies expanding abroad. Through this channel, these clients, or their foreign parent companies themselves, may operate their accounts and flexibly transfer funds.

Investment Banking

Unaffected by the outbreak of a global financial market crisis in the middle of 2007, Komerční banka's investment banking activities again contributed strongly to the Bank's profitability.

Transactions with clients on spot and derivatives markets increased significantly, and especially in the first half of the year. Trading on the Bank's own account across all asset classes was very successful and exceeded the targets set at the beginning of the year.

Derivatives

With exchange rates volatile and the Czech crown continuously appreciating, exporting companies are increasingly motivated to protect their cash flows using derivatives. These are mainly currency forwards and, increasingly, currency options. Taking advantage of corrective movements during the first half of the year, Komerční banka helped its clients to extend their currency hedging and to lock in favourable rates.

In an environment of rising CZK interest rates and higher inflation pressures, corporate clients have taken a more active approach towards interest rate risk management. KB believes that this trend will continue in 2008.

Capitalising on SG Group's expertise, Komerční banka occupies the leading position on the Czech banking market in structuring and valuing hedging operations that use derivatives.

In such niche markets as commodities and emissions trading (CO_2 allowances), Komerční banka has further developed its activities, broadened its client base, and strengthened its position as a leading banking partner for its clients. In the newly created energy market (PXE – Prague Energy Exchange), Komerční banka acts as a clearing member and settlement bank.

Debt Origination and Corporate Finance

Komerční banka achieved a record year in the number of arranged debt financings, both as syndicated loans and primary issues. KB was appointed as the mandated lead arranger or bookrunner in seven syndicated loans and club transactions while acting in other roles in another 14 transactions. These included several real estate and acquisition financings. For Komerční banka, the total volume of assets in these transactions exceeded CZK 9 billion.

The corporate bond market in the Czech Republic was revived in 2007 by two sizable local-currency bond issues: a CZK 7 billion eurobond for Telefónica O2, jointly managed by SGCIB/KB, KBC/ČSOB and Unicredit/HVB, and a CZK 7 billion domestic bond for ČEZ, jointly managed by KB and ČS. These issues were issued and placed without difficulties even in the worsening conditions on global financial markets.

Moreover, Komerční banka issued the highest volume to date of mortgage bonds on the domestic market.

The year 2007 was a successful one for mergers and acquisitions in the Czech Republic. The most visible trends were a wave of sales of middle-sized, privately held Czech enterprises and the increased interest of top Czech corporations for investments abroad. Komerční banka's Corporate Finance Department took advantage of the favourable environment to participate in 10 transactions, of which 3 were sell-side advisory mandates and those remaining were buy-side or valuation assignments. The largest transaction concluded in 2007 was the sale of Unipetrol's subsidiary Kaučuk a.s. for CZK 5.5 billion to Firma Chemiczna Dwory SA of Poland. KB expects the favourable trend in the sector to

The number of clients using direct banking services rose by more than 6% to total some 903,000.

continue in 2008, driven mainly by privatisations and continuing sales of middle-sized companies.

On the basis of newly established internal regulations, the Bank is already able to provide its clients with fully-fledged investment services at the level of European standards and entirely in accordance with the requirements of European Directive No. 2004/39/ES (MiFID). In this regard, the Bank is even ahead of the legislative process in the Czech Republic.

Direct Banking

The number of clients using direct banking services rose by more than 6% to total some 903,000.

Banking via mobile telephone with the Mobilní banka service recorded year-to-year growth of 60% to reach a year-end total of 20,000 clients. The Mojebanka internet banking system also showed good progress, as growth of almost 18% brought its number of clients to about 439,000 at the end of 2007. That clients continue to use direct banking services is seen in the fact that 90% of all the Bank's non-cash domestic and foreign payment orders were entered via the internet or by telephone.

The year 2007 brought significant innovations in the direct banking channels. Clients immediately noticed the first of these improvements upon logging into the applications. That is to say, the opening pages of the Mojebanka and Expresní linka Plus applications underwent a pronounced change. The pages are not only better organised but also aesthetically improved. Moreover, a current offer of featured Komerční banka products and services is displayed on the pages. Another innovation is the introduction of electronic account statements, something our clients have long desired. Sending these statements is faster, more secure, and more convenient than sending paper statements. More than 10% of direct banking clients have activated electronic statements.

Since March, clients using the Mojebanka and Mobilní banka applications have had the option to top up their mobile credits and to pay invoices for Vodafone services. Customers began to take advantage of this possibility in abundance and since its initiation had already charged up credit or paid invoices in the amount of CZK 90 million.

From May, KB's clients also have had the possibility to set up direct debit permissions free of charge in the Mojebanka application. In this application, moreover, they also have a summary of all direct debits established at a branch or through Expresní linka and may change or cancel these at no charge.

At the end of November, Komerční banka's internet banking system shed its dependence on the Microsoft Windows operating system and now also supports Linux and MacOS operating systems, as well as the internet browsers Mozilla Firefox, Opera and others. KB is also the first to feature full support for Windows Vista.

Komerční banka continues to improve the security of its direct banking applications. Clients obtain detailed summaries of logins to internet banking, which now display the date, time and IP address (the computer's unique address) for the last 10 logins. Also, existing personal file certificates for clients of Profibanka and Direct channel were converted to certificates on a chip card.

Through the Mojebanka application, KB introduced a rather revolutionary change to clients at the close of the year. This change concerns the possibility to obtain a consumer loan without making a single visit to a branch office. Users were also able to apply for a credit card, which they then picked up at a branch. Mojebanka thus became a full-fledged sales channel.

The year 2007 saw an unprecedented number of changes to Komerční banka's direct banking system. The Bank continues to be one of the main innovators in this area, and clients of the direct banking system know that they benefit from one of the most comprehensive and fastest products on the market.

Payment Cards

Komerční banka continued its positive development during 2007 in both payment cards issuance and payment cards acceptance. KB issues MasterCard, Maestro, VISA and VISA Electron cards, all of which are now supplied with chip technology. Also, the entire network of KB ATMs and payment terminals has been fully converted to the chip technology. This means that the Bank is fully prepared for SEPA (details on the SEPA project are in a separate chapter). KB also issues American Express cards for CZK accounts. As of 2007, Komerční banka, in co-operation with Diners Club Czech Republic, has issued joint cards for the Enterprises and Municipalities segment. By the year's end, there were 1,608,400 active cards in KB's portfolio, of which 206,400 were credit cards.

In 2007, KB retained its leading position on the Czech market for payment cards acceptance. KB enables its merchants to accept payment cards of all major international card brands (VISA, VISA Electron, MasterCard, Maestro, American Express, Diners Club, JCB). Payment card acceptance by KB merchant clients rose more than 15% year on year.

KB increased the number of ATMs in its network to 661 in 2007. The Bank thus operates the second largest ATM network on the Czech market. In addition to such basic functions as cash withdrawals, providing services of mobile operators, and balance inquiries, KB has extended its ATMs' functions with a new service: PIN change. Every KB cardholder may now choose the personal PIN number for his or her card. This service has become very popular with KB clients. These days, a cardholder enters the PIN not just for ATM operations but also for most transactions at merchants. This means that the personal PIN option can put one more at ease in using KB payment cards. The security of the ATM network is a very important area, as well. During 2007, the majority of KB ATMs were equipped with the FDI (Fraudulent Device Inhibitor) security tool, which significantly reduces the risk of payment cards skimming.

Also in 2007, KB confirmed its leading position in the area of payment card innovations. In the year's first half, the Bank launched the option for clients to design their own payment cards. This new service has been very successful and is particularly popular among young customers. KB also put into operation a self-service system for charging of electronic tickets on payment cards for the municipal transit system in Plzeň (the Plzeň Card). This state-of-the-art solution can be expected to be implemented in other regions, as well, and it will support additional products obtained with the card's issuance.

In collaboration with Modrá pyramida stavební spořitelna, KB began issuing two new payment cards for clients of this subsidiary. These are a credit card and debit card complementing the Blue Account and Blue Account Plus packages.

Guaranteed Service Level

The Guaranteed Service Level embodies Komerční banka's commitment to observe clearly defined principles concerning its products and services, as well as the Bank's efforts to achieve its customers' maximum satisfaction. Already in 2005, KB was the first bank on the Czech market to make such a guarantee to its customers. The objectives of the Guaranteed Service Level are to:

- strengthen our existing clients' loyalty and satisfaction,
- attract new customers to the Bank, and
- state clear commitments, rather than mere promises for the future.

In response to the changing market and so that it will remain attractive for customers, the Guaranteed Service Level was updated in 2007. The main changes for 2008 are reflected in the facts that it:

- now is based upon 5 pillars instead of 4 principles,
- applies to all segments (not only to Retail), and
- comprises specific rather than general commitments.

Henceforth, the Guaranteed Service Level will be based on these 5 pillars:

- SECURITY
- RELIABILITY
- SPEED
- TRUSTWORTHINESS
- INDIVIDUAL APPROACH

All of these commitments are embraced by PROFESSIONALISM, which is one of our corporate values. In pledging to build on these pillars, KB endeavours to create a strong and transparent relationship with each client. These commitments constitute an integral part of Komerční banka's long-term strategy. Moreover, all the undertakings within the Guaranteed Service Level correspond fully to obligations under the Code of Conduct. In many instances, they even go well beyond what is required by the Code of Conduct.

Corporate Social Responsibility

Komerční banka has long strived to incorporate social responsibility into the strategies for its business activities and to create value for the entire Group, its business partners, clients and shareholders. Accordingly, KB has developed and implemented effective tools to strengthen its culture of oversight and transparency in the areas of corporate governance, risk management, compliance, internal control, and maintaining a transparent dialogue and relationship with each of its stakeholders.

Ethical Requirements for KB Employees

Considerable attention is given to developing our employees, the tools for which are described in more detail in the chapter Human Resources. In accordance with KB Group's vision of corporate responsibility, employees and representatives of the Group must adhere to strict principles, both in terms of professional conduct and risk prevention. Top-notch employees conducting business in a first-class way create a positive image for the Bank, and their assistance in preventing dishonest business practices is a key asset of the Group.

The Ethical Code defines the general rules of behaviour and conduct for all of the Bank's employees. Employees confirm their personal commitment to respect the Ethical Code by signing this document, and the Compliance Department regularly monitors and evaluates its fulfilment. The Ethical Code consists especially of rules on adhering to legal regulations and internal policies, not abusing one's position, avoiding impermissible activities, preventing abuse of confidential information, the obligation to avoid conflicts of interest, as well as the duty to act professionally towards clients.

Compliance with the Ethical Code is expected from every employee of the Bank.

The Ethical Code adheres also to the principles taken over from the Société Générale Group's Code of Conduct. This Code provides an orientation in the main principles governing corporate conduct, which are based on the ethical requirements and expectations of employees, clients, shareholders, business partners, regulators and other stakeholders. The framework established by this Code is operative throughout the SG Group.

KB subsidiaries have been inspired by KB's Ethical Code and have created their own regulations that are adapted to their particular conditions.

The main tasks for 2008 include to promote compliance awareness and strengthen compliance activities. Customers and shareholders of KB will be better protected against criminal activity and fraud through implementation of new antifraud regulations.

Sustainable Development

Sustainable development was at the forefront of KB's activities in 2007. The Bank understands sustainable development to be such development as satisfies the needs of the present generation without compromising the ability to meet those of future generations. In accordance with this definition, KB's aim is not only to find possibilities for savings and new business opportunities, but especially also to increase the awareness of all interested parties (including KB's employees and clients) as to the importance of this issue and to set up new internal procedures that are more environmentally friendly. In the first phase, KB is focusing particularly on measures leading to decreased energy and paper consumption. The Bank will continually seek suitable opportunities for savings across its entire operation. Moreover, respect for the environment is always considered in all deliberations regarding product innovations. A good example is seen in the new electronic archive of account statements that is a component of internet banking and is accepted by the tax authorities. Electronic statements provide a simple and environmentally friendly alternative to paper statements.

Charity

Charity projects comprise an integral part of KB's activities. As one of the leading companies in the Czech Republic, Komerční banka is aware that this position brings with it responsibility not only to clients, shareholders and employees, but also to the wider community and the environment within which the Bank is developing its activities.

Komerční banka and its employees contribute to a number of charitable activities through the KB – Jistota Foundation. The Foundation provides

Komerční banka traditionally co-operates with the National Theatre, Prague ZOO, Czech Rugby Union and a number of universities.

financial assistance where it is most needed – in developing civil society, supporting education, bolstering health and social projects, and backing environmental projects. The donations come not only from Komerční banka itself, as many of its employees also contribute significantly from their own salaries.

In 2007, for example, Komerční banka and the Jistota Foundation lent a hand in the Šumava National Park and Protected Landscape Area, which had been badly damaged by the Kyrill windstorm in January. Komerční banka was one of the first financial institutions resolving to contribute to cleaning up the damages via its Foundation, and it donated CZK 2 million to the cause. Also, KB employees devoted weekend time of their own to Šumava, as 174 volunteers removed a total of 600 m³ of windfall and planted 911 new trees on 19 May and 1 September 2007.

Local hospitals, too, found an important partner in the Jistota Foundation. A lung-ventilation system, costing CZK 1 million, was purchased by the Foundation for Prague's Institute for the Care of Mother and Child in Podolí. Other significant projects included co-financing the purchases of an ultrasound device for the Thomayer Faculty Hospital in Prague, rehabilitative devices for the Rudolf and Stefanie Hospital in Benešov, and an incubator for the District Hospital in Mladá Boleslav.

The KB – Jistota Foundation also brought joy to children. From the Foundation's contributions, a living room with built-in kitchen unit was constructed in the children's home in Přerov, and children in the Daneta Centre for Disabled Persons and several other centres specialised in child care received medical devices.

The Statim Foundation Fund for Orphans received a donation for the acquisition of a special "baby box" for abandoned children in Pelhřimov.

Masaryk University Brno and the Faculty Hospital Brno received from Komerční banka and its Jistota Foundation a contribution for research to find a vaccine against tumours. The Foundation also funded an artistic reproduction of the precious manuscript of the Chronicle of the Council of Constance, which is being prepared by the National Library.

The Bank consistently espouses such values as professionalism, innovation and team spirit, and thus it looks for these qualities also in the projects and partners that it supports.

Sponsoring

Komerční banka is devoted to art and strives to support interesting artistic projects. The Bank traditionally professes such values as professionalism, innovation and team spirit, and thus it looks for these qualities also in the projects and partners that it supports. In light of its building long-term partnerships based on trust, KB has become known as a traditional sponsor of Czech culture, education and amateur sport.

In 2007, the Bank entered its sixth year of co-operation with the National Theatre in Prague. Following the previous year's success with the new Komerční banka Awards joint project, this time the jury also selected the best premier performances of soloists in the National Theatre's ballet, drama and opera companies.

Also, several noted musical performances received support from Komerční banka in the past year. A concert of Carmina Burana was presented by the Prague Symphony Orchestra at Prague Castle, and viewers in Brno took in a concert of the Brno Philharmonic and Hradišťan. The already traditional French-Czech Music Academy took place in Telč and was attended by 81 talented students from around the world. Komerční banka also supported the international musical festival Concertus Moraviae and the performance of the young Latvian mezzo-soprano Elina Garanča in the Smetana Hall of the Municipal House in Prague.

For the fifth time, Komerční banka was a partner of the French Film Festival. In its 10th anniversary year, the festival was visited by almost 16,000 viewers in eight Czech cities. The Bank was a partner of the interactive Orbis Pictus exhibition in Prague and Brno, as well as the exhibition Beautiful Unknown Earth in Pilsen that presented the planet earth to visitors on 120 impressive large-scale photographs. Visitors to Prague's Museum Kampa were enchanted by an exhibition of abstract art from the studios of Piet Mondrian and František Kupka.

The Rugby World Cup in France was probably the most significant event of 2007 in supported sport. That prompted Komerční banka to broaden its support of this sport in the Czech Republic, and so it funded the trip of handicapped representatives of the quad rugby team to the European Championship in the Finnish city Espoo. Support of the Wheelchair Athletics Civil Association was extended when KB became the main partner of the national competition for wheelchair athletics. Komerční banka also became the general partner of the sixth annual Czech G2 Academic Games.

Komerční banka has long provided support to Czech universities, which comprise a valuable breeding ground for young experts. In 2007, the Bank partnered with nine universities and colleges. It also co-operates with the international student organisations AISEC and IAESTE, as well as with the CEFRES research institute established by the French Ministry of Foreign Affairs. CEFRES' main mission is to develop scientific networks in the Czech Republic and Central Europe and to arrange contacts between French and Central European university and research centres in humanities and social sciences fields.

Furthermore, Komerční banka was the main partner of the Prague Zoo in 2007. During the year, the Bank organised a celebration of Children's Day at the Zoo, as well as an entertaining afternoon for thousands of KB employees and their families from all over the Czech Republic.

The international mobility programme within SG Group facilitates exchange of knowledge and experience, as well as professional development of employees.

Employees

Komerční banka's human resources focus during 2007 was especially on more efficient recruitment of new employees; increasing motivation, loyalty and retention of current employees; and establishing a new, conceptual approach to educational programmes. At the same time, KB deepened co-operation among the subsidiary companies in managing human resources.

As of year's end, the Bank's total headcount stood at 7,816. Of these employees, 2,956 (38%) worked at headquarters and 4,860 (62%) in the distribution network. The Prague region accounted for 954 staff members, while 735 were in South-west Bohemia, 653 in Ústí nad Labem, 733 in Hradec Králové, 801 in Ostrava, and 984 in Brno. Compared to the previous year, the total number of employees had risen by 253 (3.4%).

As of 31 December 2007, the number of employees at Komerční banka's subsidiary companies was 797. This figure is higher compared to 2006, especially due to addition of the employees of Modrá pyramida stavební spořitelna, KB's new fully owned subsidiary.

Human Resource Management Strategy and Mobility

The basic strategy is to build long-term professional relationships with employees, as with clients, based upon open and transparent mutual communication.

As an employer, the Bank aims to provide all its employees with continuous professional development that progresses in accordance with their wishes and personal expectations. At the same time, there should be maximum effort to capitalise on this human potential to achieve the Bank's business objectives.

Internal mobility (both functional and geographic) represents the primary means for promoting career development among KB's employees. This mobility should both be a condition of, and anticipate, the development and broadening of employees' competences. Career planning also became an integral part of the review process for employee evaluation.

KB was also involved in the international mobility programme within SG Group, which KB considers a means of innovating, exchanging knowledge and experience, and developing professionally. At the end of 2007, 17 foreign employees were guests in Komerční banka, primarily from SG Paris. Five expatriates from SG were working in the subsidiaries in this way as of the year's end. Moreover, during 2007 Komerční banka identified another five suitable candidates for international mobility, in addition to 24 employees already so designated. Two employees returned from their foreign positions, bringing their new experience back to KB.

During 2007, Komerční banka began creating a new platform for co-operation with the 11 subsidiary companies of both KB and SG in the Czech and Slovak republics. It focuses on sharing experience and knowledge among the companies in the fields of recruitment, internal mobility, benefits and training.

Recruitment and Co-operation with Students

Quality recruitment of new employees is extraordinarily important if KB is to fulfil its objectives. The Bank's distribution network has expanded, increasing the need to fill ever more positions. In 2007, a total of 1,363 new employees was recruited to Komerční banka – 967 to the distribution network and 396 to the Bank's headquarters. Responding to the Czech Republic's changing labour market, the Personnel Marketing Department was established with the aim of presenting KB as an employer and to bring in the maximum possible number of the highest quality candidates. In 2008, this section of the human resources function will search for new, alternative ways to attract potential employees. KB launched its new comprehensive recruitment communication campaign that aims to present KB on the labour market as a stable, solid and, at the same time, progressive employer that provides its employees maximum support. The Bank will continue to pursue this communication track in 2008.

KB also will continue its intensive collaboration with student organisations (AIESEC, IAESTE) and selected universities. Through this co-operation, the Bank not only presents itself as an attractive employer for young graduates, but it also offers students work experience during their studies, assistance in various university projects, financial support, lectures, and more. In 2007, the Bank initiated closer co-operation with vocational colleges. Vocational college graduates may find jobs throughout the Bank, and especially in the sales network.

The Bank's international co-operation includes participation in the VIE project (Volontaires Internationaux en Entreprise), which allows university students and graduates to gain professional work experience in international companies. Other new international projects for university students in which KB is involved include the Business Game Citizen Act, organised by SG, and the CEMS project.

Komerční banka received two significant awards in the AXA Employer of the Year 2007 competition. For the fifth year in a row, Komerční banka was named the "Most Desired Employer of the Year for University Graduates". This award confirms that the long-term co-operation with universities, university students and graduates is bearing fruit. Also, the Bank ranked second in the category "Most Desired Employer of the Year 2007".

Building Long-term Relationships and Commitments to Employees

KB created a new remuneration concept at the end of the year that is more transparent and comprehensible. The concept responds to changes and needs in our society and labour market. In accordance with its strategy, Komerční banka is strengthening the loyalty and retention of current employees while also supporting the recruitment of new employees.

The employer fulfilled its obligations for 2007 under the collective agreement concluded for 2006–2008. The outcome of collective bargaining for 2008 brings changes particularly in remuneration, employee benefits and banking privileges. These modifications ensure the employees receive above-standard working and social conditions and thus meet a prerequisite for fulfilling the Bank's strategic objectives. KB Group's employees also had an opportunity to subscribe for shares under the Société Générale Group global share plan for its employees.

Training and Development

Expertise and skills required for the Bank's employees are continually changing. Therefore, the main objectives in 2007 included not only deepening and broadening the employees' skills and qualifications, but also adjusting training so that it fully corresponds to KB's current needs and declared values. The changes were manifest in a switch to group education, using programmes tailor-made for the Bank's needs, and in the greater involvement of internal trainers (especially for training in the School Branches). The average number of training days per employee in 2007 reached nine days.

The School Branch project operated successfully for a third year to improve the quality of services provided to clients and the sales skills of relationship managers. It provided internal sales skills training at three training sites. The training, originally intended only for new relationship managers, was extended in 2007 to current relationship managers. In 2007, a total of 1,990 participants underwent training in the School Branches, which are equipped as fully-fledged branches. The project was awarded the Human Resources Innovation Award within Société Générale Group.

In managerial development, KB's greatest activity was in implementing the Evolution programme, a development programme for all managers of KB Group in the Czech and Slovak republics. Launched at the end of 2006, the programme will continue to the end of 2008. Its aim is to help managers better manage, lead and motivate their subordinates while enabling them to conform their managerial approaches and conduct to the Bank's business model and strategy. In addition to sharing managerial know-how, the programme also contributes to communication across individual managerial levels and to building relationships between managers of the entire group.

During 2008, the Human Resources Arm will introduce revised training programmes that focus on the integration of new employees, development of graduates, and development of employees with managerial potential. KB will continue to develop managers at all management levels, and new school branches will be opened.

Operations

Quality Management

The Quality and Innovation Management team is responsible for the areas of quality management, innovation, and sustainable development across the entire KB Group. Among its main tasks is to establish quality standards of professional service and behaviour, as well as to define quality indicators for its various business activities. All standards are regularly measured and evaluated. Mystery shopping and telephone surveys are used to obtain feedback as to the level of professional service in the branches, and these are pointing to good results. Resolving clients' complaints and claims is an integral part of quality management, and there is an emphasis on fast and high-quality resolutions. KB has a system for resolving complaints and claims that is divided into three levels: branch, Customer Relations team, and the independent ombudsman. The 6Sigma methodology has been introduced in KB for simplifying internal processes. It is being applied first to a project concerned with recovery procedures and consumer loans. The active involvement of employees in proposing and sharing ideas and best practices is being supported through internal competitions and, at the SG Group level, via the "Innovate at All Levels" project. In the area of sustainable development, attention is directed to measures leading to reduced consumption of energy and paper, as well as to communicating on this subject to employees. In each unit, individual employees, known as quality coordinators, are appointed to communicate and support the overall concept of quality management within KB Group. The spirit of quality enhancement is also supported through several practical training courses. All activities are aimed at increasing KB clients' satisfaction and loyalty, which is subsequently verified by independent research that is carried out on a regular basis.

Project Organisation and Management

The Project Organisation and Management Arm had been established in mid-2006. It defines the role, instruments and procedures for project management within KB; manages processes in the area of (multi) project management; and manages and co-ordinates strategic processes, with particular emphasis on organisation, processes and information systems.

So-called business process management (or BPM) has already been implemented into KB's strategic processes.

The business objectives and priorities are strongly supported by project management. The main criteria for managing the project portfolio include net banking income growth, creation of infrastructure for future growth, services quality, operating costs efficiency, risks, as well as legal and regulatory constraints.

Information Technology

For many enterprises, information and the technology that supports it represent very valuable assets. Likewise, Komerční banka recognises the benefits of information technologies and uses them to increase value for all stakeholders. KB also understands and manages the associated risks, such as compliance with regulations and the critical dependence of many business processes on IT.

Key elements of Komerční banka's IT management include the need to obtain the value IT should bring while managing IT-related risks and the increased requirements for control over information. The IT strategy is built on value, risks and controls.

Among the IT Department's main responsibilities are to ensure a strategic alignment of IT operations with business plans, value delivery throughout the entire life cycle, resources management, risk management, and performance measurement.

Komerční banka's IT Department provides full IT service also to Komerční banka Bratislava, including infrastructure design and applications development. For other members of KB Group, the Bank's IT Department acts as a provider of various telecommunications services.

KB uses a variety of IT services provided by Société Générale Group, the most crucial of which is hosting of servers for key banking applications. The most extensive co-operation occurs in the areas of IT architecture, security and sourcing.

In 2007, the IT Department focused mainly on new products, innovating credit products and cards, and integrating business processes and products of subsidiaries (and particularly MPSS). Development in the direct banking system continued with the launching of a new product – a consumer loan available via the internet. Integration of information systems within KB Group facilitated growth and new client acquisitions using group synergies. The Bank made significant progress in implementing the advanced risk management information system for more efficient scoring of clients. The IT Department also completed the centralisation of client data, which allows for a consistent and comprehensive view of this information.

During 2008, IT will focus on maintaining the high quality of the services provided, including to ensure minimum impact on business activities in case of a malfunction or change in the IT systems. It will pursue further integration of applications and technology solutions into business processes, such as in establishing the second call centre or mortgages centres. Cost efficiency, too, will continue to be a fundamental goal for IT.

Business process management has been incorporated into KB's **strategic processes.**

Support Services

In the support services area, the year 2007 brought further improvement in internal support services and in the cost efficiency of KB facility management.

Six new points of sale were opened in 2007, and a new type, known as a "kiosk", was added to the points-of-sale portfolio. These kiosks provide the services of a full-fledged branch but at lower establishment costs. Along with extension of the branch network, there continued optimisation of KB premises (both owned and rented), and this progress will carry on. As a part of this optimising process, 11 buildings were sold in 2007, as well as were several other properties.

The success of the project for outsourcing facilities management was given recognition in November 2007 by a special prize as Project of the Year from the Czech branch of the International Facility Management Association (IFMA).

Internal Service Centre

In 2007, the Shared Service Centre project was implemented, with the aim of better exploiting synergies and systems in certain support activity areas. The first outcome of the project was the establishment of the Internal Service Centre, which started on 1 November 2007 providing services in procurement, invoicing and assets registration. The launch of the Internal Service Centre is the first step in building the Shared Service Centre, which will provide its services to companies of the KB Group in the Czech Republic and Slovakia in the areas of procurement, accounting and administration of human resources. The KB management intends to improve efficiency of these activities and allow the Group companies to concentrate on their core businesses.

KB focuses on long-term relationships with clients. Through constantly

innovating

products and services, the Bank endeavours to meet customers'evolving needs.

The enhancement of credit risk management has more and more been supporting business development, including synergy within the Group, and it even has been creating new business opportunities. The Bank has completed implementation of the new Basel II requirements and continued integrating new means of managing risk into credit risk management.

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 together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. In its policies, the Bank takes into consideration developments regarding all types of risk, i.e. credit, market and liquidity risks, as well as regulatory, concentration, operational and environmental risks.

Credit Risk Management

As in previous years, risk management units closely co-operated with the business units in order to support KB's business activities and to make the credit process more efficient while closely monitoring the quality of Komerční banka Group's risk portfolio. Attention was increasingly given to strengthening the credit risk management framework within Komerční banka Group with a specific focus on policies, tools, processes and staff expertise supporting retail segment lending activities.

Loan origination and monitoring credit risk

With regard to credit decision-making and monitoring processes, risk management units continued to develop and regularly improve internal risk processes and tools in all of the Bank's activity areas. The enhancement of credit risk management has more and more been supporting business development, including synergy within the Group, and it even has been creating new business opportunities. Last but not least, the Bank has completed implementation of the new Basel II requirements and continued integrating new means of managing risk into credit risk management.

Principal activities in 2007 were focused on:

- further developing approval and monitoring processes,
- proactively preventing credit fraud,
- supporting KB Group synergies and marketing innovations, and
- completing Basel II implementation and its validation by the regulator.

Further enhancement of approval and monitoring processes

In 2007, Komerční banka completed a complete review of credit approval models and continued further to develop management of the mass retail portfolio in order to optimise its profitability. In the mass retail sub-segment, KB updated its application scoring model for mortgage and residential consumer loans following similar changes which were made for consumer loans and credit cards in 2006. Thereby, it improved the profitability of this portfolio. The Bank has extended use of the behavioural scoring model and again simplified credit processing for clients with low risk profiles. This behavioural model has become a driver for mass retail production. In order to improve its capacity to acquire new small business clients, KB developed a new rating model that better reflects the specifics of this segment. The Bank regularly updated its financial and economic rating models for corporate clients. Komerční banka also completed verification of the Loss Given Default (LGD) and Exposure at Default (EAD) models in order to integrate these into its approval processes and pricing. All these models are back-tested and monitored on a quarterly basis. Any deterioration in model quality triggers corrective actions.

Using updated models, the Bank also re-evaluated approval and pricing policies in order to further optimise the risk-return profile of its activities.

Special efforts were dedicated to improving portfolio monitoring activities. Using statistical techniques for mass retail and an expert system for corporate clients, the main goal is to strengthen the Bank's capacities to prevent or predict deteriorating risk characteristics. The monitoring of critical indicators in approval processes at the point-of-sale level significantly reduced the number of defaults and contributed to improving the risk profile of the Bank's mass retail credit portfolio.

Proactive credit fraud prevention
The increasing incidence of credit fraud identified on the Czech market prompted KB to further upgrade its internal organisation. The Bank established a central credit fraud prevention team, which has been mandated to actively coordinate credit fraud prevention, detection and resolution based on sharing of internally developed best practices and improved utilisation of credit registers.

In order to better identify problematic credit situations, Komerční banka extended its existing range of credit registers used in approval processes (Banking Client Information Register, Non-banking Client Information Register, Central Credit Register) with a connection to the SOLUS register. This register covers credit segments such as telecom operators, consumer finance and leasing companies, energy distributors, cable television providers and a growing number of banks. As expected, this addition of SOLUS proved to be a very useful and complementary source of credit information for the Bank's growing mass retail business. Utilisation of the SOLUS register was extended to other KB Group members. Modrá pyramida stavební spořitelna became a member in November 2007.

Support to KB Group synergies and marketing innovations
All loan product innovations marketed in 2007, and especially in the case of mortgages, were launched only after careful evaluation and proper risk mitigations through specific adjustments in the approval processes. More importantly, the Bank developed two new behavioural scoring models for MPSS and Penzijní fond KB (PF KB) in order to support the further development of cross-selling among KB Group entities.

Completion of Basel II implementation and regulator validation
In 2007, implementation of advanced methods under the Basel II regulatory

framework was completed throughout KB Group. This ambitious target known as the "Advanced Internal Rating Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk was validated by both the Czech regulator (Czech National Bank) for KB Group and by the French regulator of Société Générale Group in France (Commission Bancaire).

KB began reporting under Basel II standards from January 2008. If one compares the results to those under the previous Basel I regulatory standards, the Bank has improved its capital adequacy.

The main commercial benefits from introducing Basel II lie in the possibilities for broadening the use of behavioural rating models in the mass retail credit business, implementing and systematically using the Loss Given Default (LGD) indicator to upgrade internal risk management systems, and implementing a more proactive operational risk management. These improvements will provide a solid foundation for monitoring profitability and efficient capital management.

Moreover, this process of implementing Basel II within KB Group further enhanced synergies within Société Générale Group, as KB Group makes use of models developed centrally within SG for credit risk of state institutions, banks and financial institutions, as well as for measuring operational risk. Other Basel II models were developed internally by KB.

Komerční banka confirmed its excellent and ground-breaking risk management by becoming the first on the Czech market and the first universal bank outside of France within Société Générale Group to apply these most advanced risk management techniques in all segments.

In 2008, KB will focus on more deeply integrating the Basel II components and results into its business processes and will endeavour to further optimise its capital allocation while improving the Bank's overall efficiency. KB has participated, too, in implementing Basel II in its subsidiaries.

Provisions

The Bank classifies all its assets arising from financial activities into five categories according to Czech National Bank Decree No. 123/2007, taking into account both quantitative criteria (payment discipline and financial statements) as well as qualitative criteria (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, whenever required, by recovery specialists. Provisions are established based upon the present value of estimated future cash flows to the Bank and after considering all available information, including the estimated value of collateral and the expected duration of the recovery process. The remaining receivables are provisioned based on a statistical model reflecting specifics of those receivables (client segment, product type, risk classification). These models were developed based on the Basel II requirements and were implemented in August 2007.

Recovery activities

In order to address the growing volume of the retail loans portfolio, the Bank further improved the efficiency of its pre-recovery and recovery processes. In particular, the recourse to external recovery channels was enhanced and intensified. A specific effort was made to prepare for implementing the new bankruptcy law that is expected to significantly impact credit activities in both the corporate and retail client segments.

Counterparty Risk on Capital Market Activities

In the field of counterparty risk from capital markets activities, the principle of "pre-authorisation" (ensuring there is authorisation prior to executing any trade with a counterparty) is systematically applied for all capital markets transactions. Daily monitoring of limits also takes in the activities of Komerční banka Bratislava. Front office dealers are provided daily with updated available limits for clients. Any breach of limit is immediately reported to the relevant levels of management within the Bank. The Board of Directors is ultimately informed of all limit breaches on a monthly basis.

The measurement of counterparty risk arising from derivative products sold to the Bank's clients is based on the Credit Value at Risk (CVaR) indicator. CVaR calculates the replacement costs associated with a defaulting client of the Bank under the given market conditions and takes into consideration such specific parameters as the type of derivative product, time to maturity, nominal value of the defaulted transaction, and volatility of the underlying asset. With a confidence level of 99%, CVaR measures the Bank's potential maximum risk arising from its clients' activities involving derivative products. Therefore, it reflects counterparty risk levels in cases of adverse market scenarios.

Basel II implementation further enhanced synergies within SG Group.

Market Risk Management

Responsibility for market risk management of KB lies with the Capital Markets Risk Department. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer as well as to the Head of Société Générale Group's Market Risk Division. Market risks in Komerční banka are managed in accordance with the following principles, which are regularly reviewed by the Board of Directors:

- All risks are systematically and regularly monitored, and they are 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 established by the Board of Directors.
- All regulatory requirements are meticulously controlled.

Prior to 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, and provided that all risks are deemed acceptable, formal approval is granted by the New Product Committee. This committee's mandate is to ensure proper preparation, as well as internal coordination and controls, prior to offering new products to the Bank's clients.

Methods for measuring market risk and defining limits

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

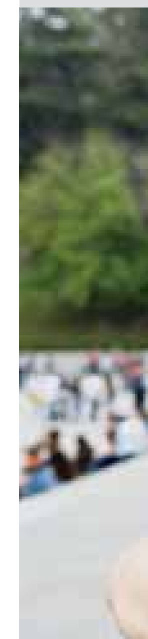
- The Value-at-Risk (VaR) historical simulation method (see right for details), calculated with a 99% confidence level and a one-day time horizon, allows the Bank to consolidate its market risks into Société Générale Financial Group's Value-at-Risk. All open positions of trading portfolios (including those of Komerční banka Bratislava) are subject to VaR computation.
- Measurement using crisis scenarios (stress testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests for underlying assets and exposures in the foreign exchange, interest rates and equity areas. Shock scenarios simulate very significant movements in parameters of such underlying assets. These scenarios are calibrated based on historical studies or hypothetical analysis.
- Additional limits are used in order to reflect interest rate sensitivities, FX positions and credit spread sensitivities, therefore providing the Bank's staff and management with a comprehensive picture of market risks and strategies.

Value-at-Risk method

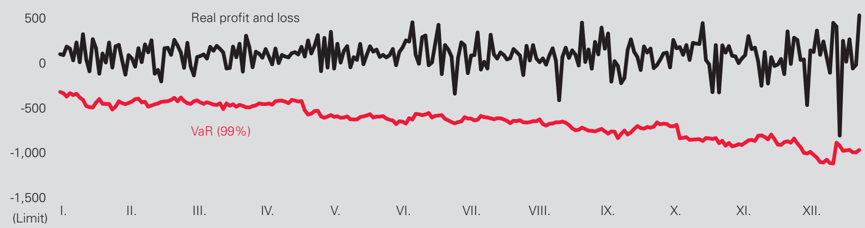
Komerční banka has used the VaR method ("historical simulation") since 2003. This method reflects correlations between various financial markets and underlying instruments. It uses scenarios simulating one day variations of relevant market parameters over a period taking in the last 250 business days. The time sequence of these scenarios is based on an uneven (not normal) distribution. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable scenarios. This loss is calculated as the average of the second and third largest possible losses out of the 250 scenarios considered.

Back-testing

The accuracy of the VaR model is regularly monitored. This back-testing consists in comparing trading results (both on reported and hypothetical bases, i.e. excluding intraday profit and loss) with the VaR results in order to report the number of exceedances. In 2007, no daily loss (real or hypothetical) was reported which would exceed the 99% VaR level.



VaR Back-testing – Real Profit & Loss (EUR thousand)



Exposure of stress testing as of 31 December 2007

EUR thousand	
Adverse stress test (IR)	(3,069)
Historical development	(2,234)
Hypothetical development	(7,302)

As of the end of 2007, the total nominal value of mortgage bonds issued reached CZK **42.5** billion.

Asset and Liability Management (financial risk and liquidity)

ALM and ALCO in KB Group

Komerční banka's Asset and Liability Management (ALM) designs measurements and manages interest rate, liquidity and foreign exchange risks at the level of the Bank and, as an intermediary, also for the Group. This is because KB ALM methodically oversees asset and liability management within the individual companies of KB Group, as well. ALM aims to achieve financial independence from changes in interest and exchange rates while ensuring at all times a sufficient availability of liquid funds. Thus, ALM optimises the financial performance of KB Group, and it does so by means of transactions approved by the Assets and Liabilities Committee (ALCO).

The ALCO, whose members include, among others, members of the Bank's top management, approves rules and methods for managing interest rate, liquidity and foreign exchange risks. Moreover, ALCO oversees the level of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk.

All ALM activities fully comply with rules of the Czech regulatory authorities and with relevant international banking regulations.

Liabilities and funding of KB Group

Client deposits compose a crucial part (approximately 80%) of the Group's total liabilities and shareholders' equity, and these include current and savings accounts, term deposits, and deposits of pension scheme subscribers. This figure remained stable throughout 2007. Within the Group, Komerční banka, a.s. holds – at around 80% – the largest proportion of these accounts (current accounts represent ca 50% of client deposits), followed by MPSS with more than 10% (building savings) and Penzijní fond KB with ca 5% (deposits of pension scheme subscribers).

KB Group has a broad and stable base of client deposits. In addition to these deposits, other possible financing sources include debt securities issues (presently forming around 4% of the balance sheet) and loans taken, including potential increase of a subordinated loan.

Komerční banka successfully continued to issue mortgage bonds during 2007 with the main intent of obtaining advantageous funding for mortgage loans. As of the end of 2007, the total nominal amount of mortgage bonds issued reached CZK 42.5 billion, which is CZK 15.2 billion more than as of year-end 2006. Considering the Bank's predominant position within KB Group, this issuance activity did not affect the liquidity of the Group. In addition to mortgage bonds, Komerční banka issued in 2007 an amortising bond outside the KB Group with a nominal value of CZK 0.5 billion.

The Bank's liquidity and capital adequacy continued to be positively influenced by a subordinated loan in the volume of CZK 6 billion and with an interest rate tied to 1M PRIBOR. This subordinated loan was taken at the end of 2006 in order to strengthen KB's capital and, thereby, to support its long-term growth potential and optimise its capital structure.

KB Group's liquidity – monitoring and management

Liquidity risk management is primarily designed to ensure that KB and the entire Group can meet their payment obligations at all times. This includes maintaining adequate volumes of cash as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which reduces the occurrence of unforeseen payment demands during a given period. This primary objective is achieved by way of managed coverage of the Bank's maximum cash-out with a very high confidence level of 99% over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency – CZK, USD, EUR and others – is monitored on two levels of market behaviour: normal and stressed scenarios. Sufficient liquidity is controlled using a system of limits. To achieve these, KB uses on-balance sheet instruments (e.g. bond issues, loans taken) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps). Both normal and stressed liquidity scenario methodologies are updated as needed in order to achieve more precise liquidity measurement with the goal of maximising correspondence – and especially in the key deposits area – between the modelled estimated product maturities and actual payments.

The Group continually records high liquidity due to, among other reasons, its preference for assets with shorter maturities when reinvesting client deposits. By using interest rate derivatives, the Bank achieves greater independence between liquidity management and management of interest income (interest rate risk). This strategy ensures that the Bank need not invest in bonds with long maturities and thereby be exposed to the risk of a negative impact in case of their possible forced sale for liquidity reasons. The level of liquidity is clearly demonstrated by the Bank's ability to cover a ca 50% outflow of all client liabilities during the course of one year without great problems.

Structural interest rate risk of KB Group – monitoring and management

KB Group has divided its business activities according to their nature into the Structural Book and Market Book. Transactions executed with clients through the branch network typically fall within the Structural Book, whereas operations on the interbank market belong in the Market Book. Interest rate risk is measured and managed separately for the Structural Book and Market Book.

Structural interest rate risk is defined as the risk to the Group of potential loss due to changes in market rates.

The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. Komerční banka also has implemented an asset and liability management system supplied by SUNGARD. During 2007, implementation of this system began also within MPSS. With regard to structural interest rate risk, MPSS and KB are the most significant members of the Group.

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. These securities are held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire them with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be more appropriate in terms of accounting (as the bond is maintained at amortised cost, and mark to market valuation does not occur), has strong restrictions at the level of the overall SG consolidation unit with regard to disposing of an instrument in the portfolio. All deals are immediately entered into the front office system, where they are recorded and priced.

As the overall aim of ALM is to ensure stable interest income in the future, these hedging transactions are acquired mainly against liabilities with stable interest rates. We purposely use the term "stable" rather than "fixed" interest rate because the rates of some deposit products are neither floating nor fixed, in the true sense of the word, but do correlate with market rates in some way, and the Bank's aim, moreover, is to put together assets so that they correlate with market rates in a similar manner.

Liquidity is maintained by rigorous cash flow management, which reduces the occurrence of unforeseen payment demands during a given period.

From an accounting viewpoint, bonds in the AFS and the majority of hedging derivatives are revalued by marking to market only in the balance sheet (directly to capital accounts) and thus without impact on the profit and loss statement. Only in the case of a sale, or the termination of a hedging relationship (for derivatives), of these instruments would such an impact occur. In accordance with accounting rules, however, the special nature of the capital account for revaluation of these instruments is such that only selected types of instruments are revalued and not all of them as a whole. Hedged items are not revalued to this account.

Because only a single side of the interest rate position is revalued, and that not completely, with increasing rates in the market the value of this capital account will decline and may even acquire negative values. In terms of the Bank's total value, the information value is thus limited as only a select group of instruments (a group of instruments for which there exists general agreement on how to measure their market values) is represented in this account and an outright majority of the balance sheet is exempt from revaluation on the mark to market principle and continues to be recorded according to the accrual principle. As can be seen from the regulators' approach, they consider the revaluation of derivatives and bonds in AFS to the capital accounts solely as a bookkeeping operation, as do to the banks themselves, and they do not include these values in the calculation of regulatory capital.

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

Structural foreign exchange risk of the KB Group – monitoring and management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis. The Group's position is controlled by a system of limits (KB's internal limits as well as limits required by CNB). The strategy is to minimise the impact of foreign exchange risk, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated in KBB and, especially, KB itself.

Price setting

Client interest rates, and the methodology for setting them, are established by the Commercial Committee, in which members of the company's top management are represented. In order to further optimise the risk-return profile of its activities, the Bank's pricing policies have been reviewed and updated. ALM provides for issuing KB's foreign exchange rate list, sets or proposes the external interest rates for deposit products, and determines the Bank's base lending rates from which loan rates are derived.

By means of a special intranet application, ALM also supports the distribution network in carrying out KB's internal loan-pricing policy. This application provides the Bank's relationship managers with a direct connection to ALM experts who provide them with exact pricing for individual loan transactions.

The price-setting strategy is to offer clients products bearing competitive interest rates while always still taking into account costs connected with the price of hedging against interest rate risk and so that the margins and financial stability are preserved even in case of possible changes in market conditions.

Operational Risk

Komerční banka applies the most advanced methods in the operational risks area defined under the Basel II rules, with the aim to implement all instruments prescribed under the so-called Advanced Measurement Approach.

Since 2004, when the Operational Risks Department was established, all Basel II requirements on risk management under the Advanced Measurement Approach have been defined and fulfilled. The four most important instruments are: Loss Data Collection, Risk Control Self Assessment, Scenario Analysis, and Key Risk Indicators. Another important component of KB's operational risk management framework is the Operational Risks Committee. During the year, 496 operational risk losses were recorded in a total gross amount of EUR 9.2 million.

The local validation process, which had as its objective to verify that Komerční banka locally is in compliance with Basel II requirements, began in the second half of 2006. It included two Internal Audit controls and one CNB control. The outcome of this validation process was positive, and KB officially received approval to use this most advanced method for calculating capital requirements for operational risks. KB became the first bank in the Czech Republic allowed to use this sophisticated approach, thereby demonstrating the high quality of the Bank's risk management.

The Operational Risks Department also actively supports KB's subsidiaries in all of its activities (business continuity planning, insurance, ongoing control). Two KB subsidiaries have banking licences and therefore are subject to Basel II rules and supervision by the Czech or Slovak National Bank: MPSS and, in Slovakia, Komerční banka Bratislava. KB Bratislava chose the simplest method of operational risk management, the Basic Indicator

Approach. MPSS is using the Standardised Approach from 1 January 2008 for calculating the capital requirement for operational risk, and the possibility for transition to the AMA approach will be carefully considered during 2008.

In the business continuity management area, during 2007 all major business and support activities were covered by a corresponding continuity plan. The majority of plans comprise the establishment of a back-up site. Continuity plans are continually tested. This systematic testing will continue in 2008, when the last back-up site will be created. The Bank's crisis management procedures also were finalised in 2007.

Regulatory Risk

KB's Corporate Secretary is responsible for the integrity and efficiency of the compliance control system. This role is carried out through the Compliance Department, which ensures and verifies compliance with applicable regulations, internal rules and ethical standards.

Originally established in 2000 with the exclusive task of managing regulatory risk, the Compliance Department's role has since been extended to take in control over risks to the company's image and reputation in certain banking activities. Among the Compliance Department's important tasks are to define the principles and procedures for the compliance function and for preventing money laundering and the financing of terrorism, which includes to ensure that these are implemented. It also is tasked to make certain that financial market regulations, banking law, privacy law, consumer protection law, and the anti-monopoly rules are upheld. Moreover, the Compliance Department is responsible to formulate ethical standards and rules for KB employees.

Moreover, clear rules and responsibilities have been defined for KB's subsidiaries. Their parent company, then, is providing advice, oversight and follow-up reporting on their compliance performances.

As an EU member state's bank and also as a part of SG Group, KB is subject to EU regulations and rules in addition to Czech regulations and supervision. KB's banking and financial market activities are subject to regulation by the Czech National Bank. With regard to anti-money laundering measures, KB is also supervised by the Ministry of Finance. Stock exchange operations are overseen by the Prague Stock Exchange.

The supervising bodies in the Czech Republic for other Komerční banka subsidiaries (Penzijní fond KB, Komerční pojišťovna, Modrá pyramida stavební spořitelna) are determined by those companies' activities. Komerční banka Bratislava is supervised by the National Bank of Slovakia. Some of the KB Group companies are supervised only on a consolidated basis (Factoring, ESSOX).

Looking ahead to regulations and legislation coming into force in the next year (the Anti-Money Laundering Act and the Consumer Protection Act, implementing new EU directives), KB is systematically incorporating the requirements flowing from these regulations into its rules and processes.

All regulatory requirements in the risk management area are **meticulously controlled.**

Legal Risk

The Legal Department provides support to the Bank's individual arms in concluding and executing trades; evaluates contracts, products and KB's procedures with respect to the law; participates in new products development; and creates new document templates while making sure these comply with the respective regulations. This department also provides information about applicable law and significant court decisions affecting KB. It represents Komerční banka before the courts, the financial arbiter, and arbitration panels. Members of this department provide counsel at criminal proceedings, as well as at bankruptcy and settlement proceedings. It decides on hiring external legal services and collaborates with other KB Group companies in the legal services area.

In 2007, the Legal Department co-operated closely with Komerční banka Bratislava and Modrá pyramida stavební spořitelna in the area of document templates. The Legal Department's activities in 2007 were impacted especially by the new bankruptcy law, whose provisions had to be incorporated into contract documentation and the Bank's internal regulations and processes, as well as by the new construction act and the Basel II rules. In the area of investment banking, the department contributed to implementing the Markets in Financial Instruments Directive and prepared documentation for trading in electricity.

During 2008, it is likely that the Legal Department's work will be especially influenced by the new bankruptcy act, in force from 1 January 2008, and with changes in the Commercial Code.

Internal Audit

Internal Audit's strategic mission is to independently and objectively verify the functionality and effectiveness of internal processes, and particularly control procedures and risk management systems, as well as to verify their compliance with the laws and regulations applicable in the Czech Republic. It also monitors implementation of corrective measures called for by previous audits. In 2007, Internal Audit was working in a fully reorganised structure, and its activities were based upon an approved strategic plan for 2007–2010.

One of the most prominent assignments completed in 2007 was the evaluation of operational and credit risk management principles in relation to implementing Basel II standards. The operational plan also included executing audit missions in subsidiaries, most specifically in KB Bratislava and MPSS. For the first time, Internal Audit included subsidiaries into its risk mapping process.

New functionalities were implemented in the Galileo/Magique system, allowing more effective audits completion and implementation of corrective measures. Co-operation with SG Group also was enhanced, and especially in the forms of exchanging know-how and employees.

During 2007, Internal Audit was itself audited by Société Générale (BDDF/AUD). The final results will be available in 2008, but noticeable improvements were found since the last such audit in 2003.

Another project strongly supported by KB's top management consisted in implementing the First Level Control system. The project's completion is scheduled for the first half of 2008.

Internal Audit plays a consulting and supporting role in this area, and it focused in particular on completing the FLC implementation in key departments of the Bank. At the same time, there was a review of controls already established. Work to launch FLC's implementation began at the end of the year.

Along with preparing the operational plan for 2008, the strategic plan was updated and its outlook was extended to 2011. In 2008, Internal Audit will focus upon implementing the Internal Audit Manual, launching FLC within Internal Audit itself, and finalising implementation of the Galileo/Magique system. All these activities should together enhance the quality and effectiveness of the unit's activities. In addition to standard audit assignments within the Bank, audit missions will continue within KB Group companies so as also to support synergy effects from co-operation in this area. Moreover, validation of credit and operational risks management procedures in accordance with BASEL II rules will be updated.

Environmental Risk

Considering the businesses in which it operates, the Bank is not a substantial polluter of the environment. Besides strictly conforming to the legal requirements related to environmental and health protection and occupational safety, the Bank continuously develops its processes to improve in these areas.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group earned a consolidated and audited net profit of CZK 11,225 million for 2007 under International Financial Reporting Standards (IFRS). Compared to CZK 9,211 million in 2006, that represents an increase of 21.9%.

The favourable result can be attributed to rising revenues, operating efficiency and a contained cost of risk. The accounts for 2007 fully consolidate the earnings of MPSS for the entire year. In the 2006 accounts, by contrast, MPSS had been fully consolidated only after the outstanding 60% stake was acquired in October of that year. (Until the third quarter of 2006, MPSS had been consolidated using the equity method.) The Group benefited from the continuing strong economic environment in the Czech Republic.

Net banking income rose by 12.3% while operating expenses grew by 9.3%. As a result, operating profit climbed by 14.9% relative to 2006 to reach CZK 16,107 million. The cost-income ratio further improved to 45.7%. The return on equity advanced from 18.1% in 2006 to 22.2% for 2007.

Profit and Loss Statement

Net interest income

Net interest income rose by 14.7% to CZK 18,674 million. Adjusted to the same consolidation basis as in 2006, the gain was 8.9%. KB's standalone share in the consolidated net interest income declined to 82.9%. Net interest income grew fastest (by 43.5%) at ESSOX. The growth in net interest income was driven by increased lending volumes (as gross loans rose by 20.5% year on year) and a 12.4% expansion of the deposit base. Growth got a boost also from the rise in the Czech National Bank's repo rate from 2.50% in January to 3.50% in December (with four increases of 25 bps each occurring on 1 June, 27 July, 31 August and 30 November). On the other hand, the trend of narrowing spreads on lending products continued. The net interest margin from customers' deposits showed a gain of 18.0%, to CZK 10,883 million, while that from loans grew by 18.5% to CZK 6,172 million. Investment banking activities contributed CZK 183 million to the net interest income. The 2007 result also reflects an effect of CZK 387 million from revaluation of MPSS. An improved asset mix led to a slight increase in the net interest margin, which exceeded 3.2% (on interest bearing assets).

Net fees and commissions

Total net fees and commissions returned to growth in 2007, gaining 5.9% to reach CZK 9,283 million. Organic growth accounted for 3.9% of that increase. The subsidiaries contributed 3.7% to the Group's result. Fee income was underpinned by an enlarged client base, a larger number of clients' transactions, and increased cross-selling. Non-FX fees and commissions reached CZK 7,678 million, up 7.1% year on year. Transaction fees benefited from increased numbers of transactions, in particular related to payment cards. Maintenance fees were flat, as clients continued switching to more favourably priced financial packages. Fees for loan services declined, as mortgage processing fees were reduced during promotion campaigns and greater commissions were paid to mortgage intermediaries. At the same time, fee income from business loans developed positively. Fees from cross-selling grew strongly, with sales of IKS mutual funds being the most important item. Also dynamic were fees from trade finance, investment banking (loan syndications, brokerage), and for corporate finance services. FX fees again grew only marginally, although payment card transactions rose swiftly. Nevertheless, clean payments and cash conversions were down from the year earlier. The relative decline of FX fees in the total fees is a gradual and ongoing process that relates to introduction of the euro and competitive pressures on pricing.

Net profit from financial operations

Net profit on financial operations gained 23.0% against 2006 to reach CZK 1,566 million. Komerční banka's standalone share was 92.1%. Of the remainder, the majority stems from Penzijní fond KB. The latter is required by law, however, to devote 85% of its net profit to its pension scheme's participants. The profit from securities rose by 6.4% to CZK 769 million. Net profit from foreign exchange operations totalled CZK 557 million (up by 33.3%) and was generated mainly by client spot operations and FX derivatives. Net profit from interest rate derivatives rose by 80.3% to CZK 230.4 million and was driven mainly by fair value changes. Net profit from commodity derivatives reached CZK 9.7 million, a gain of 109.4%.

Other income

Other income grew by 35.2% to CZK 141.5 million. As in 2006, other income consisted predominantly of property rental income.

Net banking income

Net banking income rose by 12.3% to CZK 29,665 million. Assuming the same consolidation scope, the increase was 8.0% to CZK 28,531 million.

Operating costs

Revenues again grew faster in 2007 than did costs. Total operating costs were higher by 9.3% and reached CZK 13,558 million. Restated for the MPSS acquisition, that growth was 5.6%. The cost-income ratio thus improved further to 45.7% from 46.9% in 2006 (which 2006 value has been restated after revaluation of the MPSS balance sheet).

Personnel expenses climbed by 14.3% to CZK 5,909 million. Underlying growth of 7.8% was driven by a rising average number of employees that followed the expansion of business-related activities and by an increase in the average salary. Extraordinary items included the MPSS acquisition and a CZK 147 million effect of releasing the employees loyalty reserve that had taken place in 2006. The average number of Group employees rose by 3.2%, following the net opening of eight new branches and overall strengthening of the Group's sales force.

General administrative expenses recorded a rise of 10.9% to CZK 6,175 million. Considered on the same consolidation basis as in 2006, that figure was higher by 6.4%. The growth of general administrative expenses was driven by a higher contribution to deposit insurance, marketing expenditures connected to new product launches, and costs of sales.

Depreciation, impairment and disposal of fixed assets decreased by 11.2% to CZK 1,474 million. The decline results from sales of buildings, a change of depreciation period for some software, and release of provision on the transfer of a building from the held-for-sale portfolio.

Net operating income

The favourable trend in revenues for all business segments and costs continued in 2007. This brought an increase in net operating income of 14.9% from the year-earlier level to CZK 16,107 million. Organic growth totalled 10.1%.

Cost of Risk

Cost of risk includes provisions for loan losses and for impairment of securities, as well as provisions for other risk expenses that mainly related to legal disputes and certain operational risks. In 2007, the Group recorded a net provisioning charge of CZK 1,364 million, down 24.5% from CZK 1,807 million in 2006. Stated on the same consolidation basis as in 2006, the cost of risk declined by 26.5%. This encouraging result was affected by some one-off items as well as by the good state of the Czech economy.

Net creation of provisions for loan losses amounted to CZK 1,651 million, a figure 7.5% higher than the CZK 1,536 million as of the end of 2006. Loan loss provisions at the standalone KB declined, thanks also to recoveries from the legacy portfolio amounting to CZK 145 million, and the increased consolidated figure reflects the rapid development of retail activities at ESSOX and MPSS (thus the relative change in the Group's product mix).

Provisions for impairment of securities recorded a net release of CZK 15 million, from CZK 6 million a year earlier. The release reflects an income from fully written off credit linked notes.

A CZK 272 million net release of provisions for other risks reflects the successful closure in 2007 of disputes with former clients. In 2006, there had been a net creation in this line of CZK 277 million.

The consolidated cost of credit risk in 2007 stood at 37 basis points, whereas the cost of risk for standalone KB was 31 bps. In 2006, the respective figures had been 43 and 39 basis points. The higher consolidated than standalone figure is mainly due to ESSOX, which has a risk profile typical for a firm engaged in consumer finance activities.

Share of profit of pension scheme beneficiaries

The share of profit of pension scheme beneficiaries increased by 13.4% to CZK 524 million from CZK 462 million in 2006. This line represents an amount for which participants in the PF KB pension schemes are eligible under Czech regulations and is calculated as 85% of the pension fund's net profit. The fund's general meeting may decide to distribute among participants an even higher share.

Profit before taxes

As a result of the aforesaid developments, consolidated profit before income taxes rose by 20.1% year on year to CZK 14,328 million. The pro forma result calculated on the same consolidation basis as in 2006 showed a 15.9% increase to CZK 13,838 million.

Tax charge

Income tax totalled CZK 3,103 million, up 13.9% compared to 2006.

Net profit

KB Group's net profit for 2007 amounted to CZK 11,225 million, which represented a gain of 21.9% from 2006.

Balance Sheet

The Group's total assets as of 31 December 2007 had risen by 10.7% from the end of 2006 to stand at CZK 661.8 billion.

ASSETS

Amounts due from banks

Amounts due from banks decreased to CZK 203.7 billion, which is 2.4% less than at the end of 2006. This item represents the free liquidity that the Bank reinvests. Generally, KB invests excess short-term liquidity in CZK-denominated repo operations with the CNB and on the money market. Excess liquidity in foreign currencies is placed on the money market.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise proprietary trading positions of the Group. The portfolio grew by 66.7% to reach CZK 24.5 billion.

Loans and advances to customers

Total net loans and advances grew by 20.6% to CZK 304.5 billion. Gross loans expanded by 20.5% to CZK 314.1 billion. Standalone KB's share of the loan portfolio was over 84%. Only MPSS had a share exceeding 10% in the consolidated portfolio. With CZK 33.0 billion in building society loans, the MPSS portfolio grew by 33.6% year on year.

Retail lending made up 42.0% of the loan portfolio, increasing further from the year earlier. Mortgages to individuals (gross) rose by 31.9% to exceed CZK 75.0 billion. Consumer loans (including credit card receivables) provided by KB and ESSOX expanded in the same period by 27.8% to CZK 24.5 billion.

The Group's business loans grew by 16.9% to CZK 178.2 billion, of which loans to entrepreneurs and small businesses granted by KB climbed by 26.6% to CZK 15.5 billion, loans to corporations (provided by KB and KB Bratislava) increased by 16.0% to CZK 159.5 billion, and factoring receivables rose by 18.1% to CZK 3.2 billion.

Despite dynamic loan growth in 2007, the good quality of the loan book further improved. Standard loans increased by 22.7% to CZK 287.6 billion and their share in total gross loans rose to 91.6% from 89.9% a year earlier. The share of KB's subsidiaries in total standard loans reached 16.2%. Loans rated watch declined by 7.4% and, consequently, their share in the total portfolio decreased to 4.4% from 5.7%. Subsidiaries contributed 9.1% to the volume of watch loans. At the end of the year, watch loans were provisioned on average at 5.8%. Meanwhile, loans under special review (substandard, doubtful, loss) grew to CZK 12.8 billion, or by 11.2%, which rate was slower than growth in the overall portfolio. This means that their share in the portfolio declined to 4.1% from 4.4% in 2006. The share of subsidiaries in the loans under special review was 15.1%, with relatively a high share from ESSOX that reflects its exposure to consumer finance. At the end of December 2007, 69.1% of the loans under special review were covered by specific provisions, up from 66.5% at the close of 2006.

Securities available for sale

The portfolio of securities available for sale grew by 13.4% to CZK 81.8 billion. The major part of the portfolio consists of debt securities issued by banks and governments that were acquired to achieve relatively advantageous yield coupled with limited risk. The investment portfolio of Protos is included in this line, and securities available for sale include KB's shareholding in the Czech and Moravian Guarantee and

Development Bank. The Group also held a portfolio of CDOs denominated in USD acquired during 2000–2001. Already in 2001, after Société Générale's acquisition of a 60% stake in Komerční banka, KB management had taken a strategic decision to optimise the original volume of the CDO portfolio and reduce its risk characteristics to a reasonable level. With this optimisation and further nominal redemptions, the Bank's exposure to CDOs decreased significantly. The book value of the CDO portfolio was just USD 11 million at the end of 2007. All the rated tranches in KB's portfolio are more than fully collateralised and their ratings from Moody's are Baa1 or higher.

Investments held to maturity

As of the end of 2006, the portfolio of securities held to maturity had declined by 9.1% to CZK 3 billion. There were no additions to the portfolio in 2007. This portfolio is comprised of bonds issued by government institutions from the Czech Republic and countries within the European Monetary Union.

Assets held for sale

This portfolio is made up of buildings and land owned by the Group and which the management has decided to sell. The carrying value of the property was CZK 735 million, up 19.9% compared to the value on 31 December 2006.

Goodwill

In June 2007, the Group revalued MPSS's balance sheet with effect from the date of its acquisition, in accordance with the IFRS 3 standard, thereby finalising the acquisition accounting of MPSS. The goodwill recognised on the acquisition stands at CZK 3,389 million following the revaluation. The revaluation will have a positive impact also in coming years.

As of 31 December 2007, total goodwill amounted to CZK 3,551 million. That was the same level as at the end of 2006 (on the restated basis).

LIABILITIES AND SHAREHOLDERS' EQUITY

Amounts due to banks

In 2007, amounts due to banks decreased by 6.8% to CZK 13.6 billion. The line represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts due to customers

Amounts due to customers totalled CZK 540.8 billion, an increase of 12.4% compared to the end of 2006. The proportion of retail deposits stood at 43%. Deposits of individual clients at KB rose by 10% to CZK 145.7 billion. Building society savings in MPSS climbed by 7.3% to CZK 64.1 billion. Clients' pension contributions that also are in the amounts due to customers category under Czech accounting regulations grew by 20.7% to CZK 22.7 billion. Deposits from businesses increased by 14.8% to CZK 304.7 billion.

Volumes on current accounts in Komerční banka expanded by 21.1% to CZK 303.9 billion. Consolidated term and saving deposits increased by 8% to CZK 175.6 billion.

Securities issued

The Group's certificated debt grew by 14.7% to CZK 27.9 billion. The tax exemption for mortgage bonds in the Czech Republic allowed the Bank to issue mortgage bonds with sub-PRIBOR yields, which positively impacted net profit. Investors can accept the bonds' below-market yields because they are compensated by the tax advantage.

Provisions

This line item declined by 25.6% to CZK 1.7 billion. It does not include provisions for loan losses, which are reflected at the line loans and advances to customers. This line includes provisions for contractual commitments and provisions for other credit commitments. It also includes a provision for off balance sheet commitments, which declined by 1.7% to CZK 0.6 billion, and a provision for undrawn loan facilities.

Shareholders' equity

In 2007, the Group's shareholders' equity increased by 0.8% to CZK 50.7 billion. The development year on year was mainly influenced by the creation of attributable net profit for the current year (CZK 11.2 billion) and a dividend payment of CZK 5.7 billion (approved at the 2007 Annual General Meeting). KB's share capital remained stable at CZK 19 billion.

The hedging revaluation reserve, which reflects changes in the fair value of hedging derivatives, decreased by CZK 3.6 billion to a negative balance of 0.8 billion. The hedging derivatives hedge assets and liabilities valued on an accrual basis. Therefore, the development of the reserve does not correspond with accounting revaluation of the hedged assets and liabilities.

Similarly, revaluation of securities available for sale showed a decline of CZK 1.9 billion to minus 0.7 billion. The portfolio of securities available for sale is managed to correspond with the development of liabilities having stable interest yields and, as these are not revalued on a mark to market basis, monitoring only the AFS part provides a limited picture of how the balance sheet value has developed.

Nevertheless, the regulators are aware of these limitations and so the reserve of hedging revaluation and the reserve of available-for-sale portfolio revaluation is not included when calculating the regulatory capital. The regulatory capital of the consolidated Group according to the CNB methodology (Basel I) increased by 5% to CZK 38.7 billion.

Komerční banka Financial Group

As of 31 December 2007, KB Financial Group consisted of eight subsidiaries and one associate – Komerční pojišťovna, a.s. (of which KB holds 49%).

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 Banking Credit Bureau, a.s. (20%), Českomoravská záruční a rozvojová banka, a.s. (13%) and Burza cenných papírů Praha, a.s. (11.46%).

Sharing well-established **know-how** stands among the advantages of co-operation within the KB and SG Groups.

KB Financial Group continued during 2007 to co-operate closely with other companies from the Société Générale Group that are active on the Czech market, and especially in product development and selling through the distribution networks of KB and other companies within the Group. Emphasis is especially given to utilising the well-established know-how and market position. The result of such co-operation is a comprehensive offer of products for both private and business clientele.

Changes in Ownership Interests in 2007

In June 2007, KB established the company Protos, uzavřený investiční fond, a.s. Protos is a fund for qualified investors and had equity of CZK 7.5 billion as of the foundation date. In August 2007, Komerční banka, as the sole shareholder of Protos, decided to transfer 518 shares (with nominal value per share of CZK 1 million) to the company Factoring KB, a.s. As a result of this transaction, Factoring KB obtained a 17.26% share in Protos. The total purchase price for these 518 shares was established at CZK 1.298 million on the basis of an expert valuation. The process of KB's investment into Protos was completed by its increasing Protos' equity by CZK 5.5 billion, as decided by KB in November and carried out in December. The increase was registered in the Commercial Register on 22 January 2008. With this equity increase, Factoring KB's share in Protos decreased to 10%.

The Bank, as the sole shareholder, decided in May 2007 to increase the share capital of its subsidiary Factoring KB, a.s. by CZK 1.1 billion, bringing the total to CZK 1.184 billion. The share capital increase was registered in the Commercial Register on 28 June 2007. FKB's share capital was raised especially to strengthen the company's financial position and to improve its competitiveness in non-recourse factoring.

In November 2007, the share capital of ESSOX was increased by CZK 903 million to CZK 2.288 billion. KB contributed CZK 460.116 million to the capital increase, which was paid on 29 November 2007. Thus, KB's share in ESSOX (51%) was not changed.

Business Co-operation within KB Financial Group

The co-operation in distribution was broadened with other members of KB Financial Group, and especially by integrating the products of those companies into Komerční banka's offering, using KB's extensive distribution network, integrating the products of KB and other companies (e.g. ESSOX) into KB Group's offering, and mutually using one another's distribution networks. This co-operation especially involved MPSS, which was one of the key aspects of the Group's business strategy in 2007.

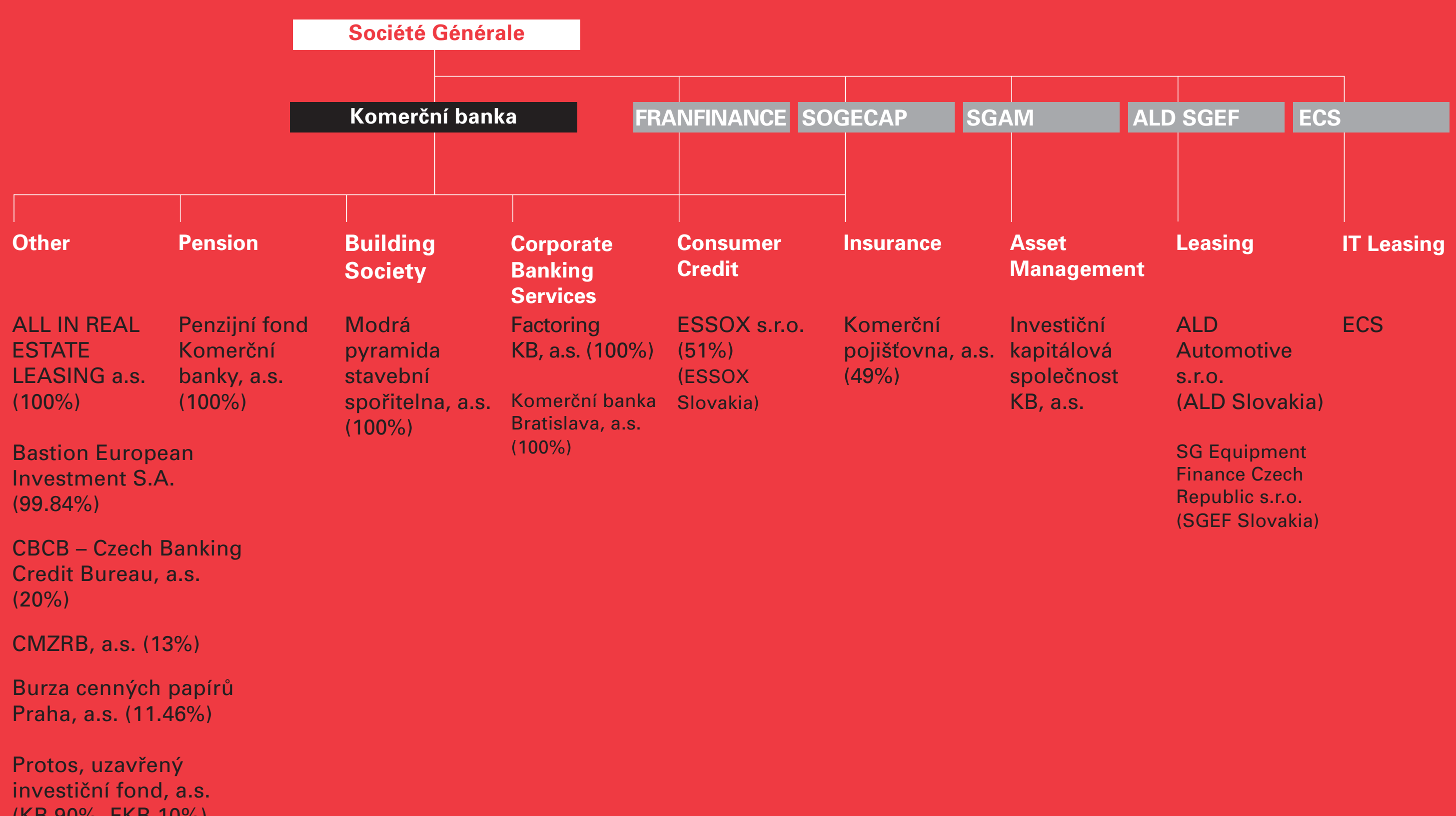
During 2007, there also continued co-operation with other Société Générale Group companies active in the Czech market. In the area of asset management, Investiční kapitálová společnost, a.s. (IKS) launched new guaranteed funds and funds for qualified investors designed for corporate clients and municipalities. In the area of savings contracts and related products, there occurred cross-selling of KB and MPSS products and synergies relating mainly to servicing MPSS clients. Co-operation also continued in the life insurance and pension insurance segments.

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
DOMESTIC PARTICIPATION						
Modrá pyramida stavební spořitelna, a.s.	500,000	500,000	100	4,322,282	100	Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	230,000	100	Full
Factoring KB, a.s.	1,184,000	1,184,000	100	1,190,000	1,000, 100 and 10	Full
ALL IN REAL ESTATE LEASING a.s.	2,000	2,000	100	4,170	100	None
Protos, uzavřený investiční fond, a.s.	5,000,000	4,482,000	90	11,705,000	1,000	Full
ESSOX s.r.o.	2,288,086	1,165,387	50.9	1,165,387	–	Full
Komerční pojišťovna, a.s.	602,768	295,344	49	482,140	74.6 and 37.3	Equity
Total	–	**7,828,731**	–	**19,098,979**	–	–
FOREIGN PARTICIPATION						
Komerční banka Bratislava, a.s. *	424,090	424,090	100	466,499	100,000 SKK	Full
Bastion European Investment S.A. **	16,029	16,026	99.98	3,814,101	1 EUR	None
Total	–	**440,116**	–	**4,280,600**	–	–
Total	–	**8,268,847**	–	**23,379,579**	–	–

Note: * CZK/SKK exchange rate 0.79179 as of 31 December 2007 (CNB)
** CZK/EUR exchange rate 26.6200 as of 31 December 2007 (CNB)

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



Modrá pyramida stavební spořitelna, a.s.

Shareholder Structure
Komerční banka (100%)

Core Business
Building savings deposits and loans

Market Position
Third position on building savings market (market share 18.4% measured by loans to clients)

Main Products
State-subsidised savings accounts
Bridging loans
Building savings loans

Financial summary

CAS, CZK thousand	31 December 2007	31 December 2006
Total Assets	67,824,557	63,740,725
Total Loans	32,588,694	24,358,023
Reserves	15,966	36,173
Shareholder’s Equity	2,233,165	2,529,409
Share Capital	500,000	500,000
Net Interest Income	910,822	793,041
Profit before Tax	407,568	376,042
Net Profit	431,881	378,789

Average number of employees in 2007 reached 359.

Contact
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 128, č. p. 222, P.O.Box 40, 120 21 Prague 2, ID 60192852
Tel.: +420 222 824 111, Fax: +420 222 824 113
E-mail: info@mpss.cz, Internet: www.mpss.cz, www.modrapyramida.cz

Penzijní fond Komerční banky, a.s.

Shareholder Structure
Komerční banka (100%)

Core Business
Pension fund

Market Position
Penzijní fond Komerční banky, a.s. strengthened its position on the pension fund market in 2007. Market share by number of participants is 11.9% and as measured by volume of assets under management is 14%.

Rating
Aa1.cz according to Moody’s Central Europe (the highest rating among Czech pension funds)

Main Products
State-subsidised pension insurance

Financial Summary

CAS, CZK thousand	31 December 2007	31 December 2006
Total Assets	23,083,497	19,907,830
Total Volume on Client Accounts	22,667,727	18,771,591
Reserves	6,317	3,729
Shareholder’s Equity	358,380	1,060,060
Share Capital	200,000	200,000
Net Income	880,328	819,673
Profit before Tax	562,403	527,979
Net Profit	562,256	528,754

Average number of employees in 2007 reached 58.
Komerční banka received in 2007 dividends of CZK 15 billion.

Contact
Penzijní fond Komerční banky, a.s.
Lucemburská 7/1170, 130 11 Prague 3, ID 61860018
Tel.: +420 272 173 111, 272 173 173-5, Fax: +420 272 173 171
E-mail: pf-kb@pf-kb.cz, Internet: www.pfkb.cz

Factoring KB, a.s.

Shareholder Structure
Komerční banka (100%)

Core Business
Factoring

Market Position
Fourth place on the factoring market, managing 13.4% of the factoring portfolio on the Czech market, which represents a 6% increase in volume of factoring turnover compared to 2006.

Main Products
Domestic factoring
Foreign factoring
Reverse factoring

Financial Summary

CAS, CZK thousand	31 December 2007	31 December 2006
Total Assets	7,319,268	5,324,145
Factoring Portfolio	5,945,183	5,230,597
Reserves	1,224	1,287
Shareholder's Equity	1,364,790	188,900
Share Capital	1,184,000	84,000
Net Factoring Income	228,382	186,357
Profit before Tax	43,430	35,605
Net Profit	27,527	27,521

Average number of employees in 2007 reached 41.

Contact
Factoring KB, a.s.
Lucemburská 7/1170, 130 11 Prague 3, ID 25148290
Tel.: +420 222 825 111, Fax: +420 224 814 628
E-mail: info@factoringkb.cz, Internet: www.factoringkb.cz

Komerční banka Bratislava, a.s.

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), client's portfolio restructuring, 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
E-banking

Financial Summary

IFRS, CZK thousand	31 December 2007 *	31 December 2006 **
Total Assets	7,256,165	4,534,525
Loans to Customers	4,083,825	2,916,587
Deposits from Customers	3,516,942	2,559,572
Reserves	4,335	2,817
Shareholder's Equity	695,123	653,217
Share Capital	395,895	399,290
Net Interest Income	120,538	98,923
Net Profit	57,901	52,987

Note: * CZK/SKK exchange rate 0.79179 as of 31 December 2007 (CNB)
** CZK/SKK exchange rate 0.79858 as of 29 December 2006 (CNB)

Average number of employees in 2007 reached 73.

Contact
Komerční banka Bratislava, a.s.
Medená 6, p. p. 137 (from 21 January 2008: Hodžovo námestie 1A, P.O.Box 137)
810 00 Bratislava, Slovak Republic, ID 31395074
Tel.: +421 2 5927 7328, Fax: +421 2 5296 1959
E-mail: koba@koba.sk, Internet: www.koba.sk

ESSOX s.r.o.

Shareholder Structure
Komerční banka (51%)
SG Consumer Finance (49%)

Core Business
Providing consumer goods and automobile financing, credit cards and personal loans

Market Position
Strengthening its market share on the Czech market for non-banking consumer financing to almost 9% during 2007.

Main Products
Consumer loans
Revolving loans
Automotive leasing

Financial Summary *

IFRS, CZK thousand	31 December 2007	31 December 2006
Total Assets	7,453,278	5,106,359
Reserves	0	0
Loans to Clients	5,023,306	3,636,707
Shareholders' Equity	2,160,860	1,182,983
Share Capital	2,288,086	1,384,708
Net Interest Income	567,775	395,795
Net Profit/Loss	74,499	(5,982)

Note: * Unaudited

Average number of employees in 2007 reached 256.

Contact
ESSOX s.r.o.
Senovážné nám. 231/7, 370 01 České Budějovice, ID 26764652
Tel.: +420 389 010 111, Fax: +420 389 010 270
E-mail: essox@essox.cz, Internet: www.essox.cz

Komerční pojišťovna, a.s.

Shareholder Structure
SOGECAP (51%)
Komerční banka (49%)

Core Business
Life insurance

Market Position
3.5% market share on life insurance market (measured by premiums written)

Main Products
Saving life insurance
Risk life insurance
Capital life insurance
Investment life insurance
Accident insurance
Payment card insurance
Travel insurance

Financial Summary

CAS, CZK thousand	31 December 2007	31 December 2006
Total Assets	12,080,767	11,629,137
Technical Reserves	10,827,708	10,519,281
Non-technical Reserves	26,395	27,065
Shareholders' Equity	974,048	855,940
Share Capital	602,768	602,768
Gross Premiums Written	2,211,229	2,655,736
Investment Income	412,229	360,497
Net Profit/Loss	385,649	193,134

Products sold as a benefit of other products
Travel payment card insurance
Risk life insurance for credit cards
Risk life insurance for consumer loans

Average number of employees in 2007 reached 147.

Contact
Komerční pojišťovna, a.s.
Karolinská 1/650, 186 00 Prague 8, ID 63998017
Tel.: +420 222 095 111, fax: +420 224 236 696
E-mail: servis@komercpoj.cz, Internet: www.komercpoj.cz

Protos, uzavřený investiční fond, a.s.

Shareholder Structure
Komerční banka (89.64%)
Factoring Komerční banky (10.36%)

Core Business
Investment management

Main Products
Management of mutual fund

Financial Summary

CAS, CZK thousand	31 December 2007	22 June 2007 *
Total Assets	13,013,623	7,500,000
Reserves	0	0
Shareholders' Equity	13,005,321	7,500,000
Share Capital	5,000,000	3,000,000
Net Interest Income	141,687	0
Profit before Tax	136,439	0
Net Profit	129,617	0

Note: * Opening balance as of 22 June 2007

The company has no employees and uses external resources.

Contact
Protos, uzavřený investiční fond, a.s.
Dlouhá 34, č. p. 713, 110 15 Prague 1, ID 27919871
Tel.: +420 224 008 888, Fax: +420 222 322 161
E-mail: info@iks-kb.cz, Internet: www.iks-kb.cz

Bastion European Investments S.A.

Shareholder Structure
Komerční banka (99.98%)
Société Générale (0.02%)

Core Business
Project finance

Main Products
Special-purpose Belgian company used for a single project finance transaction.

Financial Summary

IFRS, CZK thousand	31 December 2007	31 December 2006
Total Assets	7,335,342	7,529,558
Reserves	0	0
Shareholders' Equity	3,706,450	3,741,155
Share Capital	3,553,770	3,686,035
Net Interest Income	141,992	60,136
Profit before Tax	141,497	55,996
Net Profit	142,068	55,120

The company has no employees and uses external resources.

Contact
Bastion European Investments S.A.
Place du Champ de Mars 5, Ixelles, 1050 Brussels, ID BE 0877.881.474
Tel.: +32 2 205 65 36, Fax: +32 2 205 65 36

Statutory Bodies

Board of Directors






Laurent Goutard
Chairman of the Board of Directors
(since 7 October 2005), Vice-Chairman of the Board of Directors (since 1 September 2004)

Didier Colin
Member of the Board of Directors
(since 9 October 2004)

Jan Juchelka
Member of the Board of Directors
(since 1 July 2006)

Philippe Rucheton
Vice-Chairman of the Board of Directors
(since 7 October 2005), Member of the Board of Directors (since 2 May 2002), re-elected 3 May 2006, resigned on 31 January 2008

Peter Palečka
Member of the Board of Directors
(since 5 October 2001), re-elected 6 October 2005

Patrice Taillandier-Thomas
Member of the Board of Directors
(since 1 February 2008)

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 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, Institut Supérieur des Affaires and of the Pantheón Sorbonne University. From 1972 to 1980, he worked as an adviser 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 the CFO and Deputy CEO of SG Europe Computer Systemes, a SG subsidiary. From 1995 to his election as a Member of the Board of Directors of Komerční banka in 2002, 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 with a Master of Business Administration from The City 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 2004, when he joined Komerční banka as a Member of the Board of Directors in charge of Risk Management.

Peter Palečka

Graduate of the University of Economics, Bratislava. From 1982 to 1988, he worked in foreign trade enterprises. 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 then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organization. He joined Komerční banka, a.s. in 1998 as the Director for Strategy. In October 1999, he was elected a Member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he resigned from this position and was re-elected the same day as a Member and Vice-Chairman of the Board of Directors. At present, he is a Member of the Board of Directors and Corporate Secretary.

Jan Juchelka

Graduate of the Business Faculty of the Silesian University in Karviná. After his studies, he worked in the private sphere and from 1995 at the National Property Fund of the Czech Republic. From 2002 to 2005, he was its Chairman. He joined Komerční banka on 1 February 2006. On 26 April 2006, the Supervisory Board of KB elected Mr Jan Juchelka as a Member of the Board of Directors in charge of Top Corporations with effect from 1 July 2006.

Patrice Taillandier-Thomas

Graduated from the Institut d'Études Politiques and holds a postgraduate degree in law and another in economics. Since 1983 he has held various positions, mainly in the area of payments, in Société Générale. Since 2000 he has been deputy manager of the card activity department and manager of the e-business division. In his previous position he managed the Basel II project.

Personnel changes in the Board of Directors since the start of 2008

Philippe Rucheton,
Vice-Chairman of the Board of Directors (until 31 January 2008)
Patrice Taillandier-Thomas,
Member of the Board of Directors (since 1 February 2008)

Effective from 1 February 2008, Komerční banka's Supervisory Board appointed Mr Patrice Taillandier-Thomas as a new Member of the Board of Directors and Chief Administrative Officer.

Directors Committee

The Directors Committee is a body directing the strategy and all relevant 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; its members are appointed by the Chairman of the Board of Directors and Chief Executive Officer.

As of 31 December 2007, 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
Jan Juchelka,
Member of the Board of Directors and Executive Director, Top Corporations
Pavel Čejka,
Director, Strategy and Finance
Marie Josephine Dreiski Rajski,
Executive Director, Project Organization & Management
David Formánek,
Executive Director, Human Resources
Václav Grepl,
Executive Director, Information Technology
Jürgen Grieb,
Executive Director, Capital Markets and Corporate Finance
Vladimír Jeřábek,
Executive Director, Distribution Network
Petr Kalina,
Executive Director, Support Services
Zdeněk Mojžíšek,
Executive Director, Marketing and Business Development
Jitka Pantůčková,
Executive Director, Operations
Pavel Racocha,
Executive Director, Internal Audit
Christian Carmagnolle,
Deputy Executive Director, Distribution Network

Personnel changes in the Directors Committee during 2007

Karel Vašák,
Executive Director, Human Resources (until 8 January 2007)
Philippe Delacarte,
Executive Director, Distribution Channels (until 28 February 2007)
Christian Vasseur,
Director, Risk Management (until 5 December 2007)
David Formánek,
Executive Director, Human Resources (since 1 January 2007)
Václav Grepl,
Executive Director, Information Technology (since 1 January 2007)
Christian Carmagnolle,
Deputy Executive Director, Distribution Network (since 12 February 2007)
Tomáš Pardubický,
Executive Director, Project Organization & Management (since 1 January 2007 until 30 September 2007)
Marie Josephine Dreiski Rajski,
Executive Director, Project Organization & Management (since 1 October 2007)

Personnel changes in the Directors Committee since the start of 2008

Philippe Rucheton,
Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer (until 31 January 2008)
Patrice Taillandier-Thomas,
Member of the Board of Directors and Chief Administrative Officer (since 1 February 2008)

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)
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 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)

Note: * 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-Opéra Branch. From 1991 to 1993, he worked as chief executive officer of the SG subsidiary FRANFINANCE, appointed within the activities of a specialised 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. In 2006, he became one of the SG chief executive officers. 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 Organisation and of the Information Technologies Departments. Subsequently, he worked as head of the Organisation 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 head of International Retail Banking and a member of the Group's Management Committee. 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 1985, he worked in Credit National. From 1986 to 1997, he worked on 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 1 January 2007, he has been working for Société Générale as Chief Administrative Officer and a member of the Group Executive Committee. Since 2001, 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 vice-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 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 specialised 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. From 2005 to 2006, he was director of the segment of electricity, gas, liquid fuels and SG&A Lafarge, s.a., Paris. Since 15 January 2007, he has been serving as chief executive officer for cement-related activities of Lafarge in the Ukraine. 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 organisations, from 1991 to 1995 as director of the Japanese corporate department. Between 1995 and 1997, he worked as director of subsidiaries specialised in consumer credit, leasing and factoring. Between 1997 and 2001, he was deputy head of the Strategy and Marketing Division. Between 2001 and 2006, he was the head of Strategy and Marketing. Since 1 January 2007, he has been Senior Advisor to the Chairman and Chief Executive Officer of Société Générale. 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-chair of KB's Trade Union Committee. Since 2005, she has been a member of the Supervisory Board of Komerční banka.

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 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 of the Audit Committee are Séverin Cabannes (chairman), Petr Laube and Christian Poirier. The Audit Committee in particular inspects accounting documents and records, monitors whether the books are kept properly, and co-operates with the Internal Audit Department and the external auditor.

Shareholders

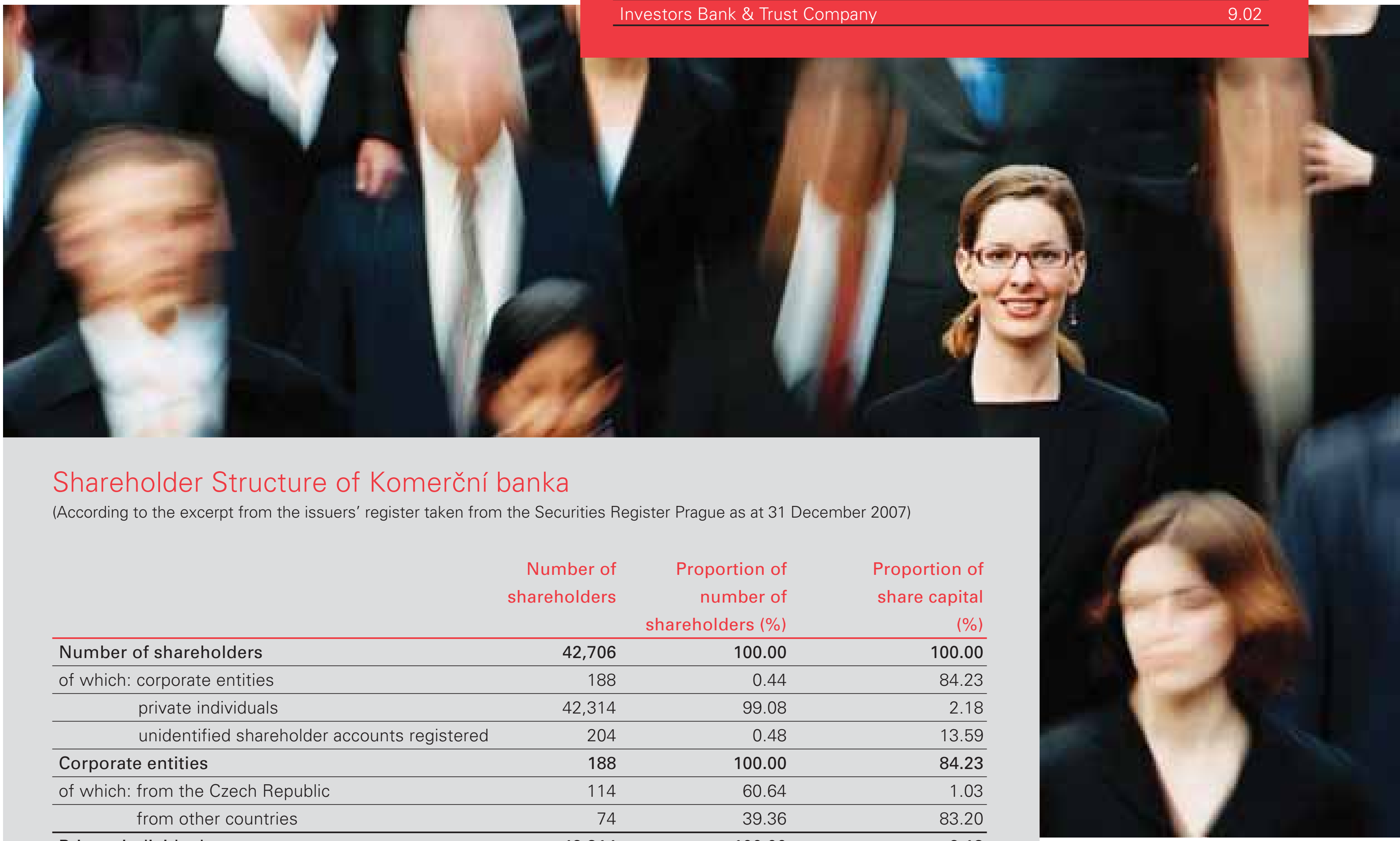
Shareholder Structure

Major shareholders of Komerční banka, a.s. with over 5% of the share capital as at 31 December 2007 are listed in the table below.

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 2007, the number of shareholders comprised 42,706 corporate entities and private individuals.

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
Investors Bank & Trust Company	9.02



Shareholder Structure of Komerční banka

(According to the excerpt from the issuers' register taken from the Securities Register Prague as at 31 December 2007)

	Number of shareholders	Proportion of number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	**42,706**	**100.00**	**100.00**
of which: corporate entities	188	0.44	84.23
private individuals	42,314	99.08	2.18
unidentified shareholder accounts registered	204	0.48	13.59
Corporate entities	**188**	**100.00**	**84.23**
of which: from the Czech Republic	114	60.64	1.03
from other countries	74	39.36	83.20
Private individuals	**42,314**	**100.00**	**2.18**
of which: from the Czech Republic	37,798	89.33	2.05
from other countries	4,516	10.67	0.13

At the end of 2007, the number of shareholders stood at

42,706.

Main Resolutions of the AGM Held in 2007

The Annual General Meeting was held on 25 April 2007. The shareholders approved the financial statements of the Bank for 2006, decided upon the distribution of profit for 2006 in the amount of CZK 8,747,497,842.61 and resolved to pay out pre-tax dividends in the amount of CZK 150 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 2006,
- the annual financial statements and consolidated financial statements of Komerční banka for 2006,
- the discretionary part of the remuneration (bonus) of the members of the Board of Directors for 2006,
- acquisition of the Bank's ordinary shares (please see the chapter Information on Komerční banka Securities for details).

Report by the Supervisory Board

Throughout 2007, 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 2007 to 31 December 2007, 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' bookkeeping. 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, the 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 2007 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2007 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 2007 to 31 December 2007, Komerční banka, a.s. did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 26 March 2008

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 were there any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Prague, 1 April 2007

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board
of Directors and CEO

Peter Palečka
Member of the Board of Directors
and Senior Executive Director

Auditor's Report

Deloitte.

Deloitte Audit s.r.o.
Karolinská 654/2
186 00 Prague 8
Czech Republic

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
www.deloitte.cz

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: Na Příkopě 33, čp. 969, 114 07 Praha 1
Identification number: 45317054
Principal activities: Retail, corporate and investment banking services

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 27 February 2008 on the consolidated financial statements which are included in this annual report on pages 75 to 134:

"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 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Unconsolidated Financial Statements

Based upon our audit, we issued the following audit report dated 27 February 2008 on the unconsolidated financial statements which are included in this annual report on pages 135 to 188:

"We have audited the accompanying unconsolidated financial statements of Komerční banka, a.s. ("the Bank"), which comprise the unconsolidated balance sheet as of 31 December 2007, and the unconsolidated profit and loss statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements 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 we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of Komerční banka, a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Report on Relations Among Related Entities

We have also reviewed the factual accuracy of the information included in the report on relations among related entities of Komerční banka, a.s. for the year ended 31 December 2007 which is included in this annual report on pages 203 to 212. This report on relations among related entities is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the report on relations among related entities based on our review.

We conducted our review in accordance with 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 report on relations among related entities 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 report on relations among related entities 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 report on relations among related entities of Komerční banka, a.s. for the year ended 31 December 2007 contains material factual misstatements.

The Company has decided not to disclose amounts under related entity contracts citing business secrecy restrictions.

Report on the 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 Statutory Body. 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 10 April 2008

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

Diana Rogerová,
authorised employee

Statutory auditor:

Diana Rogerová,
certificate no. 2045

Financial Section

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Consolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2007

Deloitte.

Deloitte Audit s.r.o.
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186 00 Prague 8
Czech Republic

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
www.deloitte.cz

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: Prague 1, Na Příkopě 33, čp. 969, PSČ 114 07
Identification number: 45317054
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 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 27 February 2008

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

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová, certificate no. 2045

Consolidated Profit and Loss Statement for the year ended 31 December 2007

CZK million	Note	2007	2006
Interest income	5	34,149	26,010
Interest expense	5	(15,475)	(9,736)
Net interest income		**18,674**	**16,274**
Net fees and commissions	6	9,283	8,769
Net profit on financial operations	7	1,566	1,273
Other income	8	142	105
Net banking income		**29,665**	**26,421**
Personnel expenses	9	(5,909)	(5,170)
General administrative expenses	10	(6,175)	(5,570)
Depreciation, impairment and disposal of fixed assets	11	(1,474)	(1,660)
Total operating expenses		**(13,558)**	**(12,400)**
Profit/(loss) attributable to exclusion of companies from consolidation	12	0	(1)
Income from share of associated undertakings	12	109	184
Profit before provision for loan and investment losses, other risk and income taxes		**16,216**	**14,204**
Provision for loan losses		(1,651)	(1,536)
Provisions for impairment of securities		15	6
Provisions for other risk expenses		272	(277)
Cost of risk	**13**	**(1,364)**	**(1,807)**
Profit on unconsolidated equity investments		0	0
Share of profit of pension scheme beneficiaries		(524)	(462)
Profit before income taxes		**14,328**	**11,935**
Income taxes	14	(3,103)	(2,724)
Net profit		**11,225**	**9,211**
Profit attributable to the Bank's equity holders		11,188	9,214
Minority profit/(loss)		37	(3)
Earnings per share (in CZK)	**16**	**295.74**	**242.52**

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

Consolidated Balance Sheet as of 31 December 2007

CZK million	Note	2007	2006
Assets			
Cash and current balances with central banks	17	10,957	15,000
Amounts due from banks	18	203,691	208,696
Financial assets at fair value through profit or loss	19	24,501	14,697
Positive fair value of financial derivative transactions	44	9,439	11,115
Loans and advances to customers, net	20	304,521	252,505
Securities available for sale	21	81,826	72,150
Investments held to maturity	22	2,999	3,300
Prepayments, accrued income and other assets	23	7,417	5,350
Income taxes receivable	14	4	169
Deferred tax asset	35	729	0
Assets held for sale	24	735	613
Investment property	25	0	223
Goodwill	26	3,551	3,551
Intangible fixed assets, net	27	2,954	2,383
Tangible fixed assets, net	28	8,002	7,904
Investments in associates and unconsolidated subsidiaries, net	29	493	434
Total assets		**661,819**	**598,090**
Liabilities			
Amounts due to banks	30	13,598	14,594
Amounts due to customers	31	540,756	481,294
Negative fair value of financial derivative transactions	44	8,621	6,034
Securities issued	32	27,917	24,349
Accruals and other liabilities	33	12,347	12,814
Provisions	34	1,692	2,273
Income taxes payable	14	226	1
Deferred tax liability	35	4	472
Subordinated debt	36	6,004	6,002
Total liabilities		**611,165**	**547,833**
Shareholders' equity			
Share capital	37	19,005	19,005
Share premium and reserves		30,589	30,672
Minority equity		1,060	580
Total shareholders' equity		**50,654**	**50,257**
Total liabilities and shareholders' equity		**661,819**	**598,090**

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

These financial statements were approved by the Board of Directors on 27 February 2008.

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board of Directors
and CEO

Peter Palečka
Member of the Board of Directors
and Senior Executive Director

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2007

CZK million	Share capital	Capital and reserve funds and undistributed profit *	Hedging instru-ments	Revaluation gains or losses	Revaluation of available--for-sale securities	Total	Minority interest	Total, including minority interest
Balance at 31 December 2005	**19,005**	**27,561**	**4,156**	**(38)**	**619**	**51,303**	**24**	**51,327**
Cash flow hedging								
– net fair value, net of tax	0	0	362	0	0	362	0	362
– transfer to net profit, net of tax	0	0	(1,671)	0	0	(1,671)	0	(1,671)
FX differences on the revaluation of net assets from foreign investments	0	0	0	(19)	0	(19)	0	(19)
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	571	571	0	571
Gains or losses on available-for-sale securities – associates, net of tax	0	(3)	0	0	0	(3)	0	(3)
Treasury shares, other	0	(146)	0	0	0	(146)	0	(146)
Dividends	0	(9,502)	0	0	0	(9,502)	0	(9,502)
Increase in share capital – minority interest	0	0	0	0	0	0	559	559
Net profit for the period	0	9,123	0	0	0	9,123	(3)	9,120
Balance at 31 December 2006	**19,005**	**27,033**	**2,847**	**(57)**	**1,190**	**50,018**	**580**	**50,598**
Acquisition adjustments in respect of Modrá pyramida stavební spořitelna, a.s.	**0**	**(341)**	**0**	**0**	**0**	**(341)**	**0**	**(341)**
– impact on retained earnings	0	(432)	0	0	0	(432)	0	(432)
– impact on net profit for the period	0	91	0	0	0	91	0	91
Adjusted balance at 1 January 2007	**19,005**	**26,692**	**2,847**	**(57)**	**1,190**	**49,677**	**580**	**50,257**
Cash flow hedging								
– net fair value, net of tax	0	0	(2,519)	0	0	(2,519)	0	(2,519)
– transfer to net profit, net of tax	0	0	(1,119)	0	0	(1,119)	0	(1,119)
FX differences on the revaluation of net assets from foreign investments	0	0	0	26	0	26	0	26
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	(1,916)	(1,916)	0	(1,916)
Gains or losses on available-for-sale securities – associates, net of tax	0	(50)	0	0	0	(50)	0	(50)
Treasury shares, other	0	0	0	0	0	0	0	0
Dividends	0	(5,693)	0	0	0	(5,693)	0	(5,693)
Increase in share capital – minority interest	0	0	0	0	0	0	443	443
Net profit for the period	0	11,188	0	0	0	11,188	37	11,225
Balance at 31 December 2007	**19,005**	**32,137**	**(791)**	**(31)**	**(726)**	**49,594**	**1,060**	**50,654**

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

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

Consolidated Cash Flow Statement for the year ended 31 December 2007

CZK million	2007	2007	2006	2006
Cash flows from operating activities				
Interest receipts	31,094		23,556	
Interest payments	(15,127)		(8,824)	
Commission and fee receipts	10,841		9,894	
Commission and fee payments	(1,526)		(1,104)	
Other income receipts	152		115	
Cash payments to employees and suppliers, and other payments	(10,719)		(10,350)	
Operating cash flow before changes in operating assets and operating liabilities	**14,715**		**13,287**	
Due from banks	5,265		38,153	
Loans and advances to customers	(53,258)		(38,204)	
Securities held for trading	(14,265)		(7,196)	
Other assets	(2,095)		(693)	
Total (increase)/decrease in operating assets:	**(64,353)**		**(7,940)**	
Amounts due to banks	(994)		(22,816)	
Amounts due to customers	59,379		36,058	
Other liabilities	(633)		2,112	
Total increase/(decrease) in operating liabilities:	**57,752**		**15,354**	
Net cash flow from operating activities before taxes	8,114		20,701	
Income taxes paid	(2,685)		(1,931)	
Net cash flows from operating activities		**5,429**		**18,770**
Cash flows from investing activities				
Dividends received	112		139	
Purchase of investments held to maturity	0		0	
Maturity of investments held to maturity *	341		127	
Purchase of securities available for sale	(18,381)		(17,303)	
Sale of securities available for sale *	14,855		9,885	
Purchase of tangible and intangible fixed assets	(2,257)		(1,695)	
Sale of tangible and intangible fixed assets	206		157	
Purchase of investments in subsidiaries and associates	0		(4,048)	
Sale of investments in subsidiaries and associates	0		6	
Net cash flow from investing activities		**(5,124)**		**(12,732)**
Cash flows from financing activities				
Paid dividends	(5,678)		(9,425)	
Securities issued	3,654		3,593	
Securities redeemed *	(2,810)		(996)	
Subordinated debt	0		6,000	
Increase in capital – minority interest	443		560	
Net cash flow from financing activities		**(4,391)**		**(268)**
Net increase/(decrease) in cash and cash equivalents	**(4,086)**		**5,770**	
Cash and cash equivalents at beginning of year	**13,877**		**8,107**	
Cash and cash equivalents at end of year (see Note 38)		**9,791**		**13,877**

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 2007

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.
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 (2006: 60.35 percent) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as of 31 December 2007

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
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos, uzavřený investiční fond, a.s.	100.0	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
ALL IN REAL ESTATE LEASING a.s.	100.0	100.0	Support banking services	Prague
Bastion European Investment S.A.	99.98	99.98	Financial services	Brussels
ESSOX s.r.o.	50.9	50.9	Consumer loans, leases	České Budějovice

The main activities of associated companies of the Bank as of 31 December 2007

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

2. Events for the year ended 31 December 2007

Dividends declared in respect of the year ended 31 December 2006

At the General Meeting of the Bank held on 25 April 2007, the shareholders approved a dividend for the year ended 31 December 2006 of CZK 150 per share before tax. The dividend was declared in the aggregate amount of CZK 5,693 million. An amount of CZK 437 million was allocated to the reserve fund and CZK 2,617 million was allocated to retained earnings.

Changes in the Bank's Financial Group

During 2007, the Group formed Protos, uzavřený investiční fond, a.s. (close-ended investment fund). The Group's investment amounts to CZK 13,000 million which represents an 89.64 percent equity investment of the Bank and a 10.36 percent equity investment by Factoring KB, a.s. The Group also increased the share capital of ESSOX s.r.o. by CZK 903 million, the Group's investment amounted to CZK 460 million and its equity interest of 50.93 percent remained unchanged. The Bank increased the share capital of Factoring KB, a.s. by CZK 1,100 million.

During 2007, the Group completed provisional accounting for the purchase of 60 percent of the shares of Modrá pyramida stavební spořitelna, a.s. which was made in 2006, refer to Note 3 (y).

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 financial statements are prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") and IFRSs as adopted by the European Union, applicable for consolidated financial statements effective for the year ended 31 December 2007. 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 fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits 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 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 to fair value and suffered impairment are stated at the higher of net recoverable amount and value in use.

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

The Bank maintains its books of account and prepares statements for regulatory purposes in accordance with International Financial Reporting Standards, other Group entities under 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, in case a portfolio of financial assets measured at fair value, the acquired financial asset is measured reflecting changes in its fair value from the purchase trade date to the sale trade date according to the categorisation into an individual portfolio, accrued interest on debt financial assets is recognised from the purchase settlement date to the sale settlement date.

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

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

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

(d) Foreign currency translation

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

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

At each balance sheet date:

(i) cash items denominated in foreign currencies are translated into CZK at the CNB rate ruling at the financial statements date;

(ii) non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNB mid-rate ruling at the transaction date; and

(iii) non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB rate ruling at the date on which the fair value was determined.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *"Net profit/(loss) on financial operations."* This does not apply to foreign exchange rate differences arising from the remeasurement of securities available for sale and foreign exchange rate differences from foreign currency deposits which the Group uses to hedge against currency risk of the net investments in foreign operations and anticipated asset purchase transactions. These foreign exchange rate difference are recognised in equity (refer to (g) Available for sale securities and (r) Derivative financial instruments and hedging). FX differences on the revaluation of net assets from foreign investments are reported in equity as part of *"Revaluation gains or losses"*.

(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 purposes.

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

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"*.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc.), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The recognition, use and release of provisions is accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is recognised. Provisions are used when loans are sold or written off. Provisions are released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid). The provisioning policy is set out in Note 44 ("Provisioning for receivables") to these financial statements.

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 which is typically equal to the 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 adjusted for the accrued difference between the nominal value of the security and its cost.

Dividend income arising from equity 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 Group's equity.

The Group assesses on a regular basis whether securities may be impaired, the only exception being securities at fair value through profit or loss. 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, bills of exchange and participation certificates) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. These securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.

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

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed 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 rate 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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) assets that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(ii) assets that the entity upon initial recognition designates as available for sale; or

(iii) assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

Available for sale securities

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

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

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

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

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

(h) Assets held for sale

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

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

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

(i) Investment property

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

(j) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. 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 Group 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 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:

(Years)	2007	2006
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	4
Fixtures, fittings and equipment	6	6
Vehicles	7	7
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lift, electro-installation	25	25
– Roof, facade	30	30
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Right of use – software	4	4
Other rights of use	According to contract	According to contract

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

The Group periodically tests its assets for indications of impairment, such as a change in their utilisation or worsened economic conditions. Where 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. The recoverable amount is the higher of net realisable value and value in use. Where assets are identified as being surplus to the Group's requirements, management of the Group determines a provision for asset impairment by reference to the selling price based on expert valuation reports adjusted downwards for an estimate of associated sale costs.

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

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

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

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

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

(k) Leases

Group as the Lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as *"Loans and advances to customers, net"*, 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.

Group as the Lessee

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 a reduction of the outstanding 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 expenses 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.

(l) Provisions

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

– It has a present obligation (legal or constructive) as a result of a past event;

– It is probable that the settlement of the obligation will cause an outflow of resources 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 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 used in provisioning (refer to Note 44).

(m) Employment benefits

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

The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension but only if were employed with the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the 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, discount rate).

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

(n) Securities issued

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

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

(o) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. 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. Penalty interest is accounted for and included in interest income on a cash basis.

(p) Income taxation

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

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

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

(q) Repurchase agreements

Under repurchase transactions ("repos"), the Group provides securities held in the *"At fair value through profit or loss"* and *"Securities available for sale"* portfolio as collateral. These securities are recorded as assets in the balance sheet line *"Financial assets at fair value through profit or loss"* and *"Securities available for sale"* and the corresponding 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 corresponding liability arising from the received loan is included in *"Amounts due to banks"* or *"Amounts due to customers"* as appropriate.

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 linear interest rate due to their short-term maturities.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Group derecognises from off balance sheet account securities acquired under reverse repo transactions and recognises in the balance sheet an amount payable from a short sale which is remeasured to fair value. This payable in included in *"Amounts due to banks"*.

(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 financial derivative 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, currency and commodity forwards, swaps, securities based derivatives, emission allowances and options. The values of these instruments change pursuant to the fluctuations in interest rates, commodity prices, exchange rates, market values of securities and similar market parameters.

Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *"Net profit/(loss) on financial operations"* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models or 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 option for an earlier redemption of bonds, 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 with 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 assessing whether the hedge is effective;

(c) The hedge is expected to be highly effective at inception and throughout the period; and

(d) 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 the fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement line *"Net profit/(loss) on financial operations"*. On this basis, the Group hedges the selected portfolios of foreign currency assets and a selected loan portfolio. The effectiveness of the hedge is regularly tested on a quarterly basis through prospective and retrospective tests.

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

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

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 profit and loss over the period to the maturity of the hedged item.

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

Certain derivative transactions, while providing economic hedges under the Group'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

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

(u) Share capital and treasury stock

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

(v) Contingent assets and contingent liabilities

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

Under IAS 37 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 where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, bid bonds and warrants.

The Group recognises issued guarantees in accordance with IAS 39. The guarantee is initially recognised at fair value and subsequently at the higher of the value determined in accordance with IAS 37 or the amount originally reported and decreased by an accumulated accrual, if any, in accordance with IAS 18.

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

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

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

In the year ended 31 December 2007, the following standards became effective but they only impacted the scope of disclosures provided in the notes to the Group's financial statements:

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

(x) Changes of accounting policies arising from the implementation of new IFRSs and revised IASs effective from 1 January 2009

In the year ended 31 December 2007, the following standard/revised standards became effective and are to be applied for annual periods beginning on or after 1 January 2009:

- IFRS 8 Operating Segments: this standard replaced IAS 14 Segment Reporting. Under IFRS 8, segments are required to be identified based on internal reports (rather than industry or geography) and may newly include as a segment a component of an entity that largely supplies its products or services internally, i.e. to other operating segments of the entity;
- IAS 23 Borrowing Costs: the revised standard eliminates the option to select between the benchmark treatment (recognition of all borrowing costs as an expense) and the allowed alternative treatment (capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset) and requires that borrowing costs attributable to the acquisition of a qualifying asset be capitalised as part of the cost; and
- IAS 1 Presentation of Financial Statements: the revised standard requires an entity to disclose comparative information, as a minimum, for two previous periods and to separately present transactions with owners (e.g. dividends) and other transactions (e.g. resulting from revaluation of assets, cash flow hedges, etc.) in equity. For this reason, a Statement of Comprehensive Income is introduced, comprising the existing income statement as well as information about unrealised gains and losses recognised in equity. The revised standard also refers to a "balance sheet" as a "statement of financial position".

The Group has undertaken a detailed analysis of the revised standards in order to identify the relevant changes and their potential impact on its accounting policies. All the new IFRSs and revisions of the extant IASs will be implemented with effect from 1 January 2009.

The adoption of these standards in future periods is not expected to have a material impact on the Group's profit or equity.

(y) Changes of comparative information for 2006 as compared to the issued consolidated financial statements for the year ended 31 December 2006

During 2007, the Group refined the presentation of certain profit and loss statement line items and discontinued the preliminary accounting for the valuation of Modrá pyramida stavební spořitelna, a.s., in which Komerční banka, a.s. acquired a 60 percent equity interest on 1 October 2006.

The Bank has additionally changed the presentation of personnel legal costs and costs of court fees.

As a result, the following changes were made in respect of the 2006 comparative information:

CZK million		Reclassification		Provisional accounting		
Category	Information presented in 2006	Reallocation of the costs of personnel legal disputes	Reallocation of the costs of court fees	Adjustment of the fair value of MPSS's building	Adjustment of the fair values of MPSS clients' deposits	Adjusted information for 2006
Profit and loss statement						
Interest expense	(9,855)				119	(9,736)
Personnel expenses	(5,213)	43				(5,170)
General administrative expenses	(5,544)		(26)			(5,570)
Depreciation, impairment and disposal of fixed assets	(1,661)			1		(1,660)
Provisions for other risk expenses	(260)	(43)	26			(277)
Income taxes	(2,695)				(29)	(2,724)
Total		**0**	**0**	**1**	**90**	
Assets						
Goodwill	2,903			53	595	3,551
Tangible fixed assets, net	8,017			(113)		7,904
Total		**0**	**0**	**(60)**	**595**	
Liabilities and equity						
Amounts due to customers	480,107				1,187	481,294
Deferred tax liability	783			(26)	(285)	472
Share premium and reserves	31,013			(34)	(307)	30,672
Total		**0**	**0**	**(60)**	**595**	

The aggregate impact on the profit and loss statement for the year ended 31 December 2006 represents a gain of CZK 91 million. Assets and liabilities increased by CZK 535 million and CZK 876 million, respectively, while equity decreased by CZK 341 million.

4. Source of income and expenses

Set out below is a business segment analysis:

CZK million	Universal banking		Investment banking		Total	
	2007	2006	2007	2006	2007	2006
External income	19,006	16,421	10,659	10,000	29,665	26,421
Income from other segments	8,958	8,645	(8,958)	(8,645)	0	0
Total income	**27,964**	**25,066**	**1,701**	**1,355**	**29,665**	**26,421**
External expenses	(13,397)	(11,891)	(161)	(509)	(13,558)	(12,400)
Segment result	**14,567**	**13,175**	**1,540**	**846**	**16,107**	**14,021**
Unallocated expenses					(1,779)	(2,086)
Profit before taxation					**14,328**	**11,935**
Taxation					(3,103)	(2,724)
Profit					**11,225**	**9,211**
Assets by segment	445,398	397,505	215,195	199,982	660,593	597,487
Investments in associates and unconsolidated subsidiaries	493	434	0	0	493	434
Unallocated assets					733	169
Total consolidated assets					**661,819**	**598,090**
Liabilities by segment	395,244	346,782	215,691	200,578	610,935	547,360
Unallocated liabilities					230	473
Total consolidated liabilities					**611,165**	**547,833**
Acquisition of assets	2,243	1,649	9	0	2,252	1,649
Depreciation and amortisation	1,646	1,677	5	36	1,651	1,713

The provisioning in the "Investment banking" segment amounted to CZK 1 million (2006: CZK nil) in the year ended 31 December 2007, other recognition and release of provisions related only to the "Universal banking" segment for all groups of assets that suffered impairment.
Subsidiaries that do not meet the criteria of IAS 14 for inclusion in a standalone segment are presented within universal banking.
The Group's income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5. Net interest income

Net interest income comprises:

CZK million	2007	2006
Interest income	34,149	26,010
Interest expense	(15,475)	(9,736)
Net interest income	**18,674**	**16,274**
Of which net interest income arising from		
– Loans and advances	23,623	17,832
– Securities held to maturity	117	121
– Securities available for sale	2,682	1,831
– Financial liabilities at amortised cost	(9,229)	(5,674)

"Interest income" includes interest on substandard, doubtful and loss loans of CZK 590 million (2006: CZK 588 million) due from customers and interest of CZK 1 million (2006: CZK 1 million) on securities that have suffered impairment.
"Interest income" also includes accrued interest income from hedging financial derivatives of CZK 7,727 million (2006: CZK 6,226 million) and *"Interest expense"* from hedging financial derivatives of CZK 6,246 million (2006: CZK 4,062 million). *"Net interest income"* from these derivatives amounts to CZK 1,481 million (2006: CZK 2,164 million).

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2007	2006
Net fees and commission from services and transactions	7,678	7,170
Net gain from foreign exchange commissions from clean payments	1,054	1,056
Net gain from foreign exchange commissions from other transactions	551	543
Total net fees and commissions	**9,283**	**8,769**

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

Net fees and commissions include fees arising from loans and advances not revaluated through profit or loss accounts in the amount of CZK 2,556 million (2006: CZK 2,525 million) and management and administration of assets fees in the amount of CZK 8 million (2006: CZK 4 million).

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2007	2006
Net realised gains/(losses) on securities held for trading	5	(112)
Net unrealised gains on securities held for trading	401	157
Net realised gains on securities available for sale	206	305
Net realised gains on securities acquired under initial public offering, not designated for trading	0	34
Net realised gains on own bonds	18	1
Dividend income on securities available for sale	111	139
Net realised and unrealised gains on security derivatives	28	198
Net realised and unrealised gains on interest rate derivatives	230	128
Net realised and unrealised gains on trading commodity derivatives	10	5
Net realised and unrealised gains on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	557	418
Total net profit on financial operations	**1,566**	**1,273**

The line *"Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities"* shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net loss of CZK 1,778 million in 2007 (2006: a net loss of CZK 1,556 million).

A gain of CZK 208 million (2006: a gain of CZK 95 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *"Net realised and unrealised gains/(losses) on interest rate derivatives"*. This amount matches the loss arising from the retranslation of hedged foreign currency receivables reported in the same line.

A loss of CZK 9 million (2006: 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 gain arising from the retranslation of hedged foreign currency assets reported in the same line.

8. Other income

The Group reports CZK 142 million (2006: CZK 105 million) in *"Other income"*. In the years ended 31 December 2006 and 2007, *"Other income"* predominantly included income arising from the leased assets.

9. Personnel expenses

Personnel expenses comprise:

CZK million	2007	2006
Wages, salaries and bonuses	4,139	3,736
Social costs	1,770	1,434
Total personnel expenses	**5,909**	**5,170**
Physical number of employees at the period-end	8,613	8,305
Average recalculated number of employees during the period	8,534	8,266
Average cost per employee (CZK)	**692,407**	**625,454**

Changes to the 2006 figures are disclosed in Note 3 (y).
"Social costs" include costs of CZK 104 million (2006: CZK 81 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 43 million (2006: CZK 41 million) incurred in contributing to the employees' capital life insurance scheme.

10. General administrative expenses

General administrative expenses comprise:

CZK million	2007	2006
Insurance of deposits and transactions	482	417
Marketing and entertainment costs	682	535
Costs of sale and banking products	1,372	1,227
Staff costs	308	282
Property maintenance charges	1,335	1,260
IT support	883	839
Office equipment and other consumption	105	81
Telecommunications, post and other services	308	295
External advisory services	462	482
Other expenses	238	152
Total general administrative expenses	**6,175**	**5,570**

"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 386 million (2006: CZK 336 million).

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2007	2006
Depreciation of tangible and intangible fixed assets	1,651	1,713
Provisions for assets and net gain on the sale of assets	(177)	(53)
Total depreciation, impairment and disposal of fixed assets	**1,474**	**1,660**

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

In the year ended 31 December 2007, no companies were excluded from consolidation (2006: a loss attributable to exclusion from consolidation of CZK 1 million).

13. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2007	2006
Balance at 1 January	(9,095)	(7,765)
Balance of provisions of a subsidiary upon its inclusion in consolidation	0	(366)
Net provisioning for loan losses	(1,651)	(1,536)
Reallocation to other provisions	14	0
Impact of loans written off and transferred	70	193
Exchange rate differences attributable to provisions	269	(379)
Balance at 31 December	**(10,393)**	**(9,095)**

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

CZK million	2007	2006
Specific provisions for loans to customers (refer to Note 20)	(9,623)	(8,298)
Provisions for other loans to customers	(12)	(31)
Provisions for guarantees and other credit related commitments (refer to Note 34)	(758)	(766)
Total	**(10,393)**	**(9,095)**

Provisions for securities

The balance of provisions for securities was CZK 17 million as of 31 December 2007 (2006: CZK 33 million). During the year ended 31 December 2007, the Bank released the provision of CZK 15 million due to a partial payment of the nominal value of a security and the foreign exchange difference arising from provisions for securities denominated in a foreign currency amounted to CZK 1 million.

Provisions for unconsolidated investments

The balance of provisions for unconsolidated investments is reported in the balance sheet line *"Investments in associates and unconsolidated subsidiaries, net"* in the amount of CZK 35 million (2006: CZK 35 million).

Provisions for other risk expenses

The positive balance of *"Provisions for other risk expenses"* of CZK 272 million (2006: a negative balance of CZK 277 million) principally consists of the charge for provisions of CZK 75 million (2006: CZK 153 million) and the release and use of provisions of CZK 561 million (2006: CZK 741 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 217 million (2006: CZK 705 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 5 million (2006: CZK 162 million). Additional information about the provisions for other risk expenses is provided in Note 34.

14. Income taxes

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

CZK million	2007	2006
Tax payable – current year, reported in profit or loss	(2,877)	(2,554)
Tax paid – prior year	35	206
Deferred tax	(305)	(424)
Hedge of a deferred tax asset against foreign currency risk	44	48
Total income taxes	**(3,103)**	**(2,724)**
Tax payable – current year, reported in equity	28	(2)
Total tax expense	**(3,075)**	**(2,726)**

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

CZK million	2007	2006
Profit before tax	**14,328**	**11,935**
Theoretical tax calculated at a tax rate of 24%	3,439	2,865
Tax on pre-tax profit adjustments	(2)	11
Non-taxable income	(1,249)	(1,068)
Expenses not deductible for tax purposes	908	934
Use of tax losses carried forward	0	(32)
Tax allowance	(2)	(3)
Tax credit	(71)	(52)
Tax on a standalone tax base	0	1
Hedge of a deferred tax asset against foreign currency risk	(44)	(48)
Movement in deferred tax	305	424
Unconsolidated tax losses	0	38
Impact of various tax rates of subsidiary undertakings	(123)	(96)
Tax effect of share of profits of associated undertakings	(23)	(44)
Income tax expense	**3,138**	**2,930**
Prior period tax expense	(35)	(206)
Total income taxes	**3,103**	**2,724**
Tax payable on securities reported in equity *	(28)	2
Total income tax	**3,075**	**2,726**
Effective tax rate	21.66%	22.82%

Note: * This amount represents the tax payable 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-tax deductible provisions and reserves. Expenses not deductible for tax purposes include the tax effect of permanent and temporary differences, specifically the recognition of reserves and non-tax deductible operating expenses. Tax on pre-tax profit adjustments represents tax on effective hedging. Tax credit arises from bonds issued by EU states.

In 2007, the Group reported a decrease in the tax liability of CZK 35 million (2006: a decrease of CZK 206 million) in the line *"Prior period tax expense"* which was attributable to the filing of additional tax returns for prior periods.

The corporate tax rate for the year ended 31 December 2007 is 24 percent (2006: 24 percent). The Group's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 35.

15. Distribution of profits/Allocation of losses

The Group generated a net profit of CZK 11,225 million for the year ended 31 December 2007. Distribution of profits for the year ended 31 December 2007 will be approved by the general meetings of the Group companies.

16. Earnings per share

Earnings per share of CZK 295.74 (2006: CZK 242.52 per share) have been calculated by dividing the net profit of CZK 11,225 million (2006: CZK 9,211 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number of treasury shares held by the Bank during the period.

17. Cash and current balances with central banks

Cash and current balances with central banks comprise:

CZK million	2007	2006
Cash and cash equivalents	7,223	7,233
Balances with central banks	3,734	7,767
Total cash and current balances with central banks	**10,957**	**15,000**

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 3.50 percent and 2.50 percent as of 31 December 2007 and 2006, respectively. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.50 percent and 1.50 percent as of 31 December 2007 and 2006, respectively.

18. Amounts due from banks

Balances due from banks comprise:

CZK million	2007	2006
Deposits with banks (current accounts)	198	280
Loans and advances to banks	6,079	4,503
Debt securities of banks acquired under initial offerings not designated for trading	15,138	15,256
Advances due from central banks (reverse repo transactions)	120,073	133,074
Term placements with other banks	62,203	55,584
Total	**203,691**	**208,697**
Provisions	0	(1)
Total amounts due from banks	**203,691**	**208,696**

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

CZK million	2007	2006
Treasury bills	117,742	127,909
Debt securities issued by state institutions	2,747	2,325
Debt securities issued by other institutions	0	29
Shares	216	673
Total	**120,705**	**130,936**

Securities acquired as loans and receivables

As of 31 December 2007, the Group maintains in its portfolio bonds at an amortised cost of CZK 15,138 million (2006: CZK 15,256 million) and a nominal value of CZK 14,925 million (2006: CZK 15,079 million), of which CZK 13,515 million represents bonds issued by the parent company Société Générale S.A. (2006: CZK 13,669 million) which the Group acquired under initial offerings and normal market conditions in 2002 and 2006. The bond of CZK 10,000 million (2006: CZK 10,000 million) is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. The bond of CZK 3,515 million (2006: CZK 3,669 million) is denominated in EUR, bears floating interest and will mature in 2026. The Group additionally carries in this portfolio two issues of securities placed by financial institutions with an aggregate nominal value of CZK 1,410 million (2006: CZK 1,410 million).

19. Financial assets at fair value through profit or loss

As of 31 December 2007 and 2006, financial assets at fair value through profit or loss included only trading securities. Upon initial recognition, the Group has not designated any financial assets as at fair value through profit or loss.
Trading securities comprise:

CZK million	Fair value 2007	Cost 2007	Fair value 2006	Cost 2006
Shares and participation certificates	**74**	**74**	**95**	**86**
Emission allowances	**0**	**0**	**21**	**34**
Fixed income debt securities	15,710	15,868	8,746	8,728
Variable yield debt securities	313	313	273	273
Bills of exchange	998	999	0	0
Treasury bills	7,406	7,414	5,562	5,559
Total debt securities	**24,427**	**24,594**	**14,581**	**14,560**
Total trading securities	**24,501**	**24,668**	**14,697**	**14,680**

The Group's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 7,406 million (2006: CZK 5,562 million).
As of 31 December 2007, the portfolio of trading securities includes securities at a fair value of CZK 16,097 million (2006: CZK 8,994 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 8,404 million (2006: CZK 5,703 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	2007	2006
Shares and participation certificates		
– Czech crowns	74	95
Total trading shares and participation certificates	**74**	**95**

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

CZK million	2007	2006
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	71	0
– Other foreign entities	3	95
Total trading shares and participation certificates	**74**	**95**

Emission allowances held for trading at fair value comprise:

CZK million	2007	2006
Emission allowances		
– Other currencies	0	21
Total emission allowances held for trading	**0**	**21**

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

CZK million	2007	2006
Emission allowances held for trading issued by:		
– Foreign state institutions	0	21
Total emission allowances held for trading	**0**	**21**

Debt trading securities at fair value comprise:

CZK million	2007	2006
Variable yield debt securities		
– Czech crowns	313	273
Total variable yield debt securities	**313**	**273**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	22,834	13,383
– Other currencies	1,280	925
Total fixed income debt securities	**24,114**	**14,308**
Total trading debt securities	**24,427**	**14,581**

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

CZK million	2007	2006
Debt trading securities issued by:		
– State institutions in the Czech Republic	20,369	12,623
– Foreign state institutions	1,199	926
– Financial institutions in the Czech Republic	159	170
– Foreign financial institutions	382	537
– Other entities in the Czech Republic	1,988	185
– Other foreign entities	330	140
Total trading debt securities	**24,427**	**14,581**

Of the debt securities issued by state institutions in the Czech Republic, CZK 19,518 million (2006: CZK 12,355 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	2007	2006
Loans to customers	312,244	258,920
Bills of exchange	851	758
Forfaits	985	1,026
Other amounts due from customers	76	116
Total gross loans and advances to customers	**314,156**	**260,820**
Provisions for loans to customers	(9,623)	(8,298)
Provisions for other amounts due from customers	(12)	(17)
Total loans and advances to customers, net	**304,521**	**252,505**

Loans and advances to customers include interest due of CZK 1,555 million (2006: CZK 1,127 million), of which CZK 899 million (2006: CZK 638 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as of 31 December 2007 amounting to CZK 15 million (2006: CZK 2,400 million) are collateralised by securities with fair values of CZK 16 million (2006: CZK 2,401 million).

The loan portfolio of the Group as of 31 December 2007 (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	287,593	128,577	159,016	0	287,593	0
Watch	13,705	5,607	8,098	793	12,912	10
Substandard	2,157	1,172	985	541	1,616	55
Doubtful	2,003	582	1,421	882	1,121	62
Loss	8,622	589	8,033	7,407	1,215	92
Total	**314,080**	**136,527**	**177,553**	**9,623**	**304,457**	

The loan portfolio of the Group as of 31 December 2006 (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	234,409	93,963	140,446	0	234,409	0
Watch	14,796	6,372	8,424	657	14,139	8
Substandard	3,070	1,352	1,718	795	2,275	46
Doubtful	1,465	416	1,049	672	793	64
Loss	6,964	336	6,628	6,174	790	93
Total	**260,704**	**102,439**	**158,265**	**8,298**	**252,406**	

Loans classified as loss in the above table include amounts of CZK 5,358 million (2006: CZK 4,462 million), on which interest is not being accrued.

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

CZK million	2007	2006
Agriculture, forestry and mining	10,919	9,867
Processing industry	44,027	38,503
Distribution and production of energy	4,729	4,831
Construction	10,359	8,470
Trade, catering, transport and communication	46,980	44,116
Insurance, banking	24,689	17,554
Other	172,377	137,363
Total loans to clients	**314,080**	**260,704**

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 2007	Discounted client loan collateral value 2007	Applied client loan collateral value 2007	Total client loan collateral 2006	Discounted client loan collateral value 2006	Applied client loan collateral value 2006
Guarantees of state and governmental institutions	4,091	3,262	2,945	6,520	6,109	5,548
Bank guarantee	19,058	18,307	16,576	14,631	13,060	11,303
Guaranteed deposits	2,607	2,606	2,382	2,977	693	2,778
Issued debentures in pledge	135	135	15	120	120	0
Pledge of real estate	189,244	119,294	87,256	145,569	84,049	63,640
Pledge of movable assets	7,136	1,101	1,044	6,974	1,548	1,411
Guarantee by legal entity	14,357	6,967	5,332	14,620	5,958	4,804
Guarantee by individual (physical entity)	44,357	7,467	7,382	4,516	645	1,446
Pledge of receivables	46,018	12,572	11,047	33,526	13,808	10,267
Insurance of credit risk	1,829	1,731	1,730	1,164	1,101	1,087
Other	24,469	5,033	818	3,534	265	155
Total nominal value of collateral	**353,301**	**178,475**	**136,527**	**234,151**	**127,356**	**102,439**

Pledges on industrial real estate represent 13 percent of total pledges on real estate (2006: 16 percent).

Loans and advances to customers – leasing

CZK million	2007	2006
Due less than 1 year	545	504
Due from 1 to 5 years	322	198
Due over 5 years	15	10
Total	**882**	**712**

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 43 months (2006: 42 months), new passenger and utility vehicles with an average lease instalment period of 56 months (2006: 62 months), technology with an average lease instalment period of 35 months (2006: 33 months) and consumer goods with an average lease instalment period of 12 months (2006: 10 months). As of 31 December 2007, future interest (the difference between the gross and net leasing investment) on lease contract amounts to CZK 75 million (2006: CZK 54 million) and the provisions recognised against uncollectible lease receivables amount to CZK 316 million (2006: CZK 213 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 2007, on balance sheet loans to this client included an amount of CZK 1,226 million (2006: CZK 1,414 million) that was fully provided for. The year-on-year decrease in the balance between 2006 and 2007 arises from a foreign exchange rate difference. The Group did not report any off balance sheet receivables from this client in 2007 and 2006.
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 2007	Cost 2007	Fair value 2006	Cost 2006
Shares and participation certificates	**2,517**	**2,047**	**1,377**	**584**
Fixed income debt securities	71,363	71,874	68,566	69,259
Variable yield debt securities	7,946	8,056	2,207	2,307
Total debt securities	**79,309**	**79,930**	**70,773**	**71,566**
Total securities available for sale	**81,826**	**81,977**	**72,150**	**72,150**

As of 31 December 2007, the available-for-sale portfolio includes securities at a fair value of CZK 72,091 million (2006: CZK 70,858 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 9,735 million (2006: CZK 1,292 million) that are not publicly traded.
Shares and participation certificates available for sale at fair value comprise:

CZK million	2007	2006
Shares and participation certificates		
– Czech Crowns	1,241	1,375
– Other currencies	1,276	2
Total shares and participation certificates available for sale	**2,517**	**1,377**

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

CZK million	2007	2006
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	806	845
– Foreign banks	174	34
– Non-banking entities in the Czech Republic	230	413
– Non-banking foreign entities	1,307	85
Total shares and participation certificates available for sale	**2,517**	**1,377**

"Shares and participation certificates available for sale issued by banks in the Czech Republic" include the Group's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 746 million (2006: CZK 785 million) over the acquisition cost.

Debt securities available for sale at fair value comprise:

CZK million	2007	2006
Variable yield debt securities		
– Czech Crowns	7,755	1,816
– Other currencies	191	391
Total variable yield debt securities	**7,946**	**2,207**
Fixed income debt securities		
– Czech Crowns	59,485	58,701
– Other currencies	11,878	9,865
Total fixed income debt securities	**71,363**	**68,566**
Total debt securities available for sale	**79,309**	**70,773**

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

CZK million	2007	2006
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	37,291	44,667
– Foreign state institutions	18,350	10,470
– Financial institutions in the Czech Republic	17,006	13,382
– Foreign financial institutions	4,054	102
– Other entities in the Czech Republic	1,292	794
– Other foreign entities	1,316	1,358
Total debt securities available for sale	**79,309**	**70,773**

Of the debt securities issued by state institutions in the Czech Republic, CZK 37,064 million (2006: CZK 43,942 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

The Group maintains a portfolio of asset backed securities (ABS) denominated in USD which are carried as available for sale. The Group establishes the value of these securities using a model which facilitates the simulation of future cash flows from these securities by modelling the development of the credit quality of underlying assets. The carrying value of these securities as of 31 December 2007, net of remeasurement, is CZK 202 million (2006: CZK 413 million).

In 2007, the Group's exposure to ABS decreased primarily as a result of the redemption of the nominal values of these securities of USD 8 million (CZK 164 million) and a change in the foreign exchange rate.

As of 31 December 2007, the Group recognised a positive revaluation of ABS of CZK 11 million (2006: a positive revaluation of CZK 21 million) arising from a change in the market parameters. The Group reported no provisions for impairment of these securities. Additional information about the assessment of the value of securities is provided in Note 3. Management of the Group considers that the recognised amount of ABS represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio.

Other debt securities

During the year ended 31 December 2007, the Group acquired Government bonds with a nominal value of CZK 12,777 million and EUR 86 million (CZK 2,425 million). In 2007, the Group also acquired and sold securities issued by financial institutions with the aggregate nominal value of CZK 2,399 million. In the year ended 31 December 2007, the Group repaid debt securities (except for ABS) with the aggregate nominal value of CZK 3,764 million.

22. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2007	Cost 2007	Carrying value 2006	Cost 2006
Fixed income debt securities	2,999	2,998	3,300	3,299
Total investments held to maturity	**2,999**	**2,998**	**3,300**	**3,299**

As of 31 December 2007, investments held to maturity include bonds of CZK 2,999 million (2006: CZK 3,300 million) that are publicly traded on stock exchanges.
Debt securities held to maturity comprise:

CZK million	2007	2006
Fixed income debt securities		
– Czech Crowns	1,368	1,357
– Other currencies	1,630	1,943
Total fixed income debt securities	**2,999**	**3,300**
Total debt securities held to maturity	**2,999**	**3,300**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2007	2006
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	1,369	1,357
– Foreign state institutions	1,630	1,943
Total debt securities held to maturity	**2,999**	**3,300**

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,385 million (2006: CZK 1,373 million) represents securities eligible for refinancing central banks.
No transactions within this portfolio took place during the year ended 31 December 2007. During 2007, debt securities in the total nominal amount of EUR 8 million (CZK 218 million) were redeemed at maturity.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2007	2006
Prepayments and accrued income	735	804
Settlement balances	1,280	679
Receivables from securities trading	1,519	234
Other assets	3,883	3,633
Total prepayments, accrued income and other assets	**7,417**	**5,350**

The year-on-year increase in *"Receivables from securities trading"* is predominantly due to new trading on the energy stock exchange in 2007, increased volume of transactions with the stock exchange and increase in the customer funds for margin trading with securities.
In the year ended 31 December 2006, *"Other assets"* reflected a provision of CZK 152 million charged for the decrease in the carrying amount of prepaid building rentals which was used in full in 2007 against the write-off of the relevant receivable.

24. Assets held for sale

As of 31 December 2007, the Group reported assets held for sale at a carrying amount of CZK 735 million (2006: CZK 613 million) comprising buildings and land owned by the Group which management of the Group decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated. The difference between the amounts as of 31 December 2007 and 2006 arises from the transfer of the assets from *"Investment property"* of CZK 216 million (refer to Note 25), the sale of buildings and land and reclassification of buildings and land back to *"Tangible fixed assets"* as not meeting classification criteria for presentation in this category of assets (refer to Note 28). The impact on the profit and loss statement is immaterial.

25. Investment property

The movements in investment property during the year ended 31 December 2007 are as follows:

CZK million	Investment property
Cost	
31 December 2006	287
Additions	0
Transfer to assets held for sale	(287)
31 December 2007	**0**
Accumulated depreciation and provisions	
31 December 2006	64
Additions	7
Transfer to assets held for sale	(71)
Impairment charge	0
31 December 2007	**0**
Net book value	
31 December 2006	223
31 December 2007	**0**
Fair value at 31 December 2006	167
Fair value at 31 December 2007	**0**

Net rental proceeds arising from investment property for the year ended 31 December 2007 amounted to CZK 8 million (2006: CZK 10 million), of which revenues of CZK 8 million (2006: CZK 11 million) and direct charges (including repair and maintenance) of CZK 0 million (2006: CZK 1 million).

26. Goodwill

The movements in goodwill during the year ended 31 December 2007 are as follows:

CZK million	Goodwill
Opening balance	
31 December 2006	2,903
Adjustment of acquisition accounting	648
31 December 2006 adjusted balance	3,551
Additions	0
Disposals	0
31 December 2007	**3,551**
Provisions	
31 December 2006	0
31 December 2007	**0**
Net book value	
31 December 2006 adjusted balance	3,551
31 December 2007	**3,551**

The change in goodwill in 2006 represents its adjustment reflecting the adjustment of acquisition accounting under IFRS 3. Further details are set out in Note 3 (y).

27. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2007 are as follows:

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2006	4,179	1,787	544	545	7,055
Additions	796	276	0	1,407	2,479
Disposals/Transfers	40	461	195	1,078	1,774
31 December 2007	**4,935**	**1,602**	**349**	**874**	**7,760**
Accumulated amortisation and provisions					
31 December 2006	2,844	1,325	483	20	4,672
Additions	541	235	37	0	813
Disposals	40	458	194	0	692
Impairment charge	0	0	0	13	13
31 December 2007	**3,345**	**1,102**	**326**	**33**	**4,806**
Net book value					
31 December 2006	1,335	462	61	525	2,383
31 December 2007	**1,590**	**500**	**23**	**841**	**2,954**

During the year ended 31 December 2007, the Group invested CZK 161 million (2006: CZK 125 million) in research and development through a charge to operating expenses.

28. Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2007 are as follows:

CZK million	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
Cost					
31 December 2006	295	10,432	6,941	222	17,890
Reallocation from assets held for sale	8	213	0	0	221
Additions	0	233	475	845	1,553
Disposals/Transfers	1	123	503	721	1,348
31 December 2007	**302**	**10,755**	**6,912**	**346**	**18,316**
Accumulated depreciation and provisions					
31 December 2006	0	4,216	5,770	0	9,986
Reallocation of accumulated depreciation of assets held for sale	0	75	0	0	75
Additions	0	352	487	0	839
Disposals	0	70	495	0	565
Impairment charge	0	(21)	0	0	(21)
31 December 2007	**0**	**4,552**	**5,762**	**0**	**10,314**
Net book value					
31 December 2006	295	6,216	1,171	222	7,904
31 December 2007	**302**	**6,203**	**1,151**	**346**	**8,002**

As of 31 December 2007, the net book value of assets held by the Group under finance lease agreements was CZK 5 million (2006: CZK 10 million).
As of 31 December 2007, the Group recognised provisions against tangible assets of CZK 50 million (2006: CZK 71 million). These provisions primarily included provisions charged in respect of leasehold improvements.

29. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

CZK million	2007	2006
Investments in subsidiary undertakings	4	4
Investments in associated undertakings	489	430
Total investments in subsidiaries and associates	**493**	**434**

CZK million Subsidiaries	Group's ownership interest (%)	Cost of investment 2007	Net book value 2007	Cost of investment 2006	Net book value 2006
ALL IN REAL ESTATE LEASING a.s.	100.00	39	4	39	4
Total subsidiaries	**–**	**39**	**4**	**39**	**4**

CZK million	Group's ownership	Net book	Share of net	Net book	Share of net
	interest	value	assets	value	assets
Associates	(%)	2007	2007	2006	2006
Komerční pojišťovna, a.s.	49.00	483	489	380	430
CBCB – Czech Banking Credit Bureau, a.s. *	20.00	0	0	0	0
Total associates	–	**483**	**489**	**380**	**430**
Investments in associates and unconsolidated subsidiaries	–	**522**	**493**	**419**	**434**

Note: * The cost and net book value of CBCB is CZK 240 thousand.

CZK million	Assets	Net operating	Profit	Assets	Net operating	Profit
		income			income	
Associates	2007	2007	2007	2006	2006	2006
Komerční pojišťovna, a.s.	12,077	395	221	11,629	340	135
CBCB – Czech Banking Credit Bureau, a.s.	20	83	4	14	75	3

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

30. Amounts due to banks

Amounts due to banks comprise:

CZK million	2007	2006
Current accounts	1,364	1,403
Other amounts due to banks	12,234	13,191
Total amounts due to banks	**13,598**	**14,594**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 1,958 million (2006: CZK 105 million).

31. Amounts due to customers

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

CZK million	2007	2006
Current accounts	300,376	252,041
Savings accounts	72,523	67,522
Term deposits	103,118	95,175
Depository bills of exchange	38,438	42,466
Other payables to customers	26,301	24,090
Total amounts due to customers	**540,756**	**481,294**

As of 31 December 2007, the Group received no repurchase loans from customers. As of 31 December 2006, the fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 1,326 million.
Amounts due to customers, by type of customer, comprise:

CZK million	2007	2006
Private companies	191,291	170,634
Other financial institutions, non-banking entities	17,946	7,429
Insurance companies	6,031	4,263
Public administration	5,322	1,977
Individuals	228,132	206,771
Individuals – businessmen	25,937	24,694
Government agencies	50,103	50,780
Other	10,406	9,199
Non-residents	5,588	5,547
Total amounts due to customers	**540,756**	**481,294**

32. Securities issued

Securities issued comprise bonds of CZK 466 million (2006: CZK nil) and mortgage bonds of CZK 27,451 million (2006: CZK 24,349 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	2007	2006
In less than 1 year	3,789	1,430
In 1 to 2 years	3,632	3,569
In 2 to 4 years	0	5,057
In 5 to 10 years	16,765	14,293
Over 10 years	3,731	0
Total debt securities	**27,917**	**24,349**

During the year ended 31 December 2007, the Bank made significant repurchases of two mortgage bonds, refer to the following table.

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

Name CZK million	Interest rate	Currency	Issue date	Maturity date	2007	2006
Mortgage bonds of Komerční banka, a.s., CZ0002000151	6M PRIBOR plus 350 bps	CZK	15 September 2000	15 September 2007	0	1,143
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	CZK	21 August 2003	21 August 2009	3,702	5,150
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	CZK	5 August 2004	5 August 2008	3,592	3,634
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 August 2005	3 August 2015	5,026	2,789
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 October 2005	21 October 2015	10,358	10,446
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 September 2006	1 September 2016	1,035	1,187
Bonds of Komerční banka, a.s., CZ0003701427	4.22%	CZK	18 December 2007	1 December 2017	466	0
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 December 2007	21 December 2037	3,738	0
Total debts					**27,917**	**24,349**

Note: Six-month PRIBOR was 414 basis points as of 31 December 2007 (2006: 261 basis points).
Three-month PRIBID was 401 basis points as of 31 December 2007 (2006: 245 basis points).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2007 was 459 bps (2006: 374 bps).

33. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2007	2006
Settlement balances and outstanding items	146	1
Payables from securities trading and issues of securities	2,356	1,234
Payables from payment transactions	5,708	7,591
Other liabilities	3,259	3,224
Accruals and deferred income	878	764
Total accruals and other liabilities	**12,347**	**12,814**

"Payables from securities trading and issues of securities" in the year ended 31 December 2007 increased due to the increase in the customer funds for securities trading.

"Payables from payment transactions" in the year ended 31 December 2007 decreased due to a lower amount of payments passed onto central banks' clearing centres.

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

Deferred income fees from banking guarantees is reported in *"Accruals and deferred income"* in the amount of CZK 21 million (2006: CZK 18 million).

34. Provisions

Provisions comprise:

CZK million	2007	2006
Provisions for contracted commitments	934	1,507
Provisions for other credit commitments	758	766
Total provisions	**1,692**	**2,273**

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

CZK million	2007	2006
Risk		
Provision for off balance sheet commitments	621	632
Provision for undrawn loan facilities	137	134
Total	**758**	**766**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2007	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2007
Provisions for retirement bonuses	85	8	6	5	0	92
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	1,420	95	635	0	(40)	840
Total	**1,507**	**103**	**641**	**5**	**(40)**	**934**

As of 31 December 2007, the Group held a provision of CZK 200 million (2006: CZK 244 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"*.
"Other provisions for contracted commitments" in the year ended 31 December 2007 decreased due to the use and release of provisions for discontinued legal disputes with the Group's customers.

35. Deferred income taxes

Deferred income taxes are calculated from temporary differences between tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 24 percent until 2007, 21 percent in 2008, 20 percent in 2009 and 19 percent starting from 2010 in the Czech Republic, and 19 percent from 2005 onwards in Slovakia. Deferred income tax assets and liabilities are attributable to the following items:

CZK million	2007	2006
Banking reserves and provisions	255	344
Provisions for non-banking receivables	12	48
Provisions for assets	132	182
Non-banking reserves	125	89
Depreciation	(316)	(264)
Leases	2	1
Revaluation of hedging derivatives – equity impact	211	(899)
Revaluation of a foreign currency equity investment – equity impact	0	(30)
Revaluation of available-for-sale securities – equity impact	46	(338)
Adjustments of the fair values of the building and deposits of Modrá pyramida stavební spořitelna, a.s.	170	311
Other temporary differences	88	84
Net deferred tax asset/(liability)	**725**	**(472)**

Since 2007, the Group has not reported any deferred tax arising from the revaluation of a foreign currency equity investment. Deferred tax recognised in the financial statements:

CZK million	2007	2006
Balance at the beginning of the period	**(472)**	**(480)**
Movement in net deferred tax liability – profit and loss impact	(305)	(424)
Movement in net deferred tax liability – equity impact	1,502	551
Consolidation adjustments – inclusion in/exclusion from consolidation	0	(119)
Balance at the end of the period	**725**	**(472)**

The impact of the change in the tax rates represented a reduction of the deferred tax asset of CZK 93 million.

36. Subordinated debt

As of 31 December 2007 the Group had subordinated debt of CZK 6,004 million (2006: CZK 6,002 million). The nominal value of the subordinated debt received by the Group at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity with the Group's option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

37. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2007:

Company name	Registered office	Ownership (%)
Société Générale S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	9.02
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	4.32

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.
As of 31 December 2007, the Group held 54,000 treasury shares at a cost of CZK 150 million (2006: 54,000 treasury shares at a cost of CZK 150 million).

Capital Management

The Group manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Group takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Group's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Group. This analysis principally leads to adjustments of the level of the Group's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.
The Group's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.
The Czech National Bank, as the local regulatory authority, oversees the Group's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Group's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 percent of the Tier 1 capital.
At the end of 2007, the Group completed the implementation of Basel II – Pillar 1 and performed internal reporting. The Group approved the updated categorisation of its operations into the investment (banking) and trading portfolios. In January 2008, the Group will commence using the Internal Rating Based Advanced Approach for the credit risk capital requirement calculation. The Group will also start using the Advanced Measurement Approach for the operational risk capital requirement calculation.

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

CZK million	2007	2006	Change in the year
Cash and balances with central banks	10,957	15,000	(4,043)
Amounts due from banks – current accounts	198	280	(82)
Amounts due to banks – current accounts	(1,364)	(1,403)	39
Total	**9,791**	**13,877**	**(4,086)**

39. Acquisition/disposal of subsidiary companies

The net assets of companies acquired/disposed of:

CZK million	2007	2006
Total acquired assets	0	60,552
Total acquired liabilities	0	(59,338)
Total net assets of companies acquired/disposed of	**0**	**1,214**
Acquired 60 percent of net assets of a company	0	728
Goodwill	0	3,389
Total paid for a 60 percent investment	**0**	**4,117**
Total paid in cash	**0**	**4,117**
Cash flow arising on disposal		
Payment for companies acquired/disposed of	0	(4,117)
Cash of companies acquired/disposed of at the acquisition/disposal date	0	52
Net cash flow arising on disposal of companies	**0**	**(4,065)**

In 2007, the Group discontinued the provisional accounting for an acquired company, refer to Note 3(y).

40. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2007. 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 198 million (2006: CZK 628 million) for these legal disputes (see Note 34). The Group has also recorded an accrual of CZK 298 million (2006: CZK 408 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2007, 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 2007, the Group had capital commitments of CZK 128 million (2006: CZK 69 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

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

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

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

CZK million	2007	2006
Non-payment guarantees including commitments to issued non-payment guarantees	25,772	19,764
Payment guarantees including commitments to issued payment guarantees	9,690	5,190
Received bills of exchange/acceptances and endorsements of bills of exchange	75	77
Committed facilities and unutilised overdrafts	28,261	12,754
Undrawn credit commitments	51,395	40,627
Unutilised overdrafts and approved overdraft loans	53,373	43,058
Unutilised discount facilities	146	136
Unutilised limits under Framework agreements to provide financial services	45,494	50,306
Letters of credit uncovered	1,074	992
Stand by letters of credit uncovered	719	666
Confirmed letters of credit	67	225
Letters of credit covered	80	137
Total contingent revocable and irrevocable commitments	**216,146**	**173,932**

The Group provides a variety of credit facilities to its largest clients. Of the Group's committed facilities and guarantees, CZK 38,703 million (2006: CZK 33,144 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 2007, the Group recorded provisions for these risks amounting to CZK 758 million (2006: CZK 766 million) – for further information see Note 34.
Set out below is the breakdown of financial commitments and contingencies by sector:

CZK million	2007	2006
Agriculture, forestry and mining	3,748	4,955
Processing industry	47,151	34,431
Distribution and production of energy	19,011	15,519
Construction	35,936	28,515
Trade, catering, transport and communication	40,966	33,637
Insurance, banking	13,146	16,373
Other	56,188	40,502
Total	**216,146**	**173,932**

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

Finance lease commitments

During 2007, the remaining balance of finance lease commitments of CZK 1 million was settled.

41. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2007, the Group was controlled by Société Générale which owns 60.35 percent of the Bank's 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 2007, the Group had loans outstanding of CZK 4 million (2006: CZK nil) to the associate, Komerční pojišťovna, a.s. The amounts of the associated undertaking placed with the Bank totalled CZK 369 million (2006: CZK 107 million). Other amounts due, amounts owed, income and expenses with the Group were immaterial in 2006 and 2007.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million	2007	2006
Company name		
ALD Automotive s.r.o.	1,596	967
ESSOX SK	98	18
Fimat London	32	36
Komerční pojišťovna, a.s.	10	27
SG Brussels	0	5
SG Consumer Finance	1,151	0
SG Equipment Finance Czech Republic s.r.o.	6,724	4,090
SG London	352	69
SG New York	0	16
SGA Société Générale Acceptance	3,707	3,729
SGBT Luxemburg	1	1,644
Société Générale Paris	13,006	14,430
Total	**26,677**	**25,031**

Principal balances owed to the Société Générale Group entities include:

CZK million	2007	2006
Company name		
ESSOX SK	9	65
Fimat London	0	94
Komerční pojišťovna, a.s.	369	142
SG Consumer Finance	7	0
SG Equipment Finance Czech Republic s.r.o.	2,031	13
SG Private Banking Switzerland	1	13
Société Générale Paris	10,662	11,776
Société Générale Warsaw	169	46
Investiční kapitálová společnost KB, a.s.	89	95
SG Cyprus	19	11
Total	**13,356**	**12,255**

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), issued bonds and subordinated debt (refer also to Note 36).

As of 31 December 2007, 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 141,827 million (2006: CZK 128,702 million) and CZK 149,264 million (2006: CZK 137,389 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 2007 and 2006, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2007, the Group realised total income of CZK 8,673 million (2006: CZK 2,740 million) and total expenses including a net loss from financial transactions of CZK 8,844 million (2006: CZK 1,757 million) with the Société Générale Group. 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, interest income on hedging derivatives and a net gain on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, net loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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	2007	2006
Remuneration to the Management Board members *	40	43
Remuneration to the Supervisory Board members **	4	4
Remuneration to the Directors' Committee members ***	82	85
Total	**126**	**132**

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2007 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2007 but including bonuses for 2006, figures for expatriate members of the Management Board include remuneration net of bonuses for 2007 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2007 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 2007 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2007, the total balance reflects his/her aggregate annual remuneration.

	2007	2006
Number of the Management Board members	5	5
Number of the Supervisory Board members	8	8
Number of the Directors' Committee members *	17	17

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

As of 31 December 2007, the Group recorded an estimated payable of CZK 15 million (2006: CZK 17 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2007, the Bank recorded loan receivables totalling CZK 4 million (2006: CZK 10 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2007, draw-downs of CZK 2 million were made under the loans granted to the members of the Directors' Committee. Loan repayments made by the members of the Directors' Committee during 2007 amounted to CZK 4 million. The balance of the loans of the retiring members of the Directors' Committee was CZK 4 million as of 31 December 2006.

42. Movements in the revaluation of hedging instruments in the 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	2007	2006
Cash flow hedge fair value at 1 January	3,745	5,469
Deferred tax liability at 1 January	(898)	(1,313)
Balance at 1 January	**2,847**	**4,156**
Movements during the year		
Gains/losses from changes in fair value	(3,273)	474
Deferred income tax	754	(112)
	(2,519)	**362**
Transferred to interest income/expense	(1,474)	(2,198)
Deferred income tax	355	527
	(1,119)	**(1,671)**
Balance at 31 December	(1,002)	3,745
Deferred income tax	211	(898)
Balance at 31 December	**(791)**	**2,847**

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

CZK million	2007	2006
Reserve from fair-value revaluation at 1 January	1,542	741
Deferred tax liability/income tax liability at 1 January	(352)	(122)
Balance at 1 January	**1,190**	**619**
Movements during the year		
Gains/losses from changes in fair value	(2,451)	855
Inclusion of a company in consolidation	0	205
Deferred tax liability/income tax liability	393	(196)
Inclusion of a company in consolidation	0	(50)
	(2,058)	**814**
Gains and losses from the sale and the recognition and use of provisions against securities	144	(259)
Deferred tax liability/income tax liability	(2)	16
	142	**(243)**
Balance at 31 December	(765)	1,542
Deferred tax liability/income tax liability	39	(352)
Balance at 31 December	**(726)**	**1,190**

44. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of credit risk is based on quantitative and qualitative criteria, the output of which is rating. The Group uses several types of ratings, depending on the type and profile of the counterparty, and related transactions. As a result, specific ratings are assigned to the Group's clients, and newly also to specific clients' transactions. In relevant cases the same rating procedure is applied to respective guarantors and sub-debtors, which provides for a better assessment of the quality of accepted guarantees and collateral.

In 2007, the Group completely reviewed its credit granting models, and several new models and series of model adjustments were implemented. Using updated models, the Group also reviewed granting and pricing policies in order to further optimise the risk-return profile of its activities. The Group completed a review of the Loss Given Default (LGD) and Exposure at Default (EAD) models. Newly, the Group has started assigning the LGD rating to guarantees and collateral, and is implementing the LGD rating for transactions so that not only the risk of default, but also potential loss implied by the default is rated.

All rating models are quarterly monitored and back-tested to ensure their relevancy. Any deterioration in model quality triggers corrective actions. Moreover, sophisticated stress testing of credit risk has been developed to ensure proper capital planning in the case of potential adverse economic development, and to support strategic business and/or risk policy decisions.

a) Ratings for business clients

For business clients the Group uses Obligor rating to evaluate the default risk of the counterparty, and starts using LGD rating to evaluate the quality of available guarantees and collateral, and to assess a potential loss of a counterparty's transactions.

For large and medium sized corporate clients, Obligor rating combines financial rating based mainly on financial data and economic rating obtained through the evaluation of non-financial data related to the client. In 2007, the Group continued with regular updates of financial and economic rating models for corporate clients, which reflected in a positive development of the corporate loan portfolio risk profile.

In the small business segment, the Group focused on better addressing the small business clients' needs and the specifics of this segment. The Obligor rating was extended to include the client's behaviour on accounts in the Group (behavioural rating). This extension resulted in a more efficient granting process for the majority of the existing small business clients. For the remaining small business clients a complex small business rating procedure has been developed on the basis of evaluation of financial, non-financial, personal and behavioural data. The higher precision of this rating procedure has enabled the Group to better target the credit assessment process in this segment.

b) Ratings for Banks and Sovereign

For banks and other financial institutions the Group uses a central economic rating model developed by Société Générale. The model is based on variables of a qualitative questionnaire, including quantitative financial criteria, and country support questionnaire. Central models have also been developed for sovereigns (central banks and governments) and other financial institutions (namely insurance companies, brokers and funds).

c) Ratings for individual clients

The Group uses two types of ratings to assess default risk related to individuals: application rating is used for setting up the credit risk based pricing at the moment of loan application and credit granting; behavioural rating is used to evaluate a client's default risk through the client's track record in the Group and to calculate pre-approved limits for small exposures which can be granted via a simplified granting procedure. Behavioural rating of the client is also used for regular updates of the Probability of Default (PD) of all clients' exposures reported under Basel II. In 2007, the Group further extended the use of the behavioural scoring model in order to enhance the potential for the simplified credit granting procedure for clients with low risk profiles. The behavioural model became the driver for mass retail production.

The Group has updated its application scoring model for individual clients applying for mortgage and residential consumer loans following the same model structure as was implemented in 2006 for the consumer loans and credit cards. The Group now uses a more granular rating scale enabling more precise pricing according to clients' risk profiles for all loan products granted to individual clients. Implementing this approach improved profitability of this portfolio and enabled a better-controlled application of the net margin policy.

All loan product innovations in 2007, especially in the case of mortgage activities, were implemented following a careful assessment of their specific credit risks, and after introducing specific adjustments of the granting process aimed at mitigating these risks.

In addition to the ratings which address default risk related to individual clients, the Group calculates Loss Given Default (LGD) ratings for all individual client's transactions. The LGD ratings are being incorporated in the credit risk granting process, pricing and portfolio provisioning.

In order to further strengthen synergies within the Group and to support the potential for cross-selling among the Group entities, two new behavioural scoring models have been developed for individual clients of Modrá pyramida stavební spořitelny a.s. and Penzijní fond Komerční banky a.s. These two models expand acquisition potential through consumer loans and credit cards with pre-approved limits offered to individuals that are not the Bank's clients.

d) Credit registers

The Group continues to extend and sophisticate the usage of internal and external credit registers in the rating and granting process, so that it is able to better identify problematic credit applicants and to increase efficiency of its credit fraud prevention processes. Identified problematic credit applicants are either immediately rejected, or provided with a credit, but after a careful individual assessment.

In 2007, the external credit registers were extended with the connection to the SOLUS register. This credit register covers credit segments such as telecom operators, consumer finance and leasing companies, energy distributors, cable TV providers, and a growing number of banks. Specific rules for the granting of loans to mass retail clients, which are found with a negative record in the SOLUS credit register, were implemented. As expected, this SOLUS extension proved to be a useful complementary source of credit information for the Group's growing mass retail business. The use of SOLUS was extended to include Modrá pyramida stavební spořitelna, a.s. in November 2007.

Credit risk concentration

Credit concentration risk makes an inherent part of the Group's credit risk management and as such it is actively managed using standard tools (e.g. analysis, limitation, monitoring and mitigation). Procedures of credit concentration risk cover individual counterparts as well as economically connected groups, countries and industry sectors. In the long term, the Group aims to eliminate credit concentration risk at all levels. In addition to internal limits, the Group complies with regulatory limits set on concentration risk.

The Group's maximum credit exposure as of 31 December 2007:

CZK million	Total exposure			Applied collateral		
	On-balance sheet	Off-balance sheet *	Total credit exposure	On-balance sheet	Off-balance sheet *	Total collateral
Current balances with central banks	3,734	1,335	5,069	0	x	0
Amounts due from banks	203,691	4,714	208,405	121,141	7	121,148
Securities held for trading	24,501	x	24,501	0	x	0
Positive fair value of financial derivative transactions	9,439	x	9,439	0	x	0
Loans and advances to customers	314,156	210,097	524,253	136,527	15,665	152,192
Corporate clients **	183,494	187,682	371,176	50,418	14,598	65,016
Of which: top corporate clients	85,387	109,789	195,176	23,390	9,847	33,237
Individuals – non-businessmen	130,586	22,415	153,001	86,038	1,067	87,105
Of which: mortgage loans	74,957	6,677	81,634	55,535	972	56,507
consumer loans	19,584	1,875	21,459	1,868	92	1,960
Other amounts due from customers	76	x	76	0	x	0
Securities available for sale	81,826	x	81,826	0	x	0
Securities held to maturity	2,999	x	2,999	0	x	0
Total	640,346	216,146	856,492	257,668	15,672	273,340

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessmen.

Maximum credit exposure is presented in gross values without impact of any provisions.
The Group's maximum credit exposure as of 31 December 2006:

CZK million	Total exposure			Applied collateral		
	On-balance sheet	Off-balance sheet *	Total credit exposure	On-balance sheet	Off-balance sheet *	Total collateral
Current balances with central banks	7,767	x	7,767	0	x	0
Amounts due from banks	208,696	2,514	211,210	132,863	21	132,884
Securities held for trading	14,697	x	14,697	0	x	0
Positive fair value of financial derivative transactions	11,115	x	11,115	0	x	0
Loans and advances to customers	260,820	171,418	432,238	102,439	10,133	112,572
Corporate clients **	160,514	154,058	314,572	46,054	9,369	55,423
Of which: top corporate clients	72,847	92,498	165,345	20,656	4,537	25,193
Individuals – non-businessmen	100,190	17,360	117,550	56,289	764	57,053
Of which: mortgage loans	56,839	4,405	61,244	43,918	748	44,666
consumer loans	15,146	1,339	16,485	1,518	16	1,534
Other amounts due from customers	116	x	116	96	x	96
Securities available for sale	72,150	x	72,150	0	x	0
Securities held to maturity	3,300	x	3,300	0	x	0
Total	578,545	173,932	752,477	235,302	10,154	245,456

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessman.

Maximum credit exposure is presented in gross values without impact of any provisions.

Classification of receivables

The Group classifies its receivables arising from financial activities into five categories according to Regulation of the Czech National Bank No. 123/2007. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).

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

Characteristics of 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 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 impaired exposures to clients (i.e. classified as Watch, Substandard, Doubtful or Loss according to CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committees or, whenever required, by recovery specialists. Provisions are established on the basis of the present value of estimated future cash flows to the Group and after due consideration for all available information, including the estimated value of collateral and expected duration of the recovery process. The remaining exposures are provisioned based on statistical models. These models were developed based on the BASEL II principles using the LGD (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007.

As of 31 December 2007, the Group reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
Standard	298,401	5,783	61	24	70	0	5,938	304,339
Watch	11,358	22	6	1	0	0	29	11,387
Total	**309,759**	**5,805**	**67**	**25**	**70**	**0**	**5,967**	**315,726**

As of 31 December 2006, the Group reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
Standard	242,037	4,793	38	9	9	0	4,849	246,886
Watch	12,630	347	330	155	0	0	832	13,462
Total	**254,667**	**5,140**	**368**	**164**	**9**	**0**	**5,681**	**260,348**

Collateral used in respect of the past due loans that were not provisioned amounts to CZK 4,688 million (2006: CZK 4,340 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Group uses independent valuations performed or supervised by a dedicated specialised department.

In 2007, the Group fully implemented in its internal system the new rules for assessment of collateral eligibility according to CNB Regulation No.123/2007. The Group's compliance with the new rules was validated by the CNB as part of the validation of the IRBA Basel II approach in September 2007.

Recovery of amounts due from borrowers

In order to address the growing volume of retail loans portfolio, the Group continues improving the efficiency of its pre-recovery and recovery processes. This also includes the intensified and enhanced use of external recovery channels which cover around 20 percent of total exposure of the portfolio in the recovery regime. Specific attention was paid to analysing and implementing the new insolvency legislation into the Group's recovery process. The new insolvency legislation is expected to significantly impact credit activities in both corporate and retail client segments.

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 2007, the revocable commitments account for 18 percent (2006: 19 percent) of all the Group's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily measuring of counterparty risk generated by financial derivatives is based on two indicators: the Current Average Risk indicator (CAR), and the Credit Value at Risk indicator (CVaR). Both indicators calculate the cost associated with the replacement of a defaulting client of the Group at current market conditions and take into consideration specific parameters such as the type of the derivative product, time-to-maturity and the nominal amount of the defaulted transaction, as well as the volatility of the underlying assets. Doing so, CAR measures the average of the Group's estimated potential exposures over the remaining life of the derivative instrument, while CVaR measures the Group's potential maximum exposure with a confidence level of 99 percent, and thus better reflects the maximum counterparty risk levels in case of adverse market scenarios.

As of 31 December 2007, the Group posted a credit exposure of CZK 33,025 million (2006: CZK 28,600 million) on financial derivative instruments (expressed in CVaR). Note that this amount represents the gross replacement risk at market rates as of 31 December 2007 of all outstanding agreements. The netting agreement is taken into account where applicable,

(B) Market risk

Segmentation of the Group's financial operations

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

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

Products traded by the Group

Products that are traded by the Group and can bear market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures), corporate and governmental bonds, as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). Transactions with these products are concluded either for proprietary purposes, or for hedging of the Group's positions (e.g. interest rate swaps, FRAs and currency swaps), as well as for accommodating the clients' requests. Certain structured derivative transactions for the clients have been designed to meet the clients' hedging needs. Related market risks are eliminated by the Group via back-to-back transactions concluded with the market.

Market risk in the Market Book

In order to measure market risks inherent in the activities of the Market Book, the Group uses the Value-at-Risk concept as an aggregate metric.

The VaR method ("historical simulation") has been used by the Group since 2003. This method reflects correlations between various financial markets and underlying instruments. It uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99 percent VaR indicator captures the loss that would be incurred after eliminating the top 1 percent most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The validity of the Value-at-Risk is verified through a back-testing process which compares the Value-at-Risk results with actual trading results and hypothetical overnight results. Any excesses are analysed to ensure the 99 percent confidence level. The Value-at-Risk calculations and results are monitored by the Group's management.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 991,000 and EUR 374,000 as of 31 December 2007 and 2006, respectively. The average Global Value-at-Risks were EUR 667,000 and EUR 320,000 for the years ended 31 December 2007 and 2006, respectively.

In addition, the Group also performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk scenarios, and that measure on a daily basis potential losses relevant to all open positions generated by larger shocks. 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 a hypothetical crisis that could harm the positions.

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

Market risk in the Structural Book

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

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

The indicator of sensitivity to a change in market interest rates shows a change in the Group's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2007, the interest rate risk sensitivity was CZK 670 million (2006: CZK 1,089 million). The Group is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

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 investments in securities or a selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

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

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

CZK million	Notional value		Notional value		Fair value		Fair value	
	2007	2007	2006	2006	2007	2007	2006	2006
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	295,511	295,511	229,642	229,642	1,906	1,927	2,474	2,424
Interest rate forwards and futures *	379,466	379,466	306,979	306,979	226	220	228	225
Interest rate options	2,753	2,753	1,361	1,361	7	7	1	1
Total interest rate instruments	**677,730**	**677,730**	**537,982**	**537,982**	**2,139**	**2,154**	**2,703**	**2,650**
Foreign currency instruments								
Currency swaps	99,416	98,882	75,926	75,660	1,811	1,245	1,160	865
Cross currency swaps	21,164	19,977	20,741	20,141	1,316	150	807	216
Currency forwards	21,197	21,479	16,456	16,619	328	618	197	413
Purchased options	39,635	39,773	26,628	26,622	1,106	0	769	0
Sold options	39,783	39,646	26,884	26,890	0	1,106	0	772
Total currency instruments	**221,195**	**219,757**	**166,635**	**165,932**	**4,561**	**3,119**	**2,933**	**2,266**
Other instruments								
Futures on debt securities *	1,329	1,329	573	572	0	0	0	0
Forwards on emission allowances	6,519	6,433	213	179	433	330	84	50
Equity forwards	0	0	131	149	0	0	55	73
Commodity forwards	1,218	1,218	654	654	44	43	89	94
Commodity swaps	1,674	1,674	3,404	3,404	230	228	163	158
Purchased commodity options	24	24	0	0	2	0	0	0
Sold commodity options	24	24	0	0	0	2	0	0
Total other instruments	**10,788**	**10,702**	**4,975**	**4,958**	**709**	**603**	**391**	**375**
Total	**909,713**	**908,189**	**709,592**	**708,873**	**7,409**	**5,876**	**6,027**	**5,291**

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

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

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	111,875	126,542	57,094	295,511
Interest rate forwards and futures *	334,557	44,909	0	379,466
Interest rate options	1,760	993	0	2,753
Total interest rate instruments	**448,192**	**172,444**	**57,094**	**677,730**
Foreign currency instruments				
Currency swaps	93,933	4,900	583	99,416
Cross currency swaps	2,085	16,960	2,119	21,164
Currency forwards	13,149	7,354	694	21,197
Purchased options	26,953	12,682	0	39,635
Sold options	27,089	12,694	0	39,783
Total currency instruments	**163,209**	**54,590**	**3,396**	**221,195**
Other instruments				
Futures on debt securities	1,329	0	0	1,329
Forwards on emission allowances	2,177	4,342	0	6,519
Commodity forwards	1,218	0	0	1,218
Commodity swaps	1,462	212	0	1,674
Purchased commodity options	24	0	0	24
Sold commodity options	24	0	0	24
Total other instruments	**6,234**	**4,554**	**0**	**10,788**
Total	**617,635**	**231,588**	**60,490**	**909,713**

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

Financial derivative instruments designated as hedging:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2007	2007	2006	2006	2007	2007	2006	2006
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	224,073	224,073	185,306	185,306	1,830	2,742	5,089	736
Interest rate swaps for fair value hedging	3,515	3,515	3,678	3,678	200	0	0	8
Currency swaps for fair value hedging	1,230	1,234	0	0	0	3	0	0
Total	**228,818**	**228,822**	**188,984**	**188,984**	**2,030**	**2,745**	**5,089**	**744**

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	48,794	83,040	92,239	224,073
Interest rate swaps for fair value hedging	0	0	3,515	3,515
Currency swaps for fair value hedging	1,230	0	0	1,230
Total	**50,024**	**83,040**	**95,754**	**228,818**

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.

During 2007, the Group recorded the following hedges:

(i) Interest rate risk hedge:

a. The fair value of a provided long-term loan is hedged by an interest rate swap;

b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's profit and loss statement on an ongoing basis); and

c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's profit and loss statement on an ongoing basis).

(ii) Foreign exchange risk hedge:

a. In selected material cases, the Group hedges future cash flows of firm commitments arising from the Group's contractual obligations (e.g., contractual payments to third parties in a foreign currency), the hedging instrument includes foreign currency assets (e.g., securities); and

b. The Group hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent upon foreign exchange rate developments, by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

(iii) Hedge of an investment in a foreign subsidiary:

a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Group does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is not longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

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

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

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

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	2,300	0	0	0	8,657	10,957
Amounts due from banks	191,919	1,328	8,463	1,981	0	203,691
Financial assets at fair value through profit or loss	7,487	5,696	9,745	1,499	74	24,501
Positive fair values of financial derivative transactions	0	0	0	0	9,439	9,439
Loans and advances to customers, net	135,302	54,879	83,196	30,245	899	304,521
Securities available for sale	5,786	5,565	26,667	41,292	2,516	81,826
Investments held to maturity	1,431	214	681	673	0	2,999
Prepayments, accrued income and other assets	2,856	0	0	0	4,561	7,417
Income taxes receivable	0	0	0	0	4	4
Deferred tax asset	0	0	0	0	729	729
Assets held for sale	0	0	0	0	735	735
Goodwill	0	0	0	0	3,551	3,551
Intangible fixed assets, net	0	0	0	0	2,954	2,954
Tangible fixed assets, net	0	0	0	0	8,002	8,002
Investments in associates and unconsolidated subsidiaries, net	0	0	0	0	493	493
Total assets	**347,081**	**67,682**	**128,752**	**75,690**	**42,614**	**661,819**
Liabilities						
Amounts due to banks	9,853	3,745	0	0	0	13,598
Amounts due to customers	138,327	53,843	7,589	1,749	339,248	540,756
Negative fair values of financial derivative transactions	0	0	0	0	8,621	8,621
Securities issued	1,103	3,658	4,171	18,985	0	27,917
Accruals and other liabilities	0	0	0	0	12,347	12,347
Provisions	0	0	0	0	1,692	1,692
Income taxes payable	0	226	0	0	0	226
Deferred tax liability	0	0	0	0	4	4
Subordinated debt	6,004	0	0	0	0	6,004
Total liabilities	**155,287**	**61,472**	**11,760**	**20,734**	**361,912**	**611,165**
On balance sheet interest rate sensitivity gap at 31 December 2007	**191,794**	**6,210**	**116,992**	**54,956**	**(319,298)**	**50,654**
Derivatives *	266,190	357,031	198,947	104,314	0	926,482
Total off balance sheet assets	**266,190**	**357,031**	**198,947**	**104,314**	**0**	**926,482**
Derivatives *	312,395	366,067	209,029	37,804	0	925,295
Undrawn portion of loans **	(7,265)	(3,048)	6,403	1,969	0	(1,941)
Undrawn portion of revolving loans **	871	(160)	283	395	0	1,389
Total off balance sheet liabilities	**306,001**	**362,859**	**215,715**	**40,168**	**0**	**924,743**
Net off balance sheet interest rate sensitivity gap at 31 December 2007	**(39,811)**	**(5,828)**	**(16,768)**	**64,146**	**0**	**1,739**
Cumulative interest rate sensitivity gap at 31 December 2007	**151,983**	**152,365**	**252,589**	**371,691**	**52,393**	**x**
Total assets at 31 December 2006	322,850	68,978	112,015	54,964	39,282	598,089
Total liabilities at 31 December 2006	158,436	17,317	50,876	16,653	304,550	547,832
Net on balance sheet interest rate sensitivity gap at 31 December 2006	164,414	51,661	61,139	38,311	(265,268)	50,257
Net off balance sheet interest rate sensitivity gap at 31 December 2006	(62,753)	(21,733)	16,835	66,233	0	(1,418)
Cumulative interest rate sensitivity gap at 31 December 2006	101,661	131,589	209,563	314,107	48,839	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 2007 and 2006:

%		2007			2006	
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and balances with the CNB	0.69	x	x	1.07	x	x
Treasury bills	3.64	x	x	2.76	x	x
Amounts due from banks	3.66	5.32	4.45	2.65	5.31	3.73
Loans and advances to customers	4.77	5.41	5.01	4.36	5.88	4.22
Interest earning securities	5.07	4.99	3.83	3.90	5.10	3.53
Total assets	**3.94**	**5.18**	**4.11**	**2.44**	**9.79**	**4.31**
Total interest earning assets	**4.38**	**5.28**	**4.54**	**2.70**	**5.32**	**3.91**
Liabilities						
Amounts due to banks	1.92	4.10	3.94	2.46	4.93	3.54
Amounts due to customers	1.05	2.59	2.10	0.85	2.85	1.31
Debt securities	3.62	x	3.74	3.20	x	3.73
Subordinated debt	3.73	x	x	2.89	x	x
Total liabilities	**1.29**	**2.27**	**2.24**	**0.77**	**2.53**	**1.58**
Total interest bearing liabilities	**1.30**	**2.59**	**2.31**	**1.02**	**2.86**	**1.66**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc.)	3.85	5.02	4.29	3.37	5.15	3.73
Undrawn portion of loans	4.63	x	4.94	3.72	x	4.11
Undrawn portion of revolving loans	7.42	5.44	4.44	6.74	6.28	3.10
Total off balance sheet assets	**4.32**	**5.03**	**4.32**	**3.79**	**5.13**	**3.66**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	3.67	5.01	4.36	2.89	5.03	3.77
Undrawn portion of loans	4.63	x	4.94	3.72	x	4.11
Undrawn portion of revolving loans	7.42	5.44	4.44	6.74	6.28	3.10
Total off balance sheet liabilities	**4.18**	**5.01**	**4.38**	**3.40**	**5.08**	**3.67**

Note: The above table sets out the average interest rates for December 2007 and 2006 calculated as a weighted average for each asset and liability category.

During 2007, both CZK and EUR interest rates witnessed year-on-year growth; short-term rates grew faster than the long-term rates, the result being the flattening of their yield curves. USD interest rates remained approximately on the same level for most of 2007. At the end of 2007, USD rates decreased when the short-term rates declined more rapidly than the long-term rates.

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

CZK million	Fixed interest rate 2007	Floating interest rate 2007	No interest 2007	Total 2007	Fixed interest rate 2006	Floating interest rate 2006	No interest 2006	Total 2006
Assets								
Cash and balances with central banks	0	2,299	8,658	10,957	0	6,185	8,815	15,000
Amounts due from banks	13,003	190,381	307	203,691	14,599	193,890	207	208,696
Financial assets at fair value through profit or loss	24,114	313	74	24,501	14,289	271	137	14,697
Positive fair values of financial derivative transactions	0	0	9,439	9,439	0	0	11,115	11,115
Loans and advances to customers, net	176,789	126,949	783	304,521	138,464	113,644	397	252,505
Securities available for sale	71,365	7,945	2,516	81,826	67,996	2,200	1,954	72,150
Investments held to maturity	2,999	0	0	2,999	3,238	0	62	3,300
Liabilities								
Amounts due to banks	5,898	5,549	2,151	13,598	4,336	8,128	2,130	14,594
Amounts due to customers	71,414	440,785 *	28,557	540,756	67,059	388,824	25,411	481,294
Negative fair values of financial derivative transactions	0	0	8,621	8,621	0	0	6,034	6,034
Securities issued	22,646	5,271	0	27,917	20,130	3,909	310	24,349
Subordinated debt	0	6,004	0	6,004	2	6,000	0	6,002

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

* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(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 groupings based on the remaining period from the balance sheet date to the contractual maturity date.

CZK million	On demand within 7 days	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 central banks	8,733	0	0	0	0	2,224	10,957
Amounts due from banks	135,498	50,030	3,389	9,362	5,304	108	203,691
Financial assets at fair value through profit or loss	496	6,983	5,590	9,848	1,510	74	24,501
Positive fair values of financial derivative transactions	0	0	0	0	0	9,439	9,439
Loans and advances to customers, net	3,503	29,410	79,857	84,702	91,821	15,228	304,521
Securities available for sale	42	2,092	3,377	26,465	47,334	2,516	81,826
Investments held to maturity	0	1,388	223	701	687	0	2,999
Prepayments, accrued income and other assets	2,856	27	2,085	0	0	2,449	7,417
Income taxes receivable	0	0	0	0	0	4	4
Deferred tax asset	0	0	0	0	0	729	729
Assets held for sale	0	0	735	0	0	0	735
Goodwill	0	0	0	0	0	3,551	3,551
Intangible fixed assets, net	0	0	0	0	0	2,954	2,954
Tangible fixed assets, net	0	0	0	0	0	8,002	8,002
Investments in associates and unconsolidated subsidiaries, net	0	0	0	0	0	493	493
Total assets	**151,128**	**89,930**	**95,256**	**131,078**	**146,656**	**47,771**	**661,819**
Liabilities							
Amounts due to banks	7,744	894	688	1,003	3,269	0	13,598
Amounts due to customers	404,517	75,263	24,248	10,740	2,771	23,217	540,756
Negative fair values of financial derivative transactions	0	0	0	0	0	8,621	8,621
Securities issued	0	62	3,641	3,271	20,943	0	27,917
Accruals and other liabilities	10,597	721	37	0	0	992	12,347
Provisions	8	58	525	85	25	991	1,692
Income taxes payable	0	0	226	0	0	0	226
Deferred tax liability	0	0	0	0	0	4	4
Subordinated debt	0	4	0	0	6,000	0	6,004
Equity	0	0	0	0	0	50,654	50,654
Total liabilities and shareholders' equity	**422,866**	**77,002**	**29,365**	**15,099**	**33,008**	**84,479**	**661,819**
On balance sheet liquidity gap at 31 December 2007	**(271,738)**	**12,928**	**65,891**	**115,979**	**113,648**	**(36,708)**	**0**
Off balance sheet assets *	38,944	62,481	66,308	54,591	3,395	0	225,719
Off balance sheet liabilities *	40,967	82,128	178,786	80,979	25,714	25,370	433,944
Net off balance sheet liquidity gap at 31 December 2007	**(2,023)**	**(19,647)**	**(112,478)**	**(26,388)**	**(22,319)**	**(25,370)**	**(208,225)**
Total assets at 31 December 2006	151,185	87,574	75,692	118,588	113,216	51,834	598,089
Total liabilities at 31 December 2006	362,617	55,288	19,467	55,435	26,679	78,603	598,089
Net on balance sheet liquidity gap at 31 December 2006	(211,432)	32,286	56,225	63,153	86,537	(26,769)	0
Net off balance sheet liquidity gap at 31 December 2006	(7,141)	(20,922)	(88,931)	(13,392)	(17,850)	(19,919)	(168,155)

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.

CZK million	Czech crowns	EUR	US dollars	Swiss francs	Slovak crowns	Other currencies	Total
Assets							
Cash and current balances with central banks	9,071	1,079	178	57	347	225	10,957
Amounts due from banks	162,324	26,143	11,441	11	2,799	973	203,691
Financial assets at fair value through profit or loss	23,221	90	0	0	161	1,029	24,501
Positive fair values of financial derivative transactions	8,736	590	50	0	42	21	9,439
Loans and advances to customers, net	275,190	23,048	1,643	97	4,063	480	304,521
Securities available for sale	68,480	11,230	2,116	0	0	0	81,826
Investments held to maturity	1,369	1,427	186	0	17	0	2,999
Prepayments, accrued income and other assets	6,468	867	64	0	5	13	7,417
Income taxes receivable	1	1	0	0	0	2	4
Deferred tax asset	729	0	0	0	0	0	729
Assets held for sale	735	0	0	0	0	0	735
Goodwill	3,551	0	0	0	0	0	3,551
Intangible fixed assets, net	2,950	0	0	0	4	0	2,954
Tangible fixed assets, net	7,967	0	0	0	35	0	8,002
Investments in associates and unconsolidated subsidiaries, net	493	0	0	0	0	0	493
Total assets	**571,285**	**64,475**	**15,678**	**165**	**7,473**	**2,743**	**661,819**
Liabilities							
Amounts due to banks	7,377	4,187	63	0	800	1,171	13,598
Amounts due to customers	490,013	38,896	7,409	161	3,381	896	540,756
Negative fair values of financial derivative transactions	8,027	328	115	0	58	93	8,621
Securities issued	26,882	1,035	0	0	0	0	27,917
Accruals and other liabilities	10,995	1,044	192	1	81	34	12,347
Provisions	922	68	691	0	10	1	1,692
Income taxes payable	209	0	0	0	17	0	226
Deferred tax liability	0	0	0	0	4	0	4
Subordinated debt	6,004	0	0	0	0	0	6,004
Equity	46,253	3,706	0	0	695	0	50,654
Total liabilities and shareholders' equity	**596,682**	**49,264**	**8,470**	**162**	**5,046**	**2,195**	**661,819**
Net FX position at 31 December 2007	**(25,397)**	**15,211**	**7,208**	**3**	**2,427**	**548**	**0**
Off balance sheet assets included in the FX position *	958,954	127,905	39,005	5	11,117	6,421	1,143,407
Off balance sheet liabilities included in the FX position *	928,838	145,668	46,521	7	13,904	6,949	1,141,887
Net off balance sheet FX position at 31 December 2007	**30,116**	**(17,763)**	**(7,516)**	**(2)**	**(2,787)**	**(528)**	**1,520**
Total net FX position at 31 December 2007	**4,719**	**(2,552)**	**(308)**	**1**	**(360)**	**20**	**1,520**
Total assets at 31 December 2006	526,112	46,987	18,354	200	4,688	1,748	598,089
Total liabilities at 31 December 2006	544,785	37,874	9,891	191	4,084	1,264	598,089
Net FX position at 31 December 2006	(18,673)	9,113	8,463	9	604	484	0
Off balance sheet net FX position at 31 December 2006	19,323	(8,178)	(8,859)	(7)	(1,086)	(471)	722
Total net FX position at 31 December 2006	650	935	(396)	2	(482)	13	722

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

(G) Operational risk

In the operational risks area, the Group has been targeting Société Générale's objective of the Advanced Measurement Approaches ("AMA") method validation at the group level through the end of 2007. Therefore, all operational risks management instruments required by the AMA method have been progressively implemented in the Group. These instruments include data collection, risk control self assessment, scenario analysis (all implemented in 2006) and key risk indicators (implemented in the first quarter of 2007).

The Czech National Bank has approved locally these advances approaches under the validation process and the Group may allocate the lowest volume of capital to operational risks under Basel II.

(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 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 generally deemed to approximate their fair value.

b) Investments held to maturity

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

c) Amounts due from banks

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

d) Loans and advances to customers

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

e) Amounts owed to banks and customers

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

f) Debt securities issued

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

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

CZK million	Carrying value 2007	Fair value 2007 *	Carrying value 2006	Fair value 2006 *
Financial assets				
Cash and current balances with central banks	10,957	10,957	15,000	15,000
Amounts due from banks	203,691	203,511	208,696	209,023
Loans and advances to customers, net	304,521	309,623	252,505	259,169
Investments held to maturity	2,999	2,958	3,300	3,272
Financial liabilities				
Amounts due to banks	13,598	13,063	14,594	14,590
Amounts due to customers	540,756	540,659	480,107	480,070
Securities issued	27,917	26,992	24,349	24,231
Subordinated debt	6,004	6,003	6,002	6,004

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

45. Assets under management

As of 31 December 2007, the Group managed client assets in the amount of CZK 2,852 million (2006: CZK 3,472 million), of which no assets were from the Bank's subsidiaries. The Group is transferring asset management services to other trustees.

46. Post balance sheet events

Philippe Rucheton, Deputy CEO and Vice Chairman of the Board of Directors, resigned from his positions and accepted the positions of member of the Board of Directors and CFO of Newedge which was formed as a joint venture between Société Générale and Calyon. With effect from 1 February 2008, the Bank's Supervisory Board appointed Patrice Taillandier-Thomas a new member of the Board of Directors and COO. This appointment is subject to the approval by the Czech National Bank.

Unconsolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2007

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: Prague 1, Na Příkopě 33, čp. 969, PSČ 114 07
Identification number: 45317054
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 unconsolidated balance sheet as of 31 December 2007, and the unconsolidated profit and loss statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements 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 we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of Komerční banka, a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 27 February 2008

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

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová, certificate no. 2045

Unconsolidated Profit and Loss Statement for the year ended 31 December 2007

CZK million	Note	2007	2006
Interest income	5	29,901	24,231
Interest expense	5	(14,200)	(9,373)
Net interest income		**15,701**	**14,858**
Net fees and commissions	6	9,020	8,691
Net profit on financial operations	7	1,367	961
Dividends and other income	8	138	121
Net banking income		**26,226**	**24,631**
Personnel expenses	9	(5,390)	(4,864)
General administrative expenses	10	(5,475)	(5,148)
Depreciation, impairment and disposal of fixed assets	11	(1,349)	(1,578)
Total operating expenses		**(12,214)**	**(11,590)**
Profit before provision for loan and investment losses, other risk and income taxes		**14,012**	**13,041**
Provision for loan losses		(1,271)	(1,315)
Provisions for impairment of securities		15	0
Provisions for other risk expenses		253	(305)
Cost of risk	**12**	**(1,003)**	**(1,620)**
Profit on subsidiaries and associates	13	106	6
Profit before income taxes		**13,115**	**11,427**
Income taxes	14	(2,945)	(2,680)
Net profit	**15**	**10,170**	**8,747**
Earnings per share (in CZK)	**16**	**267.96**	**230.32**

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

Unconsolidated Balance Sheet as of 31 December 2007

CZK million	Note	2007	2006
Assets			
Cash and current balances with the Czech National Bank	17	10,376	14,082
Amounts due from banks	18	198,529	199,788
Financial assets at fair value through profit or loss	19	26,731	14,697
Positive fair value of financial derivative transactions	41	9,430	11,112
Loans and advances to customers, net	20	267,108	223,171
Securities available for sale	21	34,522	23,176
Investments held to maturity	22	2,982	3,283
Prepayments, accrued income and other assets	23	4,597	2,572
Income taxes receivable	14	4	167
Deferred tax asset	33	432	0
Assets held for sale	24	505	611
Intangible fixed assets, net	25	2,708	2,251
Tangible fixed assets, net	26	7,388	7,328
Investments in subsidiaries and associates, net	27	23,380	10,012
Total assets		**588,692**	**512,250**
Liabilities			
Amounts due to banks	28	13,325	12,839
Amounts due to customers	29	454,289	398,137
Negative fair value of financial derivative transactions	41	8,613	6,047
Securities issued	30	44,495	26,152
Accruals and other liabilities	31	10,876	11,552
Provisions	32	1,665	2,230
Income taxes payable	14	189	0
Deferred tax liability	33	0	637
Subordinated debt	34	6,004	6,002
Total liabilities		**539,456**	**463,596**
Shareholders' equity			
Share capital	35	19,005	19,005
Share premium and reserves		30,231	29,649
Total shareholders' equity		**49,236**	**48,654**
Total liabilities and shareholders' equity		**588,692**	**512,250**

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

These financial statements were approved by the Board of Directors on 27 February 2008.

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board of Directors
and CEO

Peter Palečka
Member of the Board of Directors
and Senior Executive Director

Unconsolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2007

CZK million	Share capital	Capital and reserve funds and undistributed profit *	Hedging instruments	Revaluation of available--for-sale securities	Total
Closing balance at 31 December 2005	**19,005**	**26,873**	**4,151**	**285**	**50,314**
Cash flow hedging:					
– net fair value, net of tax	0	0	359	0	359
– transfer to net profit, net of tax	0	0	(1,663)	0	(1,663)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	84	0	84
Gains or losses on available-for-sale securities, net of tax	0	0	0	461	461
Other treasury shares	0	(146)	0	0	(146)
Dividends	0	(9,502)	0	0	(9,502)
Net profit for the period	0	8,747	0	0	8,747
Balance at 31 December 2006	**19,005**	**25,972**	**2,931**	**746**	**48,654**
Cash flow hedging:					
– net fair value, net of tax	0	0	(2,511)	0	(2,511)
– transfer to net profit, net of tax	0	0	(1,116)	0	(1,116)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	155	0	155
Gains or losses on available-for-sale securities, net of tax	0	0	0	(423)	(423)
Dividends	0	(5,693)	0	0	(5,693)
Net profit for the period	0	10,170	0	0	10,170
Balance at 31 December 2007	**19,005**	**30,449**	**(541)**	**323**	**49,236**

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

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

Unconsolidated Cash Flow Statement for the year ended 31 December 2007

CZK million	2007	2007	2006	2006
Cash flows from operating activities				
Interest receipts	28,410		22,594	
Interest payments	(13,237)		(8,347)	
Commission and fee receipts	10,007		9,531	
Commission and fee payments	(990)		(843)	
Other income receipts	76		82	
Cash payments to employees and suppliers, and other payments	(9,643)		(9,663)	
Operating cash flow before changes in operating assets and operating liabilities	14,623		13,354	
Due from banks	1,187		45,419	
Securities held for trading	(12,035)		(7,196)	
Loans and advances to customers	(44,764)		(38,883)	
Other assets	(2,014)		(547)	
Total (increase)/decrease in operating assets	(57,626)		(1,207)	
Amounts due to banks	289		(17,891)	
Amounts due to customers	56,129		28,080	
Other liabilities	(633)		2,073	
Total increase/(decrease) in operating liabilities	55,785		12,262	
Net cash flow from operating activities before taxes	12,782		24,409	
Income taxes paid	(2,406)		(1,868)	
Net cash flows from operating activities		10,376		22,541
Cash flows from investing activities				
Dividends received	158		145	
Purchase of investments held to maturity	0		0	
Maturity of investments held to maturity *	340		126	
Purchase of securities available for sale	(20,330)		(10,598)	
Sale of securities available for sale *	8,722		3,662	
Purchase of tangible and intangible fixed assets	(1,953)		(1,607)	
Sale of tangible and intangible fixed assets	195		139	
Purchase of investments in subsidiaries and associates	(14,560)		(8,494)	
Sale of investments in subsidiaries and associates	1,298		6	
Net cash flow from investing activities		(26,130)		(16,621)
Cash flows from financing activities				
Paid dividends	(5,678)		(9,425)	
Securities issued	20,223		3,601	
Securities redeemed *	(2,810)		(997)	
Subordinated debt	0		6,000	
Net cash flow from financing activities		11,735		(821)
Net increase/(decrease) in cash and cash equivalents	(4,019)		5,099	
Cash and cash equivalents at beginning of year	13,115		8,016	
Cash and cash equivalents at end of year (see Note 36)		9,096		13,115

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 2007

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 (2006: 60.35 percent) of the Bank's issued share capital.

2. Events for the year ended 31 December 2007

Dividends declared in respect of the year ended 31 December 2006

At the General Meeting held on 25 April 2007, the shareholders approved a dividend for the year ended 31 December 2006 of CZK 150 per share before tax. The dividend was declared in the aggregate amount of CZK 5,693 million. An amount of CZK 437 million was allocated to the reserve fund and CZK 2,617 million was allocated to retained earnings.

Changes in the Bank's Financial Group

During 2007, the Bank formed Protos, uzavřený investiční fond, a.s. (close-ended investment fund). The Bank and its subsidiary Factoring KB, a.s. hold 89.64 percent and 10.36 percent of the entity's issued share capital, respectively. The Bank also increased the share capital of its subsidiaries Factoring KB, a.s. and ESSOX s.r.o. Additional information about changes in the Bank's Financial Group is presented in Note 27.

3. Principal accounting policies

These financial statements are unconsolidated. The consolidated financial statements are issued as of the same date. The total consolidated equity is CZK 50,654 million and total consolidated profit is CZK 11,225 million.
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 IFRSs as adopted by the European Union, applicable for unconsolidated financial statements effective for the year ended 31 December 2007. 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 fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits 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 the higher of net recoverable amount and value in use.

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 IFRS. The Bank also prepares consolidated financial statements under IFRS 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"*.

The Bank regularly assesses equity investments for impairment. An equity investment is impaired if its carrying amount is greater than the recoverable value.

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 recognition 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, in case of a portfolio of financial assets measured at fair value, the acquired financial asset is measured reflecting changes in its fair value from the purchase trade date to the sale trade date according to the categorisation into an individual portfolio, accrued interest on debt financial assets is recognised from the purchase settlement date to the sale settlement date.

All loans and receivables are recognised when funds are provided to customers. Loans and receivables are derecognised when fully repaid by the borrower. Assigned receivables are derecognised when payment is collected from the assignee, and receivables which the 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 or settled.

(d) Foreign currency translation

Transactions and balances are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The Bank's functional currency is Czech Crowns (CZK), which is also the presentation currency for the unconsolidated financial statements. Transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date:

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

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *"Net profit/(loss) on financial operations"*. This does not apply to foreign exchange rate differences arising from the remeasurement of securities available for sale and foreign exchange rate differences from foreign currency deposits which the Bank uses to hedge against currency risk of the net investments in foreign operations and anticipated asset purchase transactions. These foreign exchange rate difference are recognised in equity (refer to (g) Available for sale securities and (q) Derivative financial instruments and hedging).

(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 purposes.

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.

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"*.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The recognition, use and release of provisions is accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is recognised. Provisions are used when loans are sold or written off. Provisions are released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid).

The provisioning policy is set out in Note 41 (*"Provisioning for receivables"*) to these financial statements.

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 which is typically equal to the 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 (purchases and sales with standard settlement terms) 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 adjusted for the accrued difference between the nominal value of the security and its cost.

Dividend income arising from equity 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, the only exception being securities at fair value through profit or loss. 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, bills of exchange and 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"*.

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 interest rate 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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) assets that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(ii) assets that the entity upon initial recognition designates as available for sale; or

(iii) assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

Available for sale securities

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

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

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

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

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

(h) Assets held for sale

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

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

The 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:

(Years)	2007	2006
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	4
Fixtures, fittings and equipment	6	6
Vehicles	7	7
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lift, electro-installation	25	25
– Roof, facade	30	30
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Right of use – software	4	4
Other rights of use	According to contract	According to contract

In accordance with IAS 38, the 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. The recoverable amount is the higher of net realisable value and value in use. 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 expert 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 a reduction of the outstanding 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 expenses 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

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 used in provisioning (refer to Note 41).

(l) Employment benefits

The Bank provides its employees with retirement benefits and disability benefits.

The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if 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, 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. 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. Penalty interest is accounted for and included in interest income on a cash 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. 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 corresponding 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 reflected at fair value. The corresponding liability arising from the received loan is included in *"Amounts due to banks"* or *"Amounts due to customers"* as appropriate.

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 linear interest rate due to their short-term maturities.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from off balance sheet accounts securities acquired under reverse repo transactions and recognises in the balance sheet an amount payable from a short sale which is remeasured to fair value. This payable is included in "*Amounts due to banks*".

(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, currency and commodity forwards, swaps, securities based derivatives, emission allowances and options. The values of these instruments change pursuant to the fluctuations in interest rates, commodity prices, exchange rates, market values of securities and similar market parameters.

Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *"Net profit/(loss) on financial operations"* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models or 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 option for an earlier redemption of a 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 assessing whether the hedge is effective;

(c) The hedge is expected to be highly effective at inception and throughout the period; and

(d) 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 the 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 selected portfolios of foreign currency assets and a selected loan portfolio. The effectiveness of the hedge is regularly tested on a quarterly basis through prospective and retrospective tests.

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

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

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 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 41.

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).

Under IAS 37 a contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, bid bonds and warrants.

The Bank recognises issued guarantees in accordance with IAS 39. The guarantee is initially recognised at fair value and subsequently at the higher of the value determined in accordance with IAS 37 or the amount originally reported and decreased by an accumulated accrual, if any, in accordance with IAS 18.

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

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

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

In the year ended 31 December 2007, the following standards became effective but they only impacted the scope of disclosures provided in the notes to the Bank's financial statements.

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

(w) Changes of accounting policies arising from the implementation of new IFRSs and revised IASs effective from 1 January 2009

In the year ended 31 December 2007, the following standard/revised standards became effective and are to be applied for annual periods beginning on or after 1 January 2009:

- IFRS 8 Operating Segments: this standard replaced IAS 14 Segment Reporting. Under IFRS 8, segments are required to be identified based on internal reports (rather than industry or geography) and may newly include as a segment a component of an entity that largely supplies its products or services internally, i.e. to other operating segments of the entity;
- IAS 23 Borrowing Costs: the revised standard eliminates the option to select between the benchmark treatment (recognition of all borrowing costs as an expense) and the allowed alternative treatment (capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset) and requires that borrowing costs attributable to the acquisition of a qualifying asset be capitalised as part of the cost; and
- IAS 1 Presentation of Financial Statements: the revised standard requires an entity to disclose comparative information, as a minimum, for two previous periods and to separately present transactions with owners (e.g. dividends) and other transactions (e.g. resulting from revaluation of assets, cash flow hedges, etc.) in equity. For this reason, a Statement of Comprehensive Income is introduced, comprising the existing income statement as well as information about unrealised gains and losses recognised in equity. The revised standard also refers to a "balance sheet" as a "statement of financial position".

The Bank has undertaken a detailed analysis of the revised standards in order to identify the relevant changes and their potential impact on its accounting policies. All the new IFRSs and revisions of the extant IASs will be implemented with effect from 1 January 2009.

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 expense

Set out below is a business segment analysis:

CZK million	Universal banking		Investment banking		Total	
	2007	2006	2007	2006	2007	2006
External income	15,647	14,661	10,579	9,970	26,226	24,631
Income from other segments	8,924	8,654	(8,924)	(8,654)	0	0
Total income	**24,571**	**23,315**	**1,655**	**1,316**	**26,226**	**24,631**
External expenses	(12,065)	(11,092)	(149)	(498)	(12,214)	(11,590)
Segment result	**12,506**	**12,223**	**1,506**	**818**	**14,012**	**13,041**
Unallocated expenses					(897)	(1,614)
Profit/(loss) before taxation					**13,115**	**11,427**
Taxation					(2,945)	(2,680)
Profit					**10,170**	**8,747**
Assets by segment	373,724	312,655	214,532	199,428	588,256	512,083
Unallocated assets					436	167
Total assets					**588,692**	**512,250**
Liabilities by segment	324,166	262,621	215,101	200,338	539,267	462,959
Unallocated liabilities					189	637
Total liabilities					**539,456**	**463,596**
Acquisition of assets	**1,944**	**1,606**	**9**	**0**	**1,953**	**1,606**
Depreciation and amortisation	**1,512**	**1,595**	**4**	**35**	**1,516**	**1,630**

The figures for the year ended 31 December 2006 in *"External expenses"* and *"Unallocated expenses"* were restated in accordance with the current reporting period.

The provisioning in the "Investment banking" segment amounted to CZK 1 million (2006: CZK nil) in the year ended 31 December 2007, other recognition and release of provisions 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	2007	2006
Interest income	29,901	24,231
Interest expense	(14,200)	(9,373)
Net interest income	**15,701**	**14,858**
Of which net interest income arising from		
– Loans and advances	20,992	16,805
– Securities held to maturity	116	119
– Securities available for sale	1,019	1,049
– Financial liabilities at amortised cost	(7,902)	(5,274)

"Interest income" includes interest on substandard, doubtful and loss loans of CZK 524 million (2006: CZK 462 million) due from customers and interest of CZK 1 million (2006: CZK 1 million) on securities that have suffered impairment.
"Interest income" also includes accrued interest income from hedging financial derivatives of CZK 7,774 million (2006: CZK 6,258 million) and *"Interest expense"* from hedging financial derivatives of CZK 6,298 million (2006: CZK 4,099 million). *"Net interest income"* from these derivatives amounts to CZK 1,476 million (2006: CZK 2,159 million).

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2007	2006
Net fees and commission from services and transactions	7,442	7,116
Net gain from foreign exchange commissions from clean payments	1,034	1,037
Net gain from foreign exchange commissions from other transactions	544	538
Total net fees and commissions	**9,020**	**8,691**

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.
Net fees and commissions include fees arising from loans and advances not revaluated through profit or loss accounts in the amount of CZK 2,528 million (2006: CZK 2,451 million) and management and administration of assets fees in the amount of CZK 59 million (2006: CZK 57 million).

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2007	2006
Net realised gains/(losses) on securities held for trading	5	(118)
Net unrealised gains/(losses) on securities held for trading	411	157
Net realised gains/(losses) on securities available for sale	28	64
Net realised gains on securities acquired under initial public offering, not designated for trading	0	34
Net realised gains/(losses) on own bonds	18	1
Dividend income on securities available for sale	96	106
Net realised and unrealised gains/(losses) on security derivatives	21	198
Net realised and unrealised gains/(losses) on interest rate derivatives	232	127
Net realised and unrealised gains/(losses) on trading commodity derivatives	10	4
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	546	388
Total net profit/(loss) on financial operations	**1,367**	**961**

The line *"Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities"* shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net loss of CZK 1,750 million in 2007 (2006: a net loss of CZK 1,546 million).
A gain of CZK 208 million (2006: gain of CZK 95 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in *"Net realised and unrealised gains/(losses) on interest rate derivatives"*. This amount matches the loss arising from the retranslation of hedged loan receivables reported in the same line.

8. Dividends and other income

Dividends and other income comprises:

CZK million	2007	2006
Dividend receipts from subsidiaries and associates	62	40
Other income	76	81
Total dividends and other income	**138**	**121**

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

9. Personnel expenses

Personnel expenses comprise:

CZK million	2007	2006
Wages, salaries and bonuses	3,766	3,512
Social costs	1,624	1,352
Total personnel expenses	**5,390**	**4,864**
Physical number of employees at the period-end	7,816	7,563
Average recalculated number of employees during the period	7,764	7,552
Average cost per employee (CZK)	**694,208**	**644,100**

The figures for the year ended 31 December 2006 were recalculated in restated in accordance with the presentation in the current reporting period. The release of reserves for personnel legal disputes in the amount of CZK 45 million was transferred from the line *"Provisions for other risk expenses"* to the line *"Wages, salaries and bonuses"*.
"Social costs" include costs of CZK 98 million (2006: CZK 79 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2006: CZK 41 million) incurred in contributing to the employees' capital life insurance scheme.

10. General administrative expenses

General administrative expenses comprise:

CZK million	2007	2006
Insurance of deposits and transactions	442	400
Marketing and entertainment costs	561	452
Costs of sale and banking products	1,263	1,185
Staff costs	287	268
Property maintenance charges	1,204	1,189
IT support	796	795
Office equipment and other consumption	77	74
Telecommunications, post and other services	243	239
External advisory services	443	442
Other expenses	159	104
Total general administrative expenses	**5,475**	**5,148**

Figures for the year ended 31 December 2006 were restated in accordance with the presentation in the current reporting period. The costs of court fees in the amount of 26 million were transferred from the line *"Provision for other risk expenses"* to the line *"Other expenses"*.

"Insurance of deposits and transactions" shown as a component of *"General administrative expenses"* includes an estimated balance of payments to the Deposit Insurance Fund of CZK 360 million (2006: CZK 330 million).

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2007	2006
Depreciation of tangible and intangible fixed assets	1,516	1,630
Provisions for assets and net gain on the sale of assets	(167)	(52)
Total depreciation, impairment and disposal of fixed assets	**1,349**	**1,578**

12. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2007	2006
Balance at 1 January	(8,078)	(7,316)
Net provisioning for loan losses	(1,271)	(1,315)
Impact of loans written off and transferred	31	177
Exchange rate differences attributable to provisions	267	376
Balance at 31 December	**(9,051)**	**(8,078)**

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

CZK million	2007	2006
Specific provisions for loans to customers (refer to Note 20)	(8,284)	(7,298)
Provisions for other loans to customers (refer to Note 20)	(12)	(16)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(755)	(764)
Total	**(9,051)**	**(8,078)**

Provisions for securities

The balance of provisions for securities was CZK 17 million as of 31 December 2007 (2006: CZK 33 million). During the year ended 31 December 2007, the Bank released the provision of CZK 15 million due to a partial payment of the nominal value of a security and the foreign exchange difference arising from provisions for securities denominated in a foreign currency amounted to CZK 1 million.

Provisions for other risk expenses

The balance of *"Provisions for other risk expenses"* of CZK 253 million (2006: loss of CZK 305 million) principally consists of the charge for provisions of CZK 73 million (2006: CZK 153 million) and the release of provisions of CZK 539 million (2006: CZK 711 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 217 million (2006: CZK 705 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 4 million (2006: loss of CZK 162 million).

The cost incurred for personnel legal disputes, use of the reserve for personnel legal disputes, release of the reserve for personnel legal disputes and the costs of court fees, which were reported in this category in 2006, were transferred to *"Personnel expenses"* and *"General administrative expenses"*.

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	2007	2006
Release of provisions	103	0
Gain/(loss) on the sale of investments in subsidiaries and associates	3	6
Total profit or loss on subsidiaries and associates	**106**	**6**

The balance of provisions is as follows:

CZK million	2007	2006
Balance at 1 January	(493)	(493)
Release and use of provisions	103	0
Balance at 31 December	**(390)**	**(493)**

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	2007	2006
Tax payable – current year, reported in profit or loss	(2,785)	(2,533)
Tax paid – prior year	(1)	206
Deferred tax	(203)	(401)
Hedge of a deferred tax asset against foreign currency risk	44	48
Total income taxes	**(2,945)**	**(2,680)**
Tax payable – current year, reported in equity	28	(2)
Total tax expense	**(2,917)**	**(2,682)**

CZK million	2007	2006
Profit before tax	**13,115**	**11,427**
Theoretical tax calculated at a tax rate of 24%	3,148	2,742
Tax on pre-tax profit adjustments	(2)	11
Non-taxable income	(1,019)	(1,062)
Expenses not deductible for tax purposes	731	896
Tax allowance	(2)	(3)
Tax credit	(71)	(52)
Tax on a standalone tax base	0	1
Hedge of a deferred tax asset against foreign currency risk	(44)	(48)
Movement in deferred tax	203	401
Income tax expense	**2,944**	**2,886**
Prior period tax expense	1	(206)
Total income taxes	**2,945**	**2,680**
Tax payable on securities available for sale reported in equity *	(28)	2
Total income tax	**2,917**	**2,682**
Effective tax rate	22.45%	23.45%

Note: * This amount represents the tax payable 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-tax deductible provisions and reserves. Expenses not deductible for tax purposes include the tax effect of permanent and temporary differences, specifically the recognition of reserves and non-tax deductible operating expenses. Tax on pre-tax profit adjustments represents tax on effective hedging. Tax credit arises from bonds issued by EU states.

In 2007, the Bank reported an increase in the tax liability of CZK 1 million (2006: a reduction of CZK 206 million) in the line *"Prior period tax expense"* which was attributable to the filing of additional tax returns for prior periods.

The corporate tax rate for the year ended 31 December 2007 is 24 percent (2006: 24 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 2007, the Bank generated a net profit of CZK 10,170 million.

In accordance with the resolution of the General Meeting of Shareholders held on 25 April 2007, the aggregate balance of the net profit of CZK 8,747 million for the year ended 31 December 2006 was allocated as follows: CZK 5,693 million was paid out in dividends, CZK 437 was allocated 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 267.96 (2006: CZK 230.32 per share) have been calculated by dividing the net profit of CZK 10,170 million (2006: CZK 8,747 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number 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	2007	2006
Cash and cash equivalents	7,203	7,202
Balances with the Czech National Bank	3,173	6,880
Total cash and current balances with banks	**10,376**	**14,082**

Balances with the Czech National Bank represent obligatory minimum reserves. The obligatory minimum reserves bore interest at 3.50 percent and 2.50 percent as of 31 December 2007 and 2006, respectively.

18. Amounts due from banks

Balances due from banks comprise:

CZK million	2007	2006
Deposits with banks (current accounts)	94	255
Loans and advances to banks	5,818	4,636
Debt securities of banks acquired under initial offerings not designated for trading	11,516	11,527
Advances due from the Czech National Bank (reverse repo transactions)	117,274	129,199
Term placements with other banks	63,827	54,172
Total	**198,529**	**199,789**
Provisions	0	(1)
Total amounts due from banks	**198,529**	**199,788**

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	2007	2006
Treasury bills	114,942	126,632
Debt securities issued by state institutions	2,747	2,325
Debt securities issued by other institutions	0	29
Shares	216	673
Total	**117,905**	**129,659**

Securities acquired as loans and receivables

As of 31 December 2007, the Bank maintains in its portfolio bonds at an amortised cost of CZK 11,516 million (2006: CZK 11,527 million) and a nominal value of CZK 11,410 million (2006: CZK 11,410 million), of which CZK 10,000 million represents a bond issued by the parent company Société Générale S.A. (2006: CZK 10,000 million) which the Bank acquired under an initial offering and normal market conditions in 2002. The bond is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. The Bank additionally carries in this portfolio two issues of securities placed 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 2007 and 2006, 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 2007	Cost 2007	Fair value 2006	Cost 2006
Shares and participation certificates	**74**	**74**	**95**	**86**
Emission allowances	**0**	**0**	**21**	**34**
Fixed income debt securities	17,940	18,108	8,746	8,728
Variable yield debt securities	313	313	273	273
Bills of exchange	998	999	0	0
Treasury bills	7,406	7,414	5,562	5,559
Total debt securities	**26,657**	**26,834**	**14,581**	**14,560**
Total trading securities	**26,731**	**26,908**	**14,697**	**14,680**

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 7,406 million (2006: CZK 5,562 million).

As of 31 December 2007, the portfolio of trading securities includes securities at a fair value of CZK 18,327 million (2006: CZK 8,994 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 8,404 million (2006: CZK 5,703 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	2007	2006
Shares and participation certificates		
– Czech crowns	74	95
Total trading shares and participation certificates	**74**	**95**

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

CZK million	2007	2006
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	71	0
– Other foreign entities	3	95
Total trading shares and participation certificates	**74**	**95**

Emission allowances held for trading at fair value comprise:

CZK million	2007	2006
Emission allowances		
– Other currencies	0	21
Total emission allowances held for trading	**0**	**21**

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

CZK million	2007	2006
Emission allowances held for trading issued by:		
– Foreign state institutions	0	21
Total emission allowances held for trading	**0**	**21**

Debt trading securities at fair value comprise:

CZK million	2007	2006
Variable yield debt securities		
– Czech crowns	313	273
Total variable yield debt securities	**313**	**273**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	25,064	13,383
– Other currencies	1,280	925
Total fixed income debt securities	**26,344**	**14,308**
Total trading debt securities	**26,657**	**14,581**

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

CZK million	2007	2006
Debt trading securities issued by:		
– State institutions in the Czech Republic	22,599	12,623
– Foreign state institutions	1,199	926
– Financial institutions in the Czech Republic	159	170
– Foreign financial institutions	382	537
– Other entities in the Czech Republic	1,988	185
– Other foreign entities	330	140
Total trading debt securities	**26,657**	**14,581**

Of the debt securities issued by state institutions in the Czech Republic, CZK 21,747 million (2006: CZK 12,355 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	2007	2006
Loans to customers	273,537	228,630
Bills of exchange	851	758
Forfaits	940	1,023
Other amounts due from customers	76	74
Total gross loans and advances to customers	**275,404**	**230,485**
Provisions for loans to customers	(8,284)	(7,298)
Provisions for other amounts due from customers	(12)	(16)
Total loans and advances to customers, net	**267,108**	**223,171**

Loans and advances to customers include interest due of CZK 1,482 million (2006: CZK 1,096 million), of which CZK 866 million (2006: CZK 616 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as of 31 December 2007 amounting to CZK 15 million (2006: CZK 2,400 million) are collateralised by securities with fair values of CZK 16 million (2006: CZK 2,401 million).

The amount of restructured loans was immaterial in the years ended 31 December 2007 and 2006.

The loan portfolio of the Bank as of 31 December 2007 (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	252,014	96,363	155,651	0	252,014	0
Watch	12,456	4,716	7,740	688	11,768	9
Substandard	1,837	959	878	454	1,383	52
Doubtful	1,657	401	1,256	729	928	58
Loss	7,364	291	7,073	6,413	951	91
Total	**275,328**	**102,730**	**172,598**	**8,284**	**267,044**	

The loan portfolio of the Bank as of 31 December 2006 (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	206,520	85,011	121,509	0	206,520	0
Watch	13,903	6,030	7,873	574	13,329	7
Substandard	2,790	1,264	1,526	711	2,079	47
Doubtful	1,122	328	794	508	614	64
Loss	6,076	252	5,824	5,505	571	95
Total	**230,411**	**92,885**	**137,526**	**7,298**	**223,113**	

Loans classified as loss in the above table include amounts of CZK 4,414 million (2006: CZK 3,765 million), on which interest is not being accrued.

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

CZK million	2007	2006
Agriculture, forestry and mining	10,405	9,431
Processing industry	42,267	37,502
Distribution and production of energy	4,691	4,790
Construction	9,879	8,245
Trade, catering, transport and communication	43,298	41,586
Insurance, banking	30,943	20,805
Other	133,845	108,052
Total loans to clients	**275,328**	**230,411**

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 2007	Discounted client loan collateral value 2007	Applied client loan collateral value 2007	Total client loan collateral 2006	Discounted client loan collateral value 2006	Applied client loan collateral value 2006
Guarantees of state and governmental institutions	4,091	3,262	2,945	6,520	6,109	5,548
Bank guarantee	18,295	17,613	16,347	13,967	12,462	11,270
Guaranteed deposits	783	783	595	665	660	501
Issued debentures in pledge	15	15	15	0	0	0
Pledge of real estate	155,733	98,670	66,818	136,835	83,964	55,748
Pledge of movable assets	6,243	528	471	5,720	751	660
Guarantee by legal entity	12,444	6,212	5,324	13,377	5,667	4,795
Guarantee by individual (physical entity)	2,810	473	388	3,624	645	554
Pledge of receivables	40,470	8,135	7,284	36,177	17,214	12,567
Insurance of credit risk	1,829	1,731	1,730	1,164	1,101	1,087
Other	5,925	1,220	813	3,167	189	155
Total nominal value of collateral	**248,638**	**138,642**	**102,730**	**221,216**	**128,762**	**92,885**

Pledges on industrial real estate represent 14 percent of total pledges on real estate (2006: 17 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 2007, on balance sheet loans to this client included an amount of CZK 1,226 million (2006: CZK 1,414 million) that was fully provided for. The year-on-year decrease in the balance between 2006 and 2007 arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2007 and 2006.
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 2007	Cost 2007	Fair value 2006	Cost 2006
Shares and participation certificates	**839**	**93**	**878**	**93**
Fixed income debt securities	27,065	27,401	21,584	21,374
Variable yield debt securities	6,618	6,636	714	745
Total debt securities	**33,683**	**34,037**	**22,298**	**22,119**
Total securities available for sale	**34,522**	**34,130**	**23,176**	**22,212**

As of 31 December 2007, the available-for-sale portfolio includes securities at a fair value of CZK 33,481 million (2006: CZK 21,884 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,041 million (2006: CZK 1,292 million) that are not publicly traded.
Shares and participation certificates available for sale at fair value comprise:

CZK million	2007	2006
Shares and participation certificates		
– Czech Crowns	837	876
– Other currencies	2	2
Total shares and participation certificates available for sale	**839**	**878**

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

CZK million	2007	2006
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	806	845
– Non-banking entities in the Czech Republic	31	31
– Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**839**	**878**

"Shares and participation certificates available for sale issued by banks in the Czech Republic" include the Bank's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 746 million (2006: CZK 785 million) over the acquisition cost.
Debt securities available for sale at fair value comprise:

CZK million	2007	2006
Variable yield debt securities		
– Czech Crowns	6,427	323
– Other currencies	191	391
Total variable yield debt securities	**6,618**	**714**
Fixed income debt securities		
– Czech Crowns	15,186	11,719
– Other currencies	11,879	9,865
Total fixed income debt securities	**27,065**	**21,584**
Total debt securities available for sale	**33,683**	**22,298**

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

CZK million	2007	2006
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	4,490	4,307
– Foreign state institutions	10,931	9,118
– Financial institutions in the Czech Republic	14,777	7,312
– Foreign financial institutions	1,928	0
– Other entities in the Czech Republic	241	243
– Other foreign entities	1,316	1,318
Total debt securities available for sale	**33,683**	**22,298**

Of the debt securities issued by state institutions in the Czech Republic, CZK 3,805 million (2006: CZK 3,582 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 2007, net of remeasurement, is CZK 202 million (2006: CZK 413 million).

In 2007, the Bank's exposure to ABS decreased primarily as a result of the redemption of the nominal values of these securities of USD 8 million (CZK 164 million) and a change in the foreign exchange rate.

As of 31 December 2007, the Bank recognised a positive revaluation of ABS of CZK 11 million (2006: a positive revaluation of CZK 21 million) arising from a change in the market parameters. The Bank reported no provisions for impairment of these securities. Additional information about the assessment of the value of securities is provided in Note 3. Management of the Bank considers that the recognised amount of ABS represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio.

Other debt securities

During the year ended 31 December 2007, the Bank acquired Government bonds with a nominal value of CZK 400 million and EUR 86 million (CZK 2,425 million). In 2007, the Bank also acquired and sold securities issued by financial institutions. The aggregate volume of securities issued by financial institutions held by the Bank increased by the nominal volume of CZK 8,939 million. The Bank incurred a loss of CZK 34 million on the sale of debt securities issued by financial institutions.

22. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2007	Cost 2007	Carrying value 2006	Cost 2006
Fixed income debt securities	2,982	2,982	3,283	3,283
Total investments held to maturity	**2,982**	**2,982**	**3,283**	**3,283**

As of 31 December 2007, investments held to maturity include bonds of CZK 2,982 million (2006: CZK 3,283 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

CZK million	2007	2006
Fixed income debt securities		
– Czech Crowns	1,369	1,357
– Other currencies	1,613	1,926
Total fixed income debt securities	**2,982**	**3,283**
Total debt securities held to maturity	**2,982**	**3,283**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2007	2006
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	1,369	1,357
– Foreign state institutions	1,613	1,926
Total debt securities held to maturity	**2,982**	**3,283**

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,369 million (2006: CZK 1,357 million) represents securities eligible for refinancing with the Czech National Bank.
No transactions within this portfolio took place during the year ended 31 December 2007. During 2007, debt securities in the total nominal amount of EUR 8 million (CZK 218 million) were redeemed at maturity.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2007	2006
Prepayments and accrued income	235	383
Settlement balances	1,274	679
Receivables from securities trading	1,519	234
Other assets	1,569	1,276
Total prepayments, accrued income and other assets	**4,597**	**2,572**

The year-on-year increase in *"Receivables from securities trading"* is predominantly due to new trading on the energy stock exchange in 2007, increased volume of transactions with the stock exchange and increase in the customer funds for margin trading with securities.
In the year ended 31 December 2006, *"Other assets"* reflected a provision of CZK 152 million charged for the decrease in the carrying amount of prepaid building rentals which was used in full in 2007 against the write-off of the relevant receivable.

24. Assets held for sale

As of 31 December 2007, the Bank reported assets held for sale at a carrying amount of CZK 505 million (2006: CZK 611 million) 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. These buildings are not depreciated. The difference between the amounts as of 31 December 2007 and 2006 arises from the sale of these assets and reclassification of buildings and land that do not meet the criteria for recognition as assets held for sale back to *"Tangible fixed assets"*, refer to Note 26. The impact on the profit and loss statement is immaterial.

25. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2007 are as follows:

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2006	4,179	1,408	529	536	6,652
Additions	796	193	0	1,210	2,199
Disposals/Transfers	40	448	190	989	1,667
31 December 2007	**4,935**	**1,153**	**339**	**757**	**7,184**
Accumulated amortisation and provisions					
31 December 2006	2,844	1,068	469	20	4,401
Additions	541	161	37	0	739
Disposals	40	448	189	0	677
Impairment charge	0	0	0	13	13
31 December 2007	**3,345**	**781**	**317**	**33**	**4,476**
Net book value					
31 December 2006	1,335	340	60	516	2,251
31 December 2007	**1,590**	**372**	**22**	**724**	**2,708**

During the year ended 31 December 2007, the Bank invested CZK 161 million (2006: CZK 125 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 2007 are as follows:

CZK million	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
Cost					
31 December 2006	154	9,862	6,455	221	16,692
Reallocation from assets held for sale	8	213	0	0	221
Additions	0	209	415	743	1,367
Disposals/Transfers	1	118	471	638	1,228
31 December 2007	**161**	**10,166**	**6,399**	**326**	**17,052**
Accumulated depreciation and provisions					
31 December 2006	0	3,970	5,394	0	9,364
Reallocation of accumulated depreciation of assets held for sale	0	75	0	0	75
Additions	0	336	441	0	777
Disposals	0	66	465	0	531
Impairment charge	0	(21)	0	0	(21)
31 December 2007	**0**	**4,294**	**5,370**	**0**	**9,664**
Net book value					
31 December 2006	154	5,892	1,061	221	7,328
31 December 2007	**161**	**5,872**	**1,029**	**326**	**7,388**

As of 31 December 2007, the net book value of assets held by the Bank under finance lease agreements was CZK 4 million (2006: CZK 10 million).
As of 31 December 2007, the Bank recognised provisions against tangible assets of CZK 50 million (2006: CZK 71 million). 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	2007	2006
Investments in subsidiary undertakings	22,897	9,632
Investments in associated undertakings	483	380
Total investments in subsidiaries and associates	**23,380**	**10,012**

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2007:

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	Supporting 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	Additional pension insurance	Prague	230	0	230
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
Protos, uzavřený investiční fond, a.s.	89.64	100	Financial services	Prague	11,705	0	11,705
Bastion European Investment S.A.	99.98	99.98	Financial services	Brussels	3,814	0	3,814
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,323	0	4,323
Total					22,932	35	22,897

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2007:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment CZK million	Provisions CZK million	Carrying value CZK million
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	838	355	483
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0 *	0	0
Total					838	355	483

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 2007	Additions	Decreases	Investment at cost at 31 December 2007
ALL IN REAL ESTATE LEASING a.s.	39	0	0	39
Komerční banka Bratislava, a.s.	466	0	0	466
Penzijní fond Komerční banky, a.s.	230	0	0	230
Factoring KB, a.s.	90	1,100	0	1,190
Protos, uzavřený investiční fond, a.s.	0	13,000	1,295	11,705
Bastion European Investment S.A.	3,814	0	0	3,814
ESSOX s.r.o.	705	460	0	1,165
Modrá pyramida stavební spořitelna, a.s.	4,323	0	0	4,323
Total subsidiaries	**9,667**	**14,560**	**1,295**	**22,932**
Komerční pojišťovna, a.s.	838	0	0	838
CBCB – Czech Banking Credit Bureau, a.s.	0 *	0	0	0 *
Total associates	**838**	**0**	**0**	**838**

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

Changes in equity investments in subsidiaries and associates in 2007

In June 2007, the Bank formed Protos, uzavřený investiční fond a.s. ("Protos"). It is a fund of qualified investors and its equity amounted to CZK 7,500 million as of the date of its formation. In August 2007, the Bank, as the sole owner of Protos, decided to transfer 518 shares of the fund (the nominal value of one share is CZK 1 million) to Factoring KB, a.s. which acquired a 17.26 percent share of the share capital following the transfer. The purchase price of 518 shares was determined to be CZK 1,298 million on the basis of an expert appraisal. The Bank made a gain of CZK 3 million on this sale transaction; refer to Note 13. The process of the Bank's investment in Protos was completed following the increase in its share capital of CZK 5,500 million as decided by the General Meeting of Protos in November 2007 (it was paid in December 2007). The share capital increase resulted in the Bank's shareholding in Protos increasing to 89.64 percent.

In May 2007, the Bank, as the sole shareholder, decided to increase the share capital of its subsidiary Factoring KB, a.s. by CZK 1,100 million, from CZK 84 million to CZK 1,184 million. The share capital increase was recorded in the Register of Companies on 28 June 2007. The share capital was increased in an effort to strengthen the financial position of the entity and to improve its competitiveness in non-recourse factoring.

In November 2007, the Bank approved the increase in the share capital of ESSOX s.r.o. of CZK 903 million to CZK 2,288 million. The Bank's investment amounting to CZK 460 million was paid on 29 November 2007 and its equity investment of 50.93 percent remained unchanged.

28. Amounts due to banks

Amounts due to banks comprise:

CZK million	2007	2006
Current accounts	1,374	1,222
Other amounts due to banks	11,951	11,617
Total amounts due to banks	**13,325**	**12,839**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 1,958 million (2006: CZK 105 million).

29. Amounts due to customers

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

CZK million	2007	2006
Current accounts	303,845	250,934
Savings accounts	7,800	8,875
Term deposits	101,835	93,939
Depository bills of exchange	38,438	42,466
Other payables to customers	2,371	1,923
Total amounts due to customers	**454,289**	**398,137**

As of 31 December 2007, the Bank received no repurchase loans from customers. As of 31 December 2006, the fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 1,326 million.
Amounts due to customers, by type of customer, comprise:

CZK million	2007	2006
Private companies	193,439	168,181
Other financial institutions, non-banking entities	17,907	6,755
Insurance companies	5,885	4,120
Public administration	5,322	1,977
Individuals	142,090	129,245
Private entrepreneurs	25,937	24,629
Government agencies	50,103	50,780
Other	8,218	6,932
Non-residents	5,388	5,518
Total amounts due to customers	**454,289**	**398,137**

30. Securities issued

Securities issued comprise bonds of CZK 466 million (2006: CZK nil) and mortgage bonds of CZK 44,029 million (2006: CZK 26,152 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	2007	2006
In less than 1 year	3,899	1,460
In 1 to 2 years	3,632	4,898
In 2 to 4 years	0	5,235
In 5 to 10 years	17,938	14,559
In 10 to 15 years	3,163	0
Over 15 years	15,863	0
Total debt securities	**44,495**	**26,152**

During the year ended 31 December 2007, the Bank made significant repurchases of two mortgage bonds, refer to the following table.

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

Name	Interest rate	Currency	Issue date	Maturity date	2007 CZK million	2006 CZK million
Mortgage bonds of Komerční banka, a.s. CZ0002000151	6M PRIBOR plus 350 bps	CZK	15 September 2000	15 September 2007	0	1,143
Mortgage bonds of Komerční banka, a.s. CZ0002000268	5.5%	CZK	21 August 2003	21 August 2009	3,702	5,334
Mortgage bonds of Komerční banka, a.s. CZ0002000383	4.5%	CZK	5 August 2004	5 August 2008	3,592	4,986
Mortgage bonds of Komerční banka, a.s. CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 August 2005	3 August 2015	5,026	2,789
Mortgage bonds of Komerční banka, a.s. CZ0002000664	4.4%	CZK	21 October 2005	21 October 2015	10,633	10,713
Mortgage bonds of Komerční banka, a.s. CZ0002000854	3.74%	EUR	1 September 2006	1 September 2016	1,035	1,187
Mortgage bonds of Komerční banka, a.s. CZ0002001142	5%	CZK	16 August 2007	16 August 2019	3,219	0
Mortgage bonds of Komerční banka, a.s. CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate * less 0.20%	CZK	16 November 2007	16 November 2037	1,070	0
Mortgage bonds of Komerční banka, a.s. CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate * less 0.20%	CZK	16 November 2007	16 November 2037	1,066	0
Mortgage bonds of Komerční banka, a.s. CZ0002001365, CZ0002001373, CZ0002001381, CZ0002001399	4.23% for the first one 3M yield period, afterwards the relevant reference rate * less 0.20%	CZK	16 November 2007	16 November 2037	2,012	0
Mortgage bonds of Komerční banka, a.s. CZ0002001431, CZ0002001449, CZ0002001456, CZ0002001464, CZ0002001472, CZ0002001480	4.14% for the first one 3M yield period, afterwards the relevant reference rate * less 0.20%	CZK	30 November 2007	30 November 2037	3,012	0
Mortgage bonds of Komerční banka, a.s. CZ0002001498, CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first one 3M yield period, afterwards the relevant reference rate * less 0.20%	CZK	7 December 2007	7 December 2037	3,012	0
Mortgage bonds of Komerční banka, a.s. CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first one 3M yield period, afterwards the relevant reference rate * less 0.20%	CZK	12 December 2007	12 December 2037	2,008	0
Bonds of Komerční banka, a.s., CZ0003701427	4.22%	CZK	18 December 2007	1 December 2017	466	0
Mortgage bonds of Komerční banka, a.s. CZ0002001761	4.09%	CZK	19 December 2007	19 December 2017	904	0
Mortgage bonds of Komerční banka, a.s. CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 December 2007	21 December 2037	3,738	0
Mortgage bonds of Komerční banka, a.s. CZ0002001746	Rate of the interest swap sale in CZK for 5 years plus 150 bps	CZK	28 December 2007	28 December 2037	0	0
Total bonds					44,495	26,152

Note: Six-month PRIBOR was 414 basis points as of 31 December 2007 (2006: 261 basis points).
Three-month PRIBID was 401 basis points as of 31 December 2007 (2006: 245 basis points).
The value of interest rate swap CZK sale average for five years as of 31 December 2007 was 436 bps (2006: 343 bps).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2007 was 459 bps (2006: 374 bps).
* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, swap sale for two to thirty years.

31. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2007	2006
Settlement balances and outstanding items	99	1
Payables from securities trading and issues of securities	2,356	1,234
Payables from payment transactions	5,618	7,456
Other liabilities	2,658	2,700
Accruals and deferred income	145	161
Total accruals and other liabilities	**10,876**	**11,552**

"Payables from securities trading and issues of securities" in the year ended 31 December 2007 increased due to the increase in the customer funds for securities trading.
"Payables from payment transactions" in the year ended 31 December 2007 decreased due to a lower amount of payments passed onto the Czech National Bank's clearing centre.
"Other liabilities" largely include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).
Deferred income fees from banking guarantees is reported in *"Accruals and deferred income"* in the amount of CZK 21 million (2006: CZK 18 million).

32. Provisions

Provisions comprise:

CZK million	2007	2006
Provisions for contracted commitments	910	1,466
Provisions for other credit commitments	755	764
Total provisions	**1,665**	**2,230**

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

CZK million	2007	2006
Risk		
Provision for off balance sheet commitments	619	632
Provision for undrawn loan facilities	136	132
Total	**755**	**764**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2007	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2007
Jubilee bonuses	85	8	6	5	0	92
Other provisions for contracted commitments	1,381	89	612	0	(40)	818
Total	**1,466**	**97**	**618**	**5**	**(40)**	**910**

As of 31 December 2007, the Bank held a provision of CZK 200 million (2006: CZK 244 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"*.
"Other provisions for contracted commitments" in the year ended 31 December 2007 decreased due to the use and release of provisions for discontinued legal disputes with the Bank's customers.

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 until 2007, 21 percent in 2008, 20 percent in 2009 and 19 percent starting from 2010.
Deferred income tax assets and liabilities are attributable to the following items:

CZK million	2007	2006
Banking reserves and provisions	258	344
Provisions for non-banking receivables	0	42
Provisions for assets	132	182
Non-banking reserves	125	88
Depreciation	(307)	(253)
Leases	(1)	(2)
Revaluation of hedging derivatives – equity impact	210	(896)
Revaluation of a foreign currency equity investment – equity impact	0	(30)
Revaluation of available-for-sale securities – equity impact	(34)	(170)
Other temporary differences	49	58
Net deferred tax asset/(liability)	**432**	**(637)**

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign currency equity investment.
Deferred tax recognised in the financial statements:

CZK million	2007	2006
Balance at the beginning of the period	**(637)**	**(478)**
Movement in net deferred tax liability – profit and loss impact	(203)	(401)
Movement in net deferred tax liability – equity impact	1,272	242
Balance at the end of the period	**432**	**(637)**

The impact of changes in tax rates represented a reduction of the deferred tax asset of CZK 41 million in 2007.

34. Subordinated debt

As of 31 December 2007 the Bank had subordinated debt of CZK 6,004 million (2006: CZK 6,002 million). The nominal value of the subordinated debt received by the Bank at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity with the Bank's option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

35. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2007:

Company name	Registered office	Ownership (%)
Société Générale S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	9.02
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	4.32

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.
As of 31 December 2007, the Bank held 54,000 treasury shares at a cost of CZK 150 million (2006: 54,000 treasury shares at a cost of CZK 150 million).

Capital Management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Bank takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.
The Bank's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.
The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Bank's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 percent of the Tier 1 capital.
At the end of 2007, the Company completed the implementation of Basel II – Pillar 1 and performed internal reporting. The Bank approved the updated categorisation of its operations into the investment (banking) and trading portfolios. In January, the Bank will commence using the Internal Rating Based Advanced Approach for the credit risk capital requirement calculation. The Bank will also start using the Advanced Measurement Approach for the operational risk capital requirement calculation.

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

CZK million	2007	2006	Change in the year
Cash and balances with central banks	10,376	14,082	(3,706)
Amounts due from banks – current accounts	94	255	(161)
Amounts due to banks – current accounts	(1,374)	(1,222)	(152)
Total	**9,096**	**13,115**	**(4,019)**

37. Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2007. 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 193 million (2006: CZK 603 million) for these legal disputes. The Bank has also recorded an accrual of CZK 298 million (2006: CZK 408 million) for costs associated with a potential payment of interest on the pursued claims.
As of 31 December 2007, 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 2007, the Bank had capital commitments of CZK 128 million (2006: CZK 69 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 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 under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. Commitments to extend credit or guarantees issued by the 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	2007	2006
Non-payment guarantees including commitments to issued non-payment guarantees	25,676	19,706
Payment guarantees including commitments to issued payment guarantees	9,414	6,465
Received bills of exchange/acceptances and endorsements of bills of exchange	75	77
Committed facilities and unutilised overdrafts	19,189	13,098
Undrawn credit commitments	47,881	33,790
Unutilised overdrafts and approved overdraft loans	52,888	42,687
Unutilised discount facilities	146	136
Unutilised limits under Framework agreements to provide financial services	50,100	50,306
Letters of credit uncovered	1,033	989
Stand by letters of credit uncovered	719	666
Confirmed letters of credit	67	225
Letters of credit covered	80	137
Total contingent revocable and irrevocable commitments	**207,268**	**168,282**

The Bank provides a variety of credit facilities to its largest clients. Of the Bank's committed facilities and guarantees, CZK 35,148 million (2006: CZK 28,502 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 2007, the Bank recorded provisions for these risks amounting to CZK 755 million (2006: CZK 764 million) – for further information see Note 32.
Set out below is the breakdown of financial commitments and contingencies by sector:

CZK million	2007	2006
Agriculture, forestry and mining	3,447	4,630
Processing industry	45,354	33,403
Distribution and production of energy	18,756	15,519
Construction	34,905	28,089
Trade, catering, transport and communication	37,171	31,486
Insurance, banking	18,470	20,046
Other	49,165	35,109
Total	**207,268**	**168,282**

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

38. 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 2007, 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

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

CZK million	2007	2006
Company name		
Komerční banka Bratislava, a.s.	2,643	721
Factoring KB, a.s.	2,468	562
ESSOX s.r.o.	4,937	3,651
Modrá pyramida stavební spořitelna, a.s.	553	553
Bastion European Investment S.A.	3,629	3,787
Total loans	**14,230**	**9,274**
Komerční banka Bratislava, a.s.	2	35
Factoring KB, a.s.	4	68
ESSOX s.r.o.	18	8
ALL IN REAL ESTATE LEASING a.s.	3	4
Modrá pyramida stavební spořitelna, a.s.	24	16
Protos, uzavřený investiční fond, a.s.	5,588	0
Total deposits	**5,639**	**131**

As of 31 December 2007 and 2006, other amounts due to and from the Group companies were immaterial.
Interest income from loans granted to Group companies:

CZK million	2007	2006
Company name		
Komerční banka Bratislava, a.s.	95	79
Factoring KB, a.s.	52	15
ESSOX s.r.o.	143	81
Modrá pyramida stavební spořitelna, a.s.	35	54
Bastion European Investment S.A.	148	120
Total interest from loans granted by Bank	**473**	**349**

In addition to interest on loans from the Bank's Financial Group, other income in the year ended 31 December 2007 amounted to CZK 378 million (2006: CZK 307 million) and total expenses amounted to CZK 544 million (2006: CZK 361 million).
As of 31 December 2007, the Bank reported guarantees granted to the Group companies totalling CZK 2 million (2006: CZK 1,302 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million	2007	2006
Company name		
ALD Automotive s.r.o.	1,590	849
Fimat London	32	36
Komerční pojišťovna, a.s.	4	0
SG Equipment Finance Czech Republic s.r.o.	6,720	4,040
SG London	352	69
SG New York	0	16
SGBT Luxemburg	1	1,644
Société Générale Paris	13,002	13,288
Total	**21,701**	**19,942**

Principal balances owed to the Société Générale Group entities include:

CZK million	2007	2006
Company name		
Komerční pojišťovna, a.s.	365	107
SG Equipment Finance Czech Republic s.r.o.	2,028	2
SG Private Banking Switzerland	1	13
Société Générale Paris	10,644	11,674
Société Générale Warsaw	169	46
Investiční kapitálová společnost KB, a.s.	85	95
SG Cyprus	18	11
Total	**13,313**	**11,866**

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, debt securities acquired under initial offerings not designated for trading (refer also to Note 18), issued bonds and subordinated debt (refer also to Note 34).

As of 31 December 2007, 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 141,363 million (2006: CZK 128,142 million) and CZK 148,997 million (2006: CZK 136,901 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 2007 and 2006, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2007, the Bank made total income of CZK 8,609 million (2006: CZK 2,731 million) and total expenses, including a net loss from financial transactions, of CZK 8,648 million (2006: CZK 1,723 million) with Société Générale Paris. Income includes interest income from debt securities issued by Société Générale Paris, income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives and net profit on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, net loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

In the years ended 31 December 2007 and 2006, 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	2007	2006
Remuneration to the Management Board members *	40	43
Remuneration to the Supervisory Board members **	4	4
Remuneration to the Directors' Committee members ***	82	85
Total	126	132

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2007 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2007 but including bonuses for 2006, figures for expatriate members of the Management Board include remuneration net of bonuses for 2007 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2007 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 2007 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2007, the total balance reflects his/her aggregate annual remuneration.

	2007	2006
Number of the Management Board members	5	5
Number of the Supervisory Board members	8	8
Number of the Directors' Committee members*	17	17

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

As of 31 December 2007, the Bank recorded an estimated payable of CZK 15 million (2006: CZK 17 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2007, the Bank recorded loan receivables totalling CZK 4 million (2006: CZK 10 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2007, draw-downs of CZK 2 million were made under the loans granted to the members of the Directors' Committee. Loan repayments made by the members of the Management Board and the Directors' Committee during 2007 amounted to CZK 4 million. The balance of the loans of the retiring members of the Directors' Committee was CZK 4 million as of 31 December 2006.

39. Movements in the revaluation of hedging instruments in the 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	2007	2006
Cash flow hedge fair value at 1 January	3,857	5,463
Deferred tax liability at 1 January	(926)	(1,312)
Balance at 1 January	**2,931**	**4,151**
Movements during the year		
Gains/losses from changes in fair value	(3,265)	471
Deferred income tax	754	(112)
	(2,511)	**359**
Transferred to interest income/expense	(1,469)	(2,188)
Deferred income tax	353	525
	(1,116)	**(1,663)**
Change in the hedge of foreign currency risk of foreign currency investments	126	111
Deferred income tax	29	(27)
	155	**84**
Balance at 31 December	(751)	3,857
Deferred income tax	210	(926)
Balance at 31 December	**(541)**	**2,931**

40. Movements in the revaluation of available-for-sale securities

CZK million	2007	2006
Reserve from fair-value revaluation at 1 January	996	389
Deferred tax liability/income tax liability at 1 January	(250)	(104)
Balance at 1 January	**746**	**285**
Movements during the year		
Gains/losses from changes in fair value	(559)	624
Deferred tax liability/income tax liability	157	(150)
	(402)	**474**
Gains and losses from the sale and use of provisions against securities	(28)	(17)
Deferred tax liability/income tax liability	7	4
	(21)	**(13)**
Balance at 31 December	409	996
Deferred tax liability/income tax liability	(86)	(250)
Balance at 31 December	**323**	**746**

41. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of credit risk is based on quantitative and qualitative criteria, the output of which is rating. The Bank uses several types of ratings, depending on the type and profile of the counterparty, and related transactions. As a result, specific ratings are assigned to the Bank's clients, and newly also to specific clients' transactions. In relevant cases the same rating procedure is applied to respective guarantors and sub-debtors, which provides for a better assessment of the quality of accepted guarantees and collateral. In 2007, the Bank completely reviewed its credit granting models, and several new models and series of model adjustments were implemented. Using updated models, the Bank also reviewed granting and pricing policies in order to further optimise the risk-return profile of its activities. The Bank completed a review of the Loss Given Default (LGD) and Exposure at Default (EAD) models. Newly, the Bank has started assigning the LGD rating to guarantees and collateral, and is implementing the LGD rating for transactions so that not only the risk of default, but also potential loss implied by the default is rated.

All rating models are quarterly monitored and back-tested to ensure their relevancy. Any deterioration in model quality triggers corrective actions. Moreover, sophisticated stress testing of credit risk has been developed to ensure proper capital planning in the case of potential adverse economic development, and to support strategic business and/or risk policy decisions.

a) Ratings for business clients

For business clients the Bank uses Obligor rating to evaluate the default risk of the counterparty, and starts using LGD rating to evaluate the quality of available guarantees and collateral, and to assess a potential loss of a counterparty's transactions.

For large and medium sized corporate clients, Obligor rating combines financial rating based mainly on financial data and economic rating obtained through the evaluation of non-financial data related to the client. In 2007, the Bank continued with regular updates of financial and economic rating models for corporate clients, which reflected in a positive development of the corporate loan portfolio risk profile.

In the small business segment, the Bank focused on better addressing the small business clients' needs and the specifics of this segment. The Obligor rating was extended to include the client's behaviour on accounts in the Bank (behavioural rating). This extension resulted in a more efficient granting process for the majority of the existing small business clients. For the remaining small business clients a complex small business rating procedure has been developed on the basis of evaluation of financial, non-financial, personal and behavioural data. The higher precision of this rating procedure has enabled the Bank to better target the credit assessment process in this segment.

b) Ratings for Banks and Sovereign

For banks and other financial institutions the Bank uses a central economic rating model developed by Société Générale. The model is based on variables of a qualitative questionnaire, including quantitative financial criteria, and country support questionnaire. Central models have also been developed for sovereigns and other financial institutions (namely insurance companies, brokers and funds).

c) Ratings for individual clients

The Bank uses two types of ratings to assess default risk related to individuals: application rating is used for setting up the credit risk based pricing at the moment of loan application and credit granting; behavioural rating is used to evaluate a client's default risk through the client's track record in the Bank and to calculate pre-approved limits for small exposures which can be granted via a simplified granting procedure. Behavioural rating of the client is also used for regular updates of the Probability of Default (PD) of all clients' exposures reported under Basel II. In 2007, the Bank further extended the use of the behavioural scoring model in order to enhance the potential for the simplified credit granting procedure for clients with low risk profiles. The behavioural model became the driver for mass retail production.

The Bank has updated its application scoring model for individual clients applying for mortgage and residential consumer loans following the same model structure as was implemented in 2006 for the consumer loans and credit cards. The Bank now uses a more granular rating scale enabling more precise pricing according to clients' risk profiles for all loan products granted to individual clients. Implementing this approach improved profitability of this portfolio and enabled a better-controlled application of the net margin policy. All loan product innovations in 2007, especially in the case of mortgage activities, were implemented following a careful assessment of their specific credit risks, and after introducing specific adjustments of the granting process aimed at mitigating these risks.

In addition to the ratings which address default risk related to individual clients, the Bank calculates Loss Given Default (LGD) ratings for all individual client's transactions. The LGD ratings are being incorporated in the credit risk granting process, pricing and portfolio provisioning.

d) Credit registers

The Bank continues to extend and sophisticate the usage of internal and external credit registers in the rating and granting process, so that it is able to better identify problematic credit applicants and to increase efficiency of its credit fraud prevention processes. Identified problematic credit applicants are either immediately rejected, or provided with a credit, but after a careful individual assessment.

In 2007, the external credit registers were extended with the connection to the SOLUS register. This credit register covers credit segments such as telecom operators, consumer finance and leasing companies, energy distributors, cable TV providers, and a growing number of banks. Specific rules for the granting of loans to mass retail clients, which are found with a negative record in the SOLUS credit register, were implemented. As expected, this SOLUS extension proved to be a useful complementary source of credit information for the Bank's growing mass retail business.

Credit risk concentration

Credit concentration risk makes an inherent part of the Bank's credit risk management and as such it is actively managed using standard tools (e.g. analysis, limitation, monitoring and mitigation). Procedures of credit concentration risk cover individual counterparts as well as economically connected groups, countries and industry sectors. In the long term, the Bank aims to eliminate credit concentration risk at all levels. In addition to internal limits, the Bank complies with regulatory limits set on concentration risk.

The Bank's maximum credit exposure as of 31 December 2007:

CZK million	Total exposure			Applied collateral		
	On-balance sheet	Off-balance sheet *	Total credit exposure	On-balance sheet	Off-balance sheet *	Total collateral
Balances with the Czech National Bank	3,173	x	3,173	0	x	0
Amounts due from banks	198,529	4,714	203,243	121,141	7	121,148
Securities held for trading	26,731	x	26,731	0	x	0
Positive fair value of financial derivative transactions	9,430	x	9,430	0	x	0
Loans and advances to customers	275,404	202,554	477,958	102,730	15,476	118,206
Corporate clients **	181,678	187,128	368,806	45,749	14,409	60,158
Of which: top corporate clients	82,691	109,467	192,158	23,249	9,847	33,096
Individuals – non-businessmen	93,650	15,426	109,076	56,981	1,067	58,048
Of which: mortgage loans	74,957	6,677	81,634	55,535	972	56,507
consumer loans	15,329	486	15,815	1,446	92	1,538
Other amounts due from customers	76	x	76	0	x	0
Securities available for sale	34,522	x	34,522	0	x	0
Securities held to maturity	2,982	x	2,982	0	x	0
Total	550,771	207,268	758,039	223,871	15,483	239,354

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessmen.

Maximum credit exposure is presented in gross values without impact of any provisions.
The Bank's maximum credit exposure as of 31 December 2006:

CZK million	Total exposure			Applied collateral		
	On-balance sheet	Off-balance sheet *	Total credit exposure	On-balance sheet	Off-balance sheet *	Total collateral
Balances with the Czech National Bank	6,880	x	6,880	0	x	0
Amounts due from banks	199,788	2,514	202,302	132,863	21	132,884
Securities held for trading	14,697	x	14,697	0	x	0
Positive fair value of financial derivative transactions	11,112	x	11,112	0	x	0
Loans and advances to customers	230,485	165,768	396,253	92,885	10,086	102,971
Corporate clients **	158,493	153,370	311,863	47,997	9,322	57,319
Of which: top corporate clients	71,310	92,392	163,702	20,656	4,537	25,193
Individuals – non-businessmen	71,918	12,398	84,316	44,888	764	45,652
Of which: mortgage loans	56,839	4,405	61,244	43,918	748	44,666
consumer loans	12,147	232	12,379	970	16	986
Other amounts due from customers	74	x	74	0	x	0
Securities available for sale	23,176	x	23,176	0	x	0
Securities held to maturity	3,283	x	3,283	0	x	0
Total	489,421	168,282	657,703	225,748	10,107	235,855

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessmen.

Maximum credit exposure is presented in gross values without impact of any provisions.

Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories according to Regulation of the Czech National Bank No. 123/2007. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).
The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and investors.

Characteristics of 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 impaired exposures to clients (i.e. classified as Watch, Substandard, Doubtful or Loss according to CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committees or, whenever required, by recovery specialists. Provisions are established on the basis of the present value of estimated future cash flows to the Bank and after due consideration for all available information, including the estimated value of collateral and expected duration of the recovery process. The remaining exposures are provisioned based on statistical models. These models were developed based on the BASEL II principles using the LGD (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007.
As of 31 December 2007, the Bank reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	252,113	5,611	0	0	0	0	5,611	257,724
Watch	11,300	22	5	1	0	0	28	11,328
Total	**263,413**	**5,633**	**5**	**1**	**0**	**0**	**5,639**	**269,052**

As of 31 December 2006, the Bank reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	206,378	4,667	1	0	0	0	4,668	211,046
Watch	12,583	346	329	155	0	0	830	13,413
Total	**218,961**	**5,013**	**330**	**155**	**0**	**0**	**5,498**	**224,459**

Collateral used in respect of the past due loans that were not provisioned amounts to CZK 2,363 million (2006: CZK 2,486 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department.
In 2007, the Bank fully implemented in its internal system the new rules for assessment of collateral eligibility according to CNB Regulation No. 123/2007. The Bank's compliance with the new rules was validated by the CNB as part of the validation of the IRBA Basel II approach in September 2007.

Recovery of amounts due from borrowers

In order to address the growing volume of retail loans portfolio, the Bank continues improving the efficiency of its pre-recovery and recovery processes. This also includes the intensified and enhanced use of external recovery channels which cover around 20 percent of total exposure of the portfolio in the recovery regime. Specific attention was paid to analysing and implementing the new insolvency legislation into the Bank's recovery process. The new insolvency legislation is expected to significantly impact credit activities in both corporate and retail client segments.

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 2007, the revocable commitments account for 21 percent (2006: 20 percent) of all the Bank's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily measuring of counterparty risk generated by financial derivatives is based on two indicators: the Current Average Risk indicator (CAR), and the Credit Value at Risk indicator (CVaR). Both indicators calculate the cost associated with the replacement of a defaulting client of the Bank at current market conditions and take into consideration specific parameters such as the type of the derivative product, time-to-maturity and the nominal amount of the defaulted transaction, as well as the volatility of the underlying assets. Doing so, CAR measures the average of the Bank's estimated potential exposures over the remaining life of the derivative instrument, while CVaR measures the Bank's potential maximum exposure with a confidence level of 99 percent, and thus better reflects the maximum counterparty risk levels in case of adverse market scenarios.

As of 31 December 2007, the Bank posted a credit exposure of CZK 22,073 million (2006: CZK 28,569 million) on financial derivative instruments (expressed in CVaR). Note that this amount represents the gross replacement risk at market rates as of 31 December 2007 of all outstanding agreements. The netting agreement is taken into account where applicable.

(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 that monitors its market positions.

Products traded by the Bank

Products that are traded by the Bank and can bear market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures), corporate and governmental bonds, as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). Transactions with these products are concluded either for proprietary purposes, or for hedging of the Bank's positions (e.g. interest rate swaps, FRAs and currency swaps), as well as for accommodating the clients' requests. Certain structured derivative transactions for the clients have been designed to meet the clients' hedging needs. Related market risks are eliminated by the Bank via back-to-back transactions concluded with the market.

Market risk in the Market Book

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk concept as an aggregate metric.

The VaR method ("historical simulation") has been used by the Bank since 2003. This method reflects correlations between various financial markets and underlying instruments. It uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99 percent VaR indicator captures the loss that would be incurred after eliminating the top 1 percent most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The validity of the Value-at-Risk is verified through a back-testing process which compares the Value-at-Risk results with actual trading results and hypothetical overnight results. Any excesses are analysed to ensure the 99 percent confidence level. The Value-at-Risk calculations and results are monitored by the Bank's management.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 991,000 and EUR 374,000 as of 31 December 2007 and 2006, respectively. The average Global Value-at-Risks were EUR 667,000 and EUR 320,000 for the years ended 31 December 2007 and 2006, respectively.

In addition, the Bank also performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk scenarios, and that measure on a daily basis potential losses relevant to all open positions generated by larger shocks. 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 a 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 for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

The indicator of sensitivity to a change in market interest rates shows a change in the Bank's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2007, the interest rate risk sensitivity was CZK 23 million (2006: CZK 161 million). The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

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 investments in securities or a 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 exposures 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. Financial derivative instruments designated as held for trading:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2007	2007	2006	2006	2007	2007	2006	2006
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	296,197	296,197	230,009	230,009	1,909	1,929	2,475	2,429
Interest rate forwards and futures *	379,466	379,466	306,979	306,979	226	220	228	225
Interest rate options	2,753	2,753	1,481	1,481	7	7	1	1
Total interest rate instruments	**678,416**	**678,416**	**538,469**	**538,469**	**2,142**	**2,156**	**2,704**	**2,655**
Foreign currency instruments								
Currency swaps	100,377	99,851	76,716	76,478	1,812	1,254	1,163	897
Cross currency swaps	21,164	19,977	20,741	20,141	1,316	150	807	216
Currency forwards	21,087	21,363	15,919	16,056	327	611	194	385
Purchased options	37,944	38,040	26,523	26,528	1,089	0	762	0
Sold options	38,040	37,944	26,528	26,523	0	1,089	0	762
Total currency instruments	**218,612**	**217,175**	**166,427**	**165,726**	**4,544**	**3,104**	**2,926**	**2,260**
Other instruments								
Futures on debt securities *	1,329	1,329	573	572	0	0	0	0
Forwards on emission allowances	6,519	6,433	213	179	433	330	84	50
Equity forwards	0	0	131	149	0	0	55	73
Commodity forwards	1,218	1,218	654	654	44	43	89	94
Commodity swaps	1,674	1,674	3,404	3,404	230	228	163	158
Purchased commodity options	24	24	0	0	2	0	0	0
Sold commodity options	24	24	0	0	0	2	0	0
Total other instruments	**10,788**	**10,702**	**4,975**	**4,958**	**709**	**603**	**391**	**375**
Total	**907,816**	**906,293**	**709,871**	**709,153**	**7,395**	**5,863**	**6,021**	**5,290**

Note: * 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	112,046	127,037	57,114	296,197
Interest rate forwards and futures *	334,557	44,909	0	379,466
Interest rate options	1,760	993	0	2,753
Total interest rate instruments	**448,363**	**172,939**	**57,114**	**678,416**
Foreign currency instruments				
Currency swaps	94,894	4,900	583	100,377
Cross currency swaps	2,085	16,960	2,119	21,164
Currency forwards	13,039	7,354	694	21,087
Purchased options	25,262	12,682	0	37,944
Sold options	25,346	12,694	0	38,040
Total currency instruments	**160,626**	**54,590**	**3,396**	**218,612**
Other instruments				
Futures on debt securities	1,329	0	0	1,329
Forwards on emission allowances	2,177	4,342	0	6,519
Commodity forwards	1,218	0	0	1,218
Commodity swaps	1,462	212	0	1,674
Purchased commodity options	24	0	0	24
Sold commodity options	24	0	0	24
Total other instruments	**6,234**	**4,554**	**0**	**10,788**
Total	**615,223**	**232,083**	**60,510**	**907,816**

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

Financial derivative instruments designated as hedging:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2007	2007	2006	2006	2007	2007	2006	2006
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	224,537	224,537	185,632	185,632	1,835	2,750	5,091	749
Interest rate swaps for fair value hedging	3,515	3,515	3,678	3,678	200	0	0	8
Total	**228,052**	**228,052**	**189,310**	**189,310**	**2,035**	**2,750**	**5,091**	**757**

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	48,805	83,181	92,551	224,537
Interest rate swaps for fair value hedging	0	0	3,515	3,515
Total	**48,805**	**83,181**	**96,066**	**228,052**

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.

During 2007, the Bank recorded the following hedges:

(i) Interest rate risk hedge:

a. The fair value of a provided long-term loan is hedged by an interest rate swap;

b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis); and

c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis).

(ii) Foreign exchange risk hedge:

a. In selected material cases, the Bank hedges future cash flows of firm commitments arising from the Bank's contractual obligations (e.g., contractual payments to third parties in a foreign currency), the hedging instrument includes foreign currency assets (e.g., securities); and

b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent upon foreign exchange rate developments, by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

(iii) Hedge of an investment in a foreign subsidiary:

a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is not longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

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

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with the Czech National Bank	1,738	0	0	0	8,638	10,376
Amounts due from banks	185,772	3,339	8,007	1,411	0	198,529
Financial assets at fair value through profit or loss	7,487	6,191	11,480	1,499	74	26,731
Positive fair values of financial derivative transactions	0	0	0	0	9,430	9,430
Loans and advances to customers, net	131,036	51,306	73,212	11,554	0	267,108
Securities available for sale	4,191	1,920	9,210	18,362	839	34,522
Investments held to maturity	1,431	213	665	673	0	2,982
Prepayments, accrued income and other assets	2,856	0	0	0	1,741	4,597
Income taxes receivable	0	0	0	0	4	4
Deferred tax asset	0	0	0	0	432	432
Assets held for sale	0	0	0	0	505	505
Intangible fixed assets, net	0	0	0	0	2,708	2,708
Tangible fixed assets, net	0	0	0	0	7,388	7,388
Investments in subsidiaries and associates, net	0	0	0	0	23,380	23,380
Total assets	**334,511**	**62,969**	**102,574**	**33,499**	**55,139**	**588,692**
Liabilities						
Amounts due to banks	12,048	1,277	0	0	0	13,325
Amounts due to customers	134,723	4,898	716	62	313,890	454,289
Negative fair values of financial derivative transactions	0	0	0	0	8,613	8,613
Securities issued	16,777	3,749	4,532	19,437	0	44,495
Accruals and other liabilities	0	0	0	0	10,876	10,876
Provisions	0	0	0	0	1,665	1,665
Deferred tax liability	0	189	0	0	0	189
Subordinated debt	6,004	0	0	0	0	6,004
Total liabilities	**169,552**	**10,113**	**5,248**	**19,499**	**335,044**	**539,456**
On balance sheet interest rate sensitivity gap at 31 December 2007	**164,959**	**52,856**	**97,326**	**14,000**	**(279,905)**	**49,236**
Derivatives *	266,744	357,217	199,318	104,353	0	927,632
Total off balance sheet assets	**266,744**	**357,217**	**199,318**	**104,353**	**0**	**927,632**
Derivatives *	313,008	366,081	209,219	38,137	0	926,445
Undrawn portion of loans **	(5,324)	(3,048)	6,403	1,969	0	0
Undrawn portion of revolving loans **	(518)	(160)	283	395	0	0
Total off balance sheet liabilities	**307,166**	**362,873**	**215,905**	**40,501**	**0**	**926,445**
Net off balance sheet interest rate sensitivity gap at 31 December 2007	**(40,422)**	**(5,656)**	**(16,587)**	**63,852**	**0**	**1,187**
Cumulative interest rate sensitivity gap at 31 December 2007	**124,537**	**171,737**	**252,476**	**330,328**	**50,423**	**x**
Total assets at 31 December 2006	309,241	56,072	76,689	27,666	42,582	512,250
Total liabilities at 31 December 2006	152,907	5,667	11,101	11,871	282,050	463,596
Net on balance sheet interest rate sensitivity gap at 31 December 2006	156,334	50,405	65,588	15,795	(239,468)	48,654
Net off balance sheet interest rate sensitivity gap at 31 December 2006	**(57,983)**	**(21,683)**	**14,306**	**65,960**	**0**	**600**
Cumulative interest rate sensitivity gap at 31 December 2006	**98,351**	**127,073**	**206,967**	**288,722**	**49,254**	**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 2007 and 2006:

%	2007			2006		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and balances with the CNB	0.69	x	x	1.07	x	x
Treasury bills	3.64	x	x	2.76	x	x
Amounts due from banks	3.66	5.32	4.45	2.65	5.31	3.73
Loans and advances to customers	4.77	5.41	5.01	4.36	5.88	4.22
Interest earning securities	5.07	4.99	3.83	3.90	5.10	3.53
Total assets	**3.94**	**5.18**	**4.11**	**2.44**	**9.79**	**4.31**
Total interest earning assets	**4.38**	**5.28**	**4.54**	**2.70**	**5.32**	**3.91**
Liabilities						
Amounts due to banks	1.92	4.10	3.94	2.46	4.93	3.54
Amounts due to customers	1.05	2.59	2.10	0.85	2.85	1.31
Securities issued	3.62	x	3.74	3.20	x	3.73
Subordinated debt	3.73	x	x	2.89	x	x
Total liabilities	**1.29**	**2.27**	**2.24**	**0.77**	**2.53**	**1.58**
Total interest bearing liabilities	**1.30**	**2.59**	**2.31**	**1.02**	**2.86**	**1.66**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc.)	3.85	5.02	4.29	3.37	5.15	3.73
Undrawn portion of loans	4.63	x	4.94	3.72	x	4.11
Undrawn portion of revolving loans	7.42	5.44	4.44	6.74	6.28	3.10
Total off balance sheet assets	**4.32**	**5.03**	**4.32**	**3.79**	**5.13**	**3.66**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	3.67	5.01	4.36	2.89	5.03	3.77
Undrawn portion of loans	4.63	x	4.94	3.72	x	4.11
Undrawn portion of revolving loans	7.42	5.44	4.44	6.74	6.28	3.10
Total off balance sheet liabilities	**4.18**	**5.01**	**4.38**	**3.40**	**5.08**	**3.67**

Note: The above table sets out the average interest rates for December 2007 and 2006 calculated as a weighted average for each asset and liability category.

During 2007, both CZK and EUR interest rates witnessed year-on-year growth; short-term rates grew faster than the long-term rates, the result being the flattening of their yield curves. USD interest rates remained approximately on the same level for most of 2007. At the end of 2007, USD rates decreased when the short-term rates declined more rapidly than the long-term rates.

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

CZK million	Fixed interest rate 2007	Floating interest rate 2007	No interest 2007	Total 2007	Fixed interest rate 2006	Floating interest rate 2006	No interest 2006	Total 2006
Assets								
Cash and balances with the Czech National Bank	0	1,738	8,638	10,376	0	5,293	8,789	14,082
Amounts due from banks	11,699	186,523	307	198,529	12,404	187,177	207	199,788
Financial assets at fair value through profit or loss	26,344	313	74	26,731	14,308	273	116	14,697
Positive fair values of financial derivative transactions	0	0	9,430	9,430	0	0	11,112	11,112
Loans and advances to customers, net	140,729	125,603	776	267,108	113,419	109,365	387	223,171
Securities available for sale	27,065	6,618	839	34,522	21,584	714	878	23,176
Investments held to maturity	2,982	0	0	2,982	3,283	0	0	3,283
Liabilities								
Amounts due to banks	5,898	5,276	2,151	13,325	4,336	6,373	2,130	12,839
Amounts due to customers	6,620	442,970 *	4,699	454,289	6,194	385,826	6,117	398,137
Negative fair values of financial derivative transactions	0	0	8,613	8,613	0	0	6,047	6,047
Securities issued	23,551	20,944	0	44,495	22,220	3,932	0	26,152
Subordinated debt	0	6,004	0	6,004	0	6,002	0	6,002

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

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(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 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	8,152	0	0	0	0	2,224	10,376
Amounts due from banks	134,406	49,697	3,262	8,682	2,374	108	198,529
Financial assets at fair value through profit or loss	496	6,983	6,085	11,583	1,510	74	26,731
Positive fair values of financial derivative transactions	0	0	0	0	0	9,430	9,430
Loans and advances to customers, net	4,254	22,318	69,246	65,534	90,696	15,060	267,108
Securities available for sale	42	1,175	875	8,859	22,732	839	34,522
Investments held to maturity	0	1,388	222	685	687	0	2,982
Prepayments, accrued income and other assets	2,856	0	0	0	0	1,741	4,597
Income taxes receivable	0	0	0	0	0	4	4
Deferred tax asset	0	0	0	0	0	432	432
Assets held for sale	0	0	505	0	0	0	505
Intangible fixed assets, net	0	0	0	0	0	2,708	2,708
Tangible fixed assets, net	0	0	0	0	0	7,388	7,388
Investments in subsidiaries and associates, net	0	0	0	0	0	23,380	23,380
Total assets	**150,206**	**81,561**	**80,195**	**95,343**	**117,999**	**63,388**	**588,692**
Liabilities							
Amounts due to banks	7,471	894	688	1,003	3,269	0	13,325
Amounts due to customers	399,822	44,002	5,514	3,867	1,084	0	454,289
Negative fair values of financial derivative transactions	0	0	0	0	0	8,613	8,613
Securities issued	0	62	3,837	3,632	36,964	0	44,495
Accruals and other liabilities	10,507	369	0	0	0	0	10,876
Provisions	8	58	525	85	25	964	1,665
Deferred tax liability	0	0	189	0	0	0	189
Subordinated debt	0	4	0	0	6,000	0	6,004
Equity	0	0	0	0	0	49,236	49,236
Total liabilities	**417,808**	**45,389**	**10,753**	**8,587**	**47,342**	**58,813**	**588,692**
On balance sheet liquidity gap at 31 December 2007	**(267,602)**	**36,172**	**69,442**	**86,756**	**70,657**	**4,575**	**0**
Off balance sheet assets *	39,798	59,855	64,266	54,591	3,395	0	221,905
Off balance sheet liabilities *	42,071	79,115	176,744	80,979	25,714	23,114	427,737
Net off balance sheet liquidity gap at 31 December 2007	**(2,273)**	**(19,260)**	**(112,478)**	**(26,388)**	**(22,319)**	**(23,114)**	**(205,832)**
Total assets at 31 December 2006	146,782	78,431	66,591	82,542	82,101	55,803	512,250
Total liabilities at 31 December 2006	360,074	49,976	7,802	15,658	21,897	56,843	512,250
Net on balance sheet liquidity gap at 31 December 2006	(213,292)	28,455	58,789	66,884	60,204	(1,040)	0
Net off balance sheet liquidity gap at 31 December 2006	(2,587)	(21,423)	(91,570)	(14,092)	(17,850)	(20,056)	(167,578)

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	EUR	US dollars	Swiss francs	Slovak crowns	Other currencies	Total
Assets							
Cash and current balances with the Czech National Bank	8,754	1,071	176	57	93	225	10,376
Amounts due from banks	161,046	22,436	11,445	11	2,617	974	198,529
Financial assets at fair value through profit or loss	25,451	90	0	0	161	1,029	26,731
Positive fair values of financial derivative transactions	8,746	590	50	0	23	21	9,430
Loans and advances to customers, net	241,925	21,741	1,408	97	1,468	469	267,108
Securities available for sale	22,450	9,956	2,116	0	0	0	34,522
Investments held to maturity	1,369	1,427	186	0	0	0	2,982
Prepayments, accrued income and other assets	3,660	860	64	0	0	13	4,597
Income taxes receivable	1	1	0	0	0	2	4
Deferred tax asset	432	0	0	0	0	0	432
Assets held for sale	505	0	0	0	0	0	505
Intangible fixed assets, net	2,708	0	0	0	0	0	2,708
Tangible fixed assets, net	7,388	0	0	0	0	0	7,388
Investments in subsidiaries and associates, net	19,100	3,814	0	0	466	0	23,380
Total assets	**503,535**	**61,986**	**15,445**	**165**	**4,828**	**2,733**	**588,692**
Liabilities							
Amounts due to banks	7,401	4,187	9	0	556	1,172	13,325
Amounts due to customers	407,120	38,290	7,333	161	500	885	454,289
Negative fair values of financial derivative transactions	8,045	328	115	0	32	93	8,613
Securities issued	43,460	1,035	0	0	0	0	44,495
Accruals and other liabilities	9,667	1,004	165	1	7	32	10,876
Provisions	899	68	691	0	6	1	1,665
Deferred tax liability	189	0	0	0	0	0	189
Subordinated debt	6,004	0	0	0	0	0	6,004
Equity	49,236	0	0	0	0	0	49,236
Total liabilities	**532,021**	**44,912**	**8,313**	**162**	**1,101**	**2,183**	**588,692**
Net FX position at 31 December 2007	**(28,486)**	**17,074**	**7,132**	**3**	**3,727**	**550**	**0**
Off balance sheet assets included in the FX position *	957,802	127,653	38,723	5	10,592	4,868	1,139,643
Off balance sheet liabilities included in the FX position *	928,859	143,487	46,163	7	14,207	5,398	1,138,121
Net off balance sheet FX position at 31 December 2007	**28,943**	**(15,834)**	**(7,440)**	**(2)**	**(3,615)**	**(530)**	**1,522**
Total net FX position at 31 December 2007	**457**	**1,240**	**(308)**	**1**	**112**	**20**	**1,522**
Total assets at 31 December 2006	443,647	46,111	18,172	201	2,385	1,734	512,250
Total liabilities at 31 December 2006	462,914	37,216	9,718	193	956	1,253	512,250
Net FX position at 31 December 2006	(19,267)	8,895	8,454	8	1,429	481	0
Off balance sheet net FX position at 31 December 2006	19,317	(7,884)	(8,851)	(7)	(1,384)	(470)	721
Total net FX position at 31 December 2006	50	1,011	(397)	1	45	11	721

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

(G) Operational risk

In the operational risks area, the Bank has been targeting Société Générale's objective of the Advanced Measurement Approaches ("AMA") method validation at the group level through the end of 2007. Therefore, all operational risks management instruments required by the AMA method have been progressively implemented in the Bank. These instruments include data collection, risk control self assessment, scenario analysis (all implemented in 2006) and key risk indicators (implemented in the first quarter of 2007).

The Czech National Bank has approved locally these advances approaches under the validation process and the Bank may allocate the lowest volume of capital to operational risks under Basel II.

(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 estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

c) Amounts due from banks

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

d) Loans and advances to customers

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

e) Amounts owed to banks and customers

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

f) Debt securities issued

The fair value of debt securities issued by the 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 2007	Fair value 2007	Carrying value 2006	Fair value 2006
Financial assets				
Cash and current balances with the Czech National Bank	10,376	10,376	14,082	14,082
Amounts due from banks	198,529	198,440	199,788	200,121
Loans and advances to customers, net	267,108	272,749	223,171	229,831
Investments held to maturity	2,982	2,940	3,283	3,253
Financial liabilities				
Amounts due to banks	13,325	13,311	12,839	12,835
Amounts due to customers	454,289	454,192	398,137	398,100
Securities issued	44,495	43,570	26,152	26,034
Subordinated debt	6,004	6,003	6,002	6,004

42. Assets under management

As of 31 December 2007, the Bank managed client assets in the amount of CZK 2,852 million (2006: CZK 3,472 million), of which no assets were from the Bank's subsidiaries. The Bank is transferring asset management services to other trustees.

43. Post balance sheet events

Philippe Rucheton, Deputy CEO and Vice Chairman of the Board of Directors, resigned from his positions and accepted the positions of member of the Board of Directors and CFO of Newedge which was formed as a joint venture between Société Générale and Calyon. With effect from 1 February 2008, the Bank's Supervisory Board appointed Patrice Taillandier-Thomas a new member of the Board of Directors and COO. This appointment is subject to the approval by the Czech National Bank.

Survey of Financial Results 2002–2007

According to International Reporting Standards (IFRS)

CZK million	Consolidated data	2007	2006	2005	2004	2003	2002
Financial Performance	Net Interest Income	18,674	16,274	14,643	13,264	12,166	12,691
	Net Fees and Commissions	9,283	8,769	8,736	8,936	9,075	8,595
	Net Banking Income	29,665	26,421	24,502	23,752	22,491	25,359
	Total Operating Costs	(13,558)	(12,400)	(12,135)	(12,475)	(12,529)	(15,356)
	Net Profit/(Loss)	11,225	9,211	8,911	8,938	8,669	9,026
	Net Profit/(Loss) per share (CZK)	295.74	242.52	234.44	235.15	228.07	237.46
	Total Assets	661,819	598,090	513,856	473,411	456,663	446,092
	Loans and Advances to Customers, net	304,521	252,505	189,212	158,085	131,130	122,978
	Amounts Due to Customers	540,756	481,294	388,431	373,371	353,569	341,708
	Total Shareholders' Equity	50,654	50,257	51,327	44,814	41,401	35,366
	Return on Average Assets, ROAA (%)	1.78	1.66	1.81	1.92	1.92	2.06
	Return on Average Equity, ROAE (%)	22.25	18.13	18.54	20.73	22.58	29.94
	Cost/Income Ratio (%)	45.7	46.9	49.6	52.5	55.7	60.6
Capital Adequacy *	Capital Adequacy (%)	10.10	11.87	13.19	12.89	14.78	12.77
	Tier 1 Ratio (%)	8.87	10.35	13.71	12.66	14.08	10.71
	Tier 1	33,945	32,084	34,704	29,554	28,302	21,385
	Tier 2	6,008	6,000	0	1,389	2,388	6,129
	Total Regulatory Capital	38,658	36,809	33,381	29,398	29,707	25,494
	Risk-Weighted Assets for Investment portfolio	372,714	296,915	243,876	217,052	191,016	192,343

CZK million	Unconsolidated data	2007	2006	2005	2004	2003	2002
Financial Performance	Net Interest Income	15,701	14,858	13,623	12,406	11,937	12,447
	Net Fees and Commissions	9,020	8,691	8,718	8,703	8,711	8,320
	Net Banking Income	26,226	24,631	23,392	22,717	21,844	22,597
	Total Operating Costs	(12,214)	(11,590)	(11,593)	(11,788)	(11,750)	(12,760)
	Net Profit/(Loss)	10,170	8,747	9,148	9,299	9,262	8,763
	Net Profit/(Loss) per share (CZK)	267.96	230.32	240.68	244.66	243.68	230.55
	Total Assets	588,692	512,250	492,732	448,294	447,565	439,753
	Loans and Advances to Customers, net	267,108	223,171	185,225	155,379	131,042	121,154
	Amounts Due to Customers	454,289	398,137	370,058	358,825	349,505	341,114
	Total Shareholders' Equity	49,236	48,654	50,314	43,578	40,399	33,758
	Return on Average Assets, ROAA (%)	20.78	17.68	19.49	22.15	24.98	30.56
	Return on Average Equity, ROAE (%)	1.85	1.74	1.94	2.08	2.09	2.03
	Net Interest Margin (%)	3.17	3.23	3.14	3.04	3.00	3.25
	Cost/Income Ratio (%)	46.57	47.05	49.60	51.89	53.79	56.47
Capital Adequacy *	Capital Adequacy (%)	11.04	13.08	13.58	12.83	15.37	13.35
	Tier 1 Ratio (%)	9.78	11.46	13.95	13.35	14.48	11.21
	Tier 1	36,575	33,814	34,543	29,312	27,734	22,138
	Tier 2	6,000	6,000	0	0	2,272	6,091
	Total Regulatory Capital	41,287	38,589	33,637	28,235	29,437	26,332
	Risk-Weighted Assets for Investment portfolio	364,095	281,909	238,465	208,502	184,613	189,549

Note: * According to the Czech National Bank methodology under Basel I

Legal Information

(Unconsolidated data referring to Komerční banka, unless stated otherwise.)

Identification Details of the Company Entered in the Commercial Register as of 31 December 2007

(excerpt from the Commercial Register maintained with the Municipal Court of Prague Section B, File No. 1360)

Date of incorporation:	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 listed ordinary bearer shares in the nominal value of CZK 500
Registered capital:	CZK 19,004,926,000, of which paid up: 100%

Objects of business

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 including:
- main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more investment instruments,
- main investment services of execution of orders on behalf of investors in relation to one or more investment instruments,
- main investment services of dealing in investment instruments for the Bank's own account,
- main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
- main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
- ancillary services of safekeeping and administration in relation to one or more investment instruments,

– ancillary services of safe custody,
– ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more investment instruments, where the firm granting the credit or loan is involved in the transaction,
– ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
– ancillary services related to underwriting,
– ancillary services of investment advice concerning one or more investment instruments,
– ancillary services of foreign-exchange service where these are connected with the 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) consultancy in accounting, bookkeeping, tax record keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organisation of specialised courses, training, and other educational programs including teaching,
f) business, financial, organisational, and economic consultants activity,
g) data processing, database services, network (web) administration.

Statutory body – Board of Directors

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Board of Directors from
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	3 May 2006	3 May 2006
Member	Didier Colin	630420/7459	Prague 1, Vlašská 5/361, postcode 110 00		9 October 2004
Member	Jan Juchelka	710919/5148	Poděbrady V, Máchova 92, Nymburk District, postcode 290 01		1 July 2006
Member	Peter Palečka	591103/6692	Černošice, Jahodová 1565, Prague-West District, postcode 252 28		6 October 2005

Acting on behalf of the Bank:

The Board of Directors as the statutory body shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.
Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two members of the Board jointly shall sign on behalf of the Bank.

Supervisory Board

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Board of Directors from
Chairman	Didier Alix	16 August 1946	14, bis Rue Raynouard, 75016 Paris, French Republic	14 June 2005	29 April 2005
Vice-Chairman	Jean-Louis Mattei	8 September 1947	24, Rue Pierre et Marie Curie, 75005 Paris, French Republic	14 June 2005	29 April 2005
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 ul. 1576, postcode 574 01		28 May 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		29 April 2005

Other facts:

Manner of the Company's establishment:

In accordance with the privatisation project of the state financial institution Komerční banka, with the registered office in Prague, Na Příkopě 28, approved by resolutions 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 founder, established the public limited company named Komerční banka, a.s., based on the 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 tradability

Komerční banka shares are publicly traded on public capital markets in the Czech Republic – the Prague Stock Exchange and RM-SYSTÉM (the organiser of an off-exchange market in securities).

Rights vested in the shares

Rights pertaining to ordinary shares are in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares.

Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of nominal share value is equivalent to one vote.

Shareholders are entitled to share in 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 accrue to shareholders who own shares 30 calendar days following the date of the annual general meeting that approved payment of the dividend. If the Board of Directors decides to register the rights for 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 payment of the dividend is time-barred from four years after its declared payment date. In the event of a shareholder' death, his or her legal heir 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.
For further information about trading in shares, share prices and dividends, please refer to the chapter Komerční banka Share Price.

Acquisition of own shares

Komerční banka held 54,000 of its own shares as of 31 December 2007. These shares were purchased during 2006 in accordance with the decisions taken by the Bank's general meetings of 28 April 2005 and 26 April 2006 that allow KB to purchase its own shares under the following conditions:

– The maximum amount of shares that can be held by the Bank at any specific moment is 3,800,985 ordinary shares.
– The share purchase price must be at least CZK 2,000 per share and at most CZK 4,500 per share.
– This decision shall be valid for a period of 18 months.
– Shares may not be acquired by the Bank if such acquisition would breach the conditions stipulated in Section 161a, paragraph 1 (b) and (c) of the Commercial Code.
– For the term of validity hereof, the Bank can buy and sell shares repeatedly without any further restrictions.

In addition, Komerční banka intermediated transactions in KB shares for clients. In this case, it acted at the client's request and immediately sold on to the client the shares that had been purchased.

	Number/ nominal value as at 1 January 2007 (pcs/CZK th.)	Proportion of share capital as at 1 January 2007 (%)	Number/ nominal value as at 31 December 2007 (pcs/CZK th.)	Proportion of share capital as at 31 December 2007 (%)
Trading portfolio	0	0	0	0
(Trading book)	0		0	
Portfolio available for sale	54,000	0.142	54,000	0.142
(Banking book)	27,000		27,000	

	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	70,171	70,171	260,054	3,087.68	260,198	3,091.00
(Trading book)	35,085.5	35,085.5		4,471.00		4,473.00
Portfolio available for sale	0	0	0	0	0	0
(Banking book)	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 asset account at the Securities Centre). In principle, GDRs bear the same rights as shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of Komerční banka.

The GDR programme was launched at the end of June 1995. In issuing the first tranche, Komerční banka marked its entry into the international capital markets. A second issue followed in 1996.

From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2007 was 1,899,645.

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") 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 2007/2008 tax year, which ends on 5 April 2008. It has not yet been announced whether this practice will continue for the 2008/2009 tax year, which begins on 6 April 2008. 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, 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 (outstanding)

List of outstanding bonds issued by Komerční banka

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs. (as of 31 December 2007)	Interest Rate	Pay-out of Interest	Quotation at PSE *
1.	HZL 2003/2009 ISIN: CZ0002000268 [1), 3)]	21 August 2003 21 August 2009	3,530,000,000 353,000	5.5% p.a.	yearly	yes
2.	HZL 2004/2008 ISIN: CZ0002000383 [1), 3)]	5 August 2004 5 August 2008	3,500,000,000 350,000	4.5% p.a.	yearly	yes
3.	HZL 2005/2015 ISIN: CZ0002000565 [1)]	2 August 2005 2 August 2015	5,200,000,000 520,000	3M PRIBID +min. (-0.10% p.a.; [-0.1*3M PRIBID]% p.a.)	quarterly	yes
4.	HZL 2005/2015 ISIN: CZ0002000664 [1)]	21 October 2005 21 October 2015	10,000,000,000 1,000,000	4.40% p.a.	yearly	yes
5.	HZL 2006/2016 ISIN: CZ0002000854 [1)]	1 September 2006 1 September 2016	EUR 38,403 th. 42,670	3.74% p.a.	yearly	no
6.	HZL 2007/2019 ISIN: CZ0002001142 [2)]	16 August 2007 16 August 2019	3,000,000,000 30	5.00% p.a.	yearly	no
7.	HZL 2007/2037 ISIN: CZ0002001324 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
8.	HZL 2007/2037 ISIN: CZ0002001332 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
9.	HZL 2007/2037 ISIN: CZ0002001340 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
10.	HZL 2007/2037 ISIN: CZ0002001357 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
11.	HZL 2007/2037 ISIN: CZ0002001365 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
12.	HZL 2007/2037 ISIN: CZ0002001373 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
13.	HZL 2007/2037 ISIN: CZ0002001381 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
14.	HZL 2007/2037 ISIN: CZ0002001399 [2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
15.	HZL 2007/2037 ISIN: CZ0002001431 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
16.	HZL 2007/2037 ISIN: CZ0002001449 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
17.	HZL 2007/2037 ISIN: CZ0002001456 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
18.	HZL 2007/2037 ISIN: CZ0002001464 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
19.	HZL 2007/2037 ISIN: CZ0002001472 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
20.	HZL 2007/2037 ISIN: CZ0002001480 [2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
21.	HZL 2007/2037 ISIN: CZ0002001498 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
22.	HZL 2007/2037 ISIN: CZ0002001506 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
23.	HZL 2007/2037 ISIN: CZ0002001514 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs. (as of 31 December 2007)	Interest Rate	Pay-out of Interest	Quotation at PSE *
24.	HZL 2007/2037 ISIN: CZ0002001522 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
25.	HZL 2007/2037 ISIN: CZ0002001530 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
26.	HZL 2007/2037 ISIN: CZ0002001548 [2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
27.	HZL 2007/2037 ISIN: CZ0002001555 [2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
28.	HZL 2007/2037 ISIN: CZ0002001563 [2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
29.	HZL 2007/2037 ISIN: CZ0002001571 [2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
30.	HZL 2007/2037 ISIN: CZ0002001589 [2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
31.	2007/2017 ISIN: CZ0003701427 [1)]	18 December 2007 1 December 2017	466,000,000 466	4.216% p.a.	yearly	no
32.	HZL 2007/2017 ISIN: CZ0002001761 [1)]	19 December 2007 19 December 2017	903,400,000 9,034	4.09% p.a.	yearly	no
33.	HZL 2007/2037 ISIN: CZ0002001753 [1)]	21 December 2007 21 December 2037	3,300,000,000 330	RS plus 1.5% p.a.	yearly	no
34.	HZL 2007/2037 ISIN: CZ0002001746 [1)]	28 December 2007 28 December 2037	50,000,000 5	RS plus 1.5% p.a.	yearly	no

Note: * Prague Stock Exchange
HZL = mortgage bonds, RS = reference rate
[1)] dematerialised bonds
[2)] bonds in documentary form
[3)] part of issue cancelled by the issuer's decision

All bonds with the exception of mortgage bonds ("HZL") ISIN CZ0002000854 are denominated in CZK and made out to the bearer. HZL ISIN CZ0002000268, HZL ISIN CZ0002000383 and HZL ISIN CZ0002000565 were issued under the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated 6 May 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 in a maximum amount of CZK 15 billion outstanding.

The bonds listed in the table under numbers 6–34 were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. The 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, issuance terms and conditions, or supplements to the bond programmes were approved by the Czech Securities Commission or the Czech National Bank.

Public tradability

All heretofore unredeemed bonds presented in the table as quoted on the PSE were admitted for trading on the official free market of the Prague Stock Exchange.

Transferability

The transferability of bonds is unlimited.

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 issuance terms and conditions of each issue.

Bonds bear interest from the date of issue, and coupon payments are made at quarterly, yearly or other stated intervals. The bonds' returns are paid by the issuer – Komerční banka, a.s., having its registered office at Na Příkopě 33, Prague 1.

The bonds will be redeemed by Komerční banka, a.s., Na Příkopě 33, Prague 1, in the whole amount of the nominal value (except for HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bonds ISIN CZ00030701427) on the maturity day. HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bonds ISIN CZ00030701427 are amortising bonds.

Emoluments and Benefits to the Management and Statutory Bodies

Principles of Remuneration for Members of Komerční banka's Board of Directors and Supervisory Board

Board of Directors

The remuneration of the members of the Board of Directors consists of fixed and variable parts.

The fixed remuneration is paid monthly and is the same for all members of the Board of Directors, except for the Chairman.

The variable part of the remuneration (annual bonus) has the same ceiling for all members of the Board of Directors, with the exception of the Chairman. This maximum amount is determined by the General Meeting. The actual amount of the bonus paid to individual members of the Board of Directors is proposed by the Remuneration and Personnel Committee of the Supervisory Board in the range from zero to the ceiling. The proposal is then reviewed by the Supervisory Board, which makes the final decision.

The amount of the remuneration for members of the Board of Directors is closely linked with the results of the Bank. The aforementioned bodies decide on the remuneration amount in consideration of all relevant financial and business indicators, including development of net profit, net banking income, costs and market shares.

In accordance with the Banking Act, the members of the Board of Directors also act as executive directors in charge of specific arms of the Bank on the basis of a management contract in accordance with the Labour Code. This contract entitles them to a basic salary and other compensation in lieu of salary. No additional remuneration is provided under the management contract.

Members of the Board of Directors that fulfil the established terms and conditions are entitled:

– under the management contract, and under the same conditions as other KB employees, with the exception of KB employees temporarily delegated to the Czech Republic, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan;
– based upon the management function at KB, and under the same conditions as other KB managers, including KB employees temporarily delegated to the Czech Republic, to the following additional benefits: company car (including for private use) and a contribution to fuel costs for private use of the car;
– based upon temporary delegation to the Czech Republic from other companies of the Société Générale Group, under standard and global conditions for foreign delegation of the SG Group, to additional benefits relating to long-term stay abroad.

Information on all monetary and in-kind income to the members of the Board of Directors is given in the following chapter.

Supervisory Board

The remuneration to the members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. The amount of remuneration is set by decision of the general meeting. In accordance with a resolution of the annual general meeting held on 17 June 2004, remuneration for the members' attendance at Supervisory Board meetings is limited to the maximum of six meetings per year.

Moreover, members of the Supervisory Board elected by employees are entitled to a basic monthly salary and other compensation in lieu of salary according to their employment contract in accordance with the Labour Code.

Members of the Supervisory Board that fulfil the established terms and conditions are entitled:

– under the contract for employment, and under the same conditions as other KB employees, with the exception of members who are KB employees temporarily delegated to the Czech Republic or members without employment in KB, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan.

Information on all monetary and in-kind income to the members of the Supervisory Board is given in the following chapter.

Information on monetary and in-kind income to members of the Board of Directors and Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, and in conformity with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all monetary and in-kind income received during the 2007 financial reporting period by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer. This information is specified for each director and member individually.

The data are published in the structure described in Section III, point 5.3 of the Commission Recommendation:

(A) the total amount of remuneration paid or due to be paid for the services performed in the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting;

(B) remuneration and benefits received from any undertaking belonging to the same group (Note: KB Financial Group);

(C) remuneration paid in the form of profit sharing and/or bonus payments for 2006;

(D) any significant remuneration paid for special services outside the scope of the usual functions (Note: This item covers salary and compensation paid for job performance under the management contract, as described above);

(E) compensation paid to former members of the Board of Directors or Supervisory Board in connection with the termination of his activities during that financial year;

(F) the total estimated value of in-kind incomes considered as remuneration not included in the items covered in points (A) to (E).

In the following tables are presented all the emoluments paid to members of Komerční banka's Board of Directors and Supervisory Board in the structure described above. If no value is shown under a category, that means that no such payment was made to such member by Komerční banka or by entities controlled by it.

CZK	(A)	(B)	(D)	(F)	Total
Board of Directors					
Laurent Goutard, Chairman	3,600,000	20,906	5,294,983	2,302,663	11,218,553
Philippe Rucheton, Vice-Chairman	2,460,000	20,906	6,424,464	1,561,525	10,466,895
Didier Colin	2,460,000	20,906	4,759,640	2,583,624	9,824,170
Peter Palečka	2,460,000	99,592	4,162,180	287,760	7,009,532
Jan Juchelka	2,460,000	70,743	2,040,608	283,661	4,855,012

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
Séverin Cabannes	330,000	0	0	330,000
Pavel Krejčí *	291,500	0	0	291,500
Jan Kučera *	330,000	404,204	70,675	804,879
Petr Laube	313,500	0	0	313,500
Christian Poirier	330,000	0	0	330,000
Nina Trlicová *	330,000	619,253	77,109	1,026,362

Note: * Elected by KB employees, total emoluments include regular salaries.

Information on shares and share options held by members of the Board of Directors and Supervisory Board and by related persons

The following table provides information on the number of shares issued by Komerční banka and held by members of the Board of Directors and Supervisory Board, or persons related to them, as well as information on options and similar contracts whose underlying assets are equity securities issued by KB and which were concluded by or on behalf of the listed persons.

31 December 2007	Shares	Options
Board of Directors		
Laurent Goutard, Chairman	0	0
Philippe Rucheton, Vice-Chairman	0	0
Didier Colin	0	0
Peter Palečka	4,700	0
Jan Juchelka	0	0
Supervisory Board		
Didier Alix, Chairman	0	0
Jean-Louis Mattei, Vice-Chairman	0	0
Séverin Cabannes	0	0
Pavel Krejčí	400	0
Jan Kučera	1,280	0
Petr Laube	2,249	0
Christian Poirier	0	0
Nina Trlicová	0	0
Close persons (total)	0	0
Related persons (collectively)	**0**	**0**

No members of the Board of Directors, members of the Supervisory Board or their relatives were contractual parties, directly or indirectly, for any option or similar contract whose underlying assets were interim certificates issued by KB.

Information on Remuneration to Auditors

For services performed during 2007, KB and the consolidated KB Group provided remuneration to the auditors as follows:

Type of service – CZK thousand, excl. VAT	KB	KB Group *
Statutory audit	15,243	23,984
Audit related services	0	881
Legal and tax related services	0	537
Other	43	139
Total	**15,286**	**25,541**

Note: * The consolidated KB Group includes Komerční banka, ESSOX, Factoring KB, Komerční banka Bratislava, Komerční pojišťovna, Modrá pyramida stavební spořitelna, Penzijní fond Komerční banky, and Protos.

Information disclosed pursuant to Sec. 213 of Decree No. 123/2007 Coll.

CZK thousand	31 December 2007
Capital	
a) Total capital (Tier 1)	36,575,189
b) Total additional capital (Tier 2)	6,000,000
c) Total capital for market risks (Tier 3)	0
d) Total deductible items	1,288,140
e) Total capital after deductible items and setting limits for additional capital	41,287,049
Capital requirements	
a) Total capital requirements	29,920,596
b) Capital requirements:	
– credit risk (Basel I)	29,127,581
– interest rate risk	792,145
– equity risk	870
– foreign-exchange risk	0

Note: The bank discloses no other capital requirement.

CZK thousand	31 December 2007
Ratios	
Capital adequacy	11.04%
Return on average assets (ROAA) *	1.74%
Return on average equity (ROAE) **	28.43%
Assets per employee	75,319
Operating costs per employee	1,326
Profit/Loss after tax per employee	1,301

Note: * Net profit/average end of month volume of total assets in the year
** Net profit/average end of month volume of Tier 1 capital in the year

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 2007	Number	Area in m²
Land (area includes built-up land of the buildings)	405	221,574
Buildings (area includes all floors)	433	512,336

See also the Notes to the Unconsolidated Financial Statements according to IFRS, notes 24 – Assets held for sale and 26 – Tangible fixed assets.

Investments

Financial investments made by the Bank

(balance as of the end of the year)

CZK million, IFRS	31 December 2007	31 December 2006
Bonds and treasury bills	63,322	40,162
Shares	913	973
Emissions allowances	0	21
Equity investments in subsidiary and associated undertakings	23,380	10,012
Total	**87,615**	**51,168**

Main investments – excluding financial investments *
(balance as of the end of the year)

CZK million, IFRS	31 December 2007	31 December 2006
Tangible fixed assets	7,384	7,318
Intangible fixed assets	2,708	2,251
Total tangible and intangible fixed assets	**10,092**	**9,569**
Tangible fixed assets held under finance leases	4	10

Note: * Net book value of investments
See also notes to the Unconsolidated Financial Statements according to IFRS, Notes No. 25 Intangible fixed assets and 26 – Tangible assets.

Main ongoing investments – excluding financial investments
In 2007, the Bank made non-financial investments in a total of CZK 1.96 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 Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments
The investments planned by Komerční banka for 2008 will not exceed CZK 2.2 billion. The biggest portion of the total amount represents investments related to information technologies and development of the distribution network. 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.

Governing Law
KB, as an issuer of publicly traded securities, is governed in its activities in particular by the following laws:
– Act No. 21/1992 Coll., the Banking Act, as subsequently amended;
– Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended;
– Act No. 513/1991 Coll., the Commercial Code, as subsequently amended;
– Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on amendment to the Trade Licensing Act.

Legal Disputes

With respect to its overall financial situation, Komerční banka regards as significant all litigations involving amounts exceeding CZK 10 million and any bankruptcy proceeding in which Komerční banka is a creditor with a claim exceeding CZK 50 million. The reason for the higher claims threshold in bankruptcy proceedings is the fact that the average recovery from bankruptcy claims usually does not exceed 20%. Therefore, the outcomes of bankruptcy proceedings generally have a less significant impact on the Bank's financial position than do the outcomes of litigations involving a comparable amount.
As of 31 December 2007, Komerční banka was a party to legal proceedings as a plaintiff in 9 significant litigations. The total sum involved in these litigations is about CZK 457 million. The Bank is a bankruptcy creditor with a claim exceeding CZK 50 million in 18 bankruptcy proceedings, in which the total amount of filed claims is about CZK 9.5 billion.
Information concerning the provisions created for litigations in which Komerční banka is a defendant is given in the Notes to the Unconsolidated Financial Statements, Note 37 – Commitments and contingent liabilities.

Licences and Trademarks

When using any third party rights, Komerční banka carefully respects the valid legal order for the protection of intellectual property (especially copyright law) and intangible property rights, including related international agreements. If required by law, the Bank concludes appropriate licence agreements for using such rights.
Komerční banka also owns (has registered) 110 trademarks entered in the public register of trademarks maintained by the Industrial Property Office of the Czech Republic, and approximately another 10 trademarks have been entered into the registration process. The Bank uses these trademarks to protect, differentiate and give emphasis to its banking products. Komerční banka has likewise registered several trademarks in the Slovak Republic.

Expenses on Research and Development

In 2007, Komerční banka spent over CZK 160 million on research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems including development of internet applications.

Organisational Chart of Komerční banka

Board of Directors

Marketing and business development	Distribution	Strategy and Finance	Corporate Secretariat
Operations	Top Corporations	Risk Management	Communication
Support Services	Investment Banking	Information Technologies	Human Resources
		Project Organisation and Management	Internal Audit

All organisational units are based in the Czech Republic.

Report on Relations Among Related Entities

(hereinafter the "Report on Relations")

Komerční banka, a.s., with 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 2007, that is, from 1 January 2007 to 31 December 2007 (hereinafter referred to as the "reporting period").

I. Introduction

In the period from 1 January 2007 to 31 December 2007, KB was a member of the Société Générale S.A. Group, with its registered office address at 29, BLD Haussmann, 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 Office

Company	Registered office
SG Amsterdam	Rembrandt Tower A, Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Frankfurt	Postfach 101935, Mainzer Landstrasse 36, D60325, Frankfurt am Main, Germany
SG London	Exchange House, Primrose Street, London, UK
SG Milan	Via Olona 2, 20123 Milan, Italy
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Paris	29, Boulevard Haussmann, Paris, France
SG Tokyo	Ark Mori Building, 12-32 Akasaka 1 Chrome, Minato-ku, 107-6015 Tokyo, Japan
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Zürich	Sighlguai 253, 8031 Zürich, Switzerland

b) SG's subsidiaries

Company	Registered office	SG's share of voting power (%)
ALD Automotive s.r.o.	Prague 10, U Stavoservisu 527/1, 100 40, Czech Republic	100.00
Banca Romana Pentru Devzvoltare (B.R.D.)	Boulevard Ion Mihalache no. 1-7, sector 1, Bucharest, Romania	58.32
Barep	3, Rue Lafayette 75009 Paris, France	100.00
ECS International Czech Republic, s.r.o.	Prague 5, Smíchov, Anděl Park, Radlická 14/3201, 150 00, Czech Republic	100.00
EURO-VL Luxemburg SA	11-13 Avenue Emile Reuter, L-2420 Luxembourg, Luxembourg	100.00
FIMAT International banque SA (UK branch)	SG House, 41 Tower Hill, London, UK	100.00
FIMAT International banque SA, Germany	Neue Mainzer Strase 52, 60311 Frankfurt am Main, Germany	100,00
FRANFINANCE SA	59 Avenue de Chatou, 92853 Rueil Malmaison, France	99.99
General bank of Greece	109 Messogion Avenue, 11510 Athens, Greece	52.32
Inter Europe Conseil	Tour Société Générale 17 Cours Valmy, 92987 Paris La Défense, France	100.00
Investiční kapitálová společnost KB, a.s.	Prague 1, Dlouhá 34/713, 110 15, Czech Republic	100.00
Komerční pojišťovna, a.s.	Prague 8, Karolinská 1/650, 186 00, Czech Republic	100,00
N.S.G.B.	5 Champollion Street, Cairo, Egypt	77.17
SG Asset Management	2 Place de la Coupole, 92078 Paris La Défense, France	100.00
SG Asset Management Alternative Investments	170, Place Henri Renault, 92043 Paris – La Défense Cedex, France	100.00
SG Canada	1501 Avenue McGill College, Montreal, Quebec, Canada	100.00
SG Cyprus Ltd.	7/9 Grivas Dighenis, Avenue Nikosia, Cyprus	51.00
SG Equipment Finance Czech Republic s.r.o.	Antala Staška 2027/79, Prague 4 – Krč, 140 00, Czech Republic	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	97.95
SG Maroccaine de Banques	55, Boulevard Abdelmoume, Casablanca, Morocco	53.02
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneva 11, Switzerland	77.62
SG Securities London	Exchange Hause, Primrose Street, London, UK	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	99.76
SG Vostok	5 Nikitsky Pereulok, 103009 Moscow, Russia	100.00
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao, De Ruyterjade 58A, Netherlands Antilles	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter, L-2420 Luxembourg, Luxembourg	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.58
SOGECAP	50 Avenue du Général de Gaulle, 92093 Paris, France	100.00

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 28 branches and subsidiaries of the SG Group. As of 31 December 2007, KB maintained a total of 57 open accounts, of which 25 were loro accounts for branches and subsidiaries of the SG Group, 28 were current accounts and 4 overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance on loro accounts (borrowing) was CZK 159.8 million, the average monthly credit balance (deposit) was CZK 228.5 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 31.7 million; the average overdraft balance on those accounts was CZK 136 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 4.6 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 6.8 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, SG Warsaw, SG Vostok, SG Express Bank and Banca Romana Pentru Devzvoltare. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 8.1 million; the average overdraft balance on nostro accounts was CZK 69.7 million. Interest income on nostro accounts for the reporting period was CZK 1.1 million, interest expenses amounted to CZK 0.8 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 4.9 million; income fees (i.e. provided discounts from credit operations on nostro accounts) were CZK 4.5 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 1.4 million. Interest expenses paid by KB on loro accounts amounted to CZK 3.1 million and interest income amounted to CZK 3.8 million in the reporting period.

Four SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average balance of these deposits was CZK 264 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 6 million for 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 300 loans in the aggregate amount of CZK 8,191.3 million at the reporting period-end. The average balance of the loans during the reporting period was CZK 5,838.8 million. The aggregate amount of interest income was CZK 200.5 million.

As of 31 December 2007, the aggregate number of payment guarantees issued for the benefit of related entities was seven in the amount of CZK 4.9 million, and the number of non-payment guarantees was 47 in the amount of CZK 53.7 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.3 million in the reporting period.

In the reporting period, KB received nine guarantees from the SG Group as collateral for the loans provided to clients in the aggregate amount of CZK 17,259 million.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with 14 branches and subsidiaries from within the SG Group. The total number of transactions was 8,277. The amount of on-balance sheet transactions was CZK 169,450.6 million and off-balance sheet transactions was CZK 217,794 million, of which:

a) 823 transactions in the aggregate amount of CZK 96,061.8 million were foreign currency transactions (spots, forwards, swaps);
b) 55 transactions in the aggregate amount of CZK 53,683 million were interest rate derivatives (interest rate swaps and futures);
c) Option contracts with foreign currency instruments, a total of 5,980 contracts in the aggregate amount of CZK 68,049.1 million;
d) Depository transactions – KB implemented 829 transactions in the amount of CZK 142,200.3 million; and
e) Securities held for trading – a total of 590 transactions in the amount of CZK 27,250.3 million.

Transactions with commodity instruments were conducted with SG Paris, the amounts receivable and payable under these transactions were CZK 1,683.4 million at the reporting period-end.

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	Contractual party	Performance	Counter-performance	Damage incurred by KB
Evaluation contract	ECS International Czech Republic, s.r.o.	Lease instalments	Lease of computers	None
Derivatives Commission List	FIMAT International banque SA, Germany	Fees according to the price list	Conclusion and settlement of foreign currency transactions	None
Amendment 1 to the custody contract Ametyst 2 mutual fund	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendments 3 and 4 to the Contract for the provision of custody, administration and settlement of investment transactions	Investiční kapitálová společnost KB, a.s.	Custody, administration	Contractual fee and settlement of investment transactions	None
Amendments 4 and 5 to the Contract for the Purchase or Sale of Securities	Investiční kapitálová společnost KB, a.s.	Purchase or sale of securities tradable on the Czech market for the IKS KB mutual funds	Commission	None
Amendment 4 to Custody contract MAX 9 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendments 5 and 6 to the Framework contract for the payment for services	Investiční kapitálová společnost KB, a.s.	Depository and other services for IKS mutual funds	Contractual fee	None
Amendments 3 and 4 to the Framework contract	Investiční kapitálová společnost KB, a.s.	Derivative transactions (swaps, options, forwards)	Contractual fee	None
Contract for the purchase or sale of securities	Investiční kapitálová společnost KB, a.s.	Hedging of securities transactions for IKS KB clients	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for KB Kapitál dynamický mutual fund	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for KB Kapitál konzervativní mutual fund	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for KB Kapitál růstový mutual fund	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for Ametyst mutual fund	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and further services for Protos, uzavřený investiční fond, a.s.	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for Ametyst 2 mutual fund	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the performance of the activities of a depository and other services for Ametyst 3 mutual fund	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Contract for the provision of custody – KB Kapitál dynamický fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – KB Kapitál konzervativní fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – KB Kapitál růstový fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – Protos, uzavřený investiční fond, a.s.	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendments 7 and 8 to the Framework contract for purchase and sale of foreign securities	Investiční kapitálová společnost KB, a.s.	Procurement of securities transactions for IKS KB mutual funds on foreign markets	Contractual fee	None
Amendments 2 and 3 to the Contract for services in the short-term bond system	Investiční kapitálová společnost KB, a.s.	Mediation of services on the market of short-term bonds for IKS KB mutual funds	Contractual fee	None
Amendments 5 and 6 to the Contract for the settlement of securities transfers	Investiční kapitálová společnost KB, a.s.	Settlement of securities transactions on the Czech market for IKS KB mutual funds	Contractual fee	None
Contract for the conclusion and settlement of securities transaction and administration of securities (Custody contract) including Amendment No. 1	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Agreement on sending electronic messages on settlement	Komerční pojišťovna, a.s.	Sending electronic messages on settlement	Fees according to the price list	None
Amendments 6 and 7 to the Insurance contract for collective insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Framework insurance contract – Insurance of Risks	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for accepting Internet payment cards	Komerční pojišťovna, a.s.	Acceptance of payment cards	Fees according to the price list	None
Contract for cooperation in the competition to support Vital and Vital Grant products	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Contractual fee	None
Cooperation contract	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Amendment 1 to the contract on travel insurance	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Framework distribution contract	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Investment advisory contract	Komerční pojišťovna, a.s.	Investment advisory	Contractual fee	None
Contract for the collective insurance to payments cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contact Bank Agreement	SG Asset Management Alternative Investments	Mediation of sales of securities	Contractual fee	None
Distribution agreement	SG Asset Management Alternative Investments	Mediation of sales of securities	Contractual fee	None
EURO Medium Term Note Master Purchase Agreement	SG Asset Management	Contractual fees	Transactions with securities issued by SGA Société Générale Acceptance N.V.	None
Introducing Broker Agreement	SG Asset Management	Mediation of the purchase of SGAM funds by KB clients	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Terms of Business for Treasury, Equities, Derivatives and Fixed Income Products	SG London	Free of charge	Business conditions for the provision of investment services	None
11x Agreement relating to the Structured Product including an amendment	SG Paris	Mediation of sales or subscription of a structured product	Commission	None
2x Addendum to the Sub-Custodian agreement	SG Paris	Contractual fees	Provision of custody	None
Agreement	SG Paris	Contractual fees	Provision of HR consultancy services	None
Agreement	SG Paris	Contractual fees	Control activities	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fees	Provision of custody	None
Custodian Services Agreement	SG Paris	Contractual fees	Provision of custody	None
ISDA Master agreement	SG Paris	Mediation of issuance allowances transactions	Contractual fee	None
Insurance contract – insurance of bank risks	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – insurance of the liability of the Board of Directors	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – insurance of professional liability	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – interruption of work insurance	SG Paris	Insurance premium	Provision of insurance	None

II. Performance Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Purchase contract	ALD Automotive s.r.o.	Payment of lease instalments	Provision of cars	None
Framework contract	ALD Automotive s.r.o.	Payment of lease instalments	Finance lease and lease of movable assets (full-service leasing)	None
Cooperation contract	ALD Automotive s.r.o.	Mediation of the finance lease as part of the KB FleetLease product	Contractual fee	None
Contract	B.R.D.	Contractual fee	Mediation of purchase or sale of securities traded on the Romanian market	None
Clearing agreement	FIMAT International banque SA, Germany	Fees according to the price list	Settlement of futures option transactions concluded by KB at EUREX or OTC through FIMAT	None
Full Service Agreement	FIMAT International banque SA, Germany	Fees according to the price list	Securities and forward transactions	None
General Agreement on Securities	FIMAT International banque SA, Germany	Fees according to the price list	Securities lending	None
Master Netting Agreement	FIMAT International banque SA, Germany	Fees according to the price list	Trading with commodity futures	None
Confidentiality agreement	Investiční kapitálová společnost KB, a.s.	Confidentiality relating to administration of investment instruments	Provision of confidential information	None
Custody contract	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Distribution agreement including amendments	Investiční kapitálová společnost KB, a.s.	Mediation of sale of participation certificates	Contractual fee	None
Amendment 2 to Custody contract – MAX 6 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment 3 to depository contract – MAX 6 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Depository services	Contractual fee	None
Amendment 3 to custody contract – MAX 7 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment 4 to depository contract – MAX 7 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Depository services	Contractual fee	None
Amendment 5 to depository contract – MAX 8 – světový zajištěný fond	Investiční kapitálová společnost KB, a.s.	Depository services	Contractual fee	None
Amendment 6 to depository contract for funds KB Akciový, KB Dluhopisový, KB Realitních společností and KP Peněžní trh	Investiční kapitálová společnost KB, a.s.	Depository services	Contractual fee	None
Amendments 3 and 4 to Contract for the settlement of securities transfers	Investiční kapitálová společnost KB, a.s.	Settlement of securities transactions for IKS mutual funds on the Czech market	Contractual fee	None
General Agreement	Investiční kapitálová společnost KB, a.s.	Cooperation in distribution, marketing, communication and processing of data	Contractual fee	None
Licence agreement	Investiční kapitálová společnost KB, a.s.	Provision of the KB trade mark	Contractual fee	None
Framework contract on the temporary allocation of employees	Investiční kapitálová společnost KB, a.s.	Allocation of employees	Contractual fee	None
Framework contract on payment for services	Investiční kapitálová společnost KB, a.s.	Provision of depository services and other services for mutual funds	Contractual fee	None
Framework contract on securing a cash receivable through the transfer of securities	Investiční kapitálová společnost KB, a.s.	Conclusion of repurchase and buy/sell transactions	Contractual fee	None
Framework contract for the purchase and sale of foreign securities	Investiční kapitálová společnost KB, a.s.	Purchase or sale of securities traded on foreign markets for IKS mutual funds	Contractual fee	None
Framework Treasury contract	Investiční kapitálová společnost KB, a.s.	Conclusion of derivative transactions (swaps, options, forwards)	Contractual fee	None
Contract for the purchase or sale of securities including amendments 1, 2, 3	Investiční kapitálová společnost KB, a.s.	Transactions of securities for IKS mutual funds on the Czech market	Contractual fee	None
Contract for the settlement of transfers of securities	Investiční kapitálová společnost KB, a.s.	Settlement of securities transactions for IKS mutual funds on the Czech market	Contractual fee	None
Contract for the provision of services on the short-term bonds market	Investiční kapitálová společnost KB, a.s.	Services on the market of short-term bonds for the IKS mutual funds	Contractual fee	None
Contract for the custody, administration and settlement of transactions with investments	Investiční kapitálová společnost KB, a.s.	Custody, administration and settlement of investment transactions	Contractual fee	None
Contract for the performance of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Depository services for individual funds	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Agreement including amendment	Investiční kapitálová společnost KB, a.s. a EURO – VL Luxemburg SA	Contractual fee	Maintenance of accounts in favour of KB as a depository of IKS funds	None
Amendment 1 to Custody contract – Fénix dynamický	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment 2 to Custody contract – EuroMax	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Cooperation contract	Komerční pojišťovna, a.s.	Cooperation in the development of products and other business activities	Cooperation in the development of products and other business activities	None
Licence agreement	Komerční pojišťovna, a.s.	Provision of the KB trademark	Contractual fee	None
Framework distribution contract	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Framework contract for the processing of personal data	Komerční pojišťovna, a.s.	Processing of personal data	Provision of data	None
Contract for the collective insurance "PATRON" collective insurance as amended by Amendment 1	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the cooperation in the provision of insurance for EC/MC and VISA payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Contract for the cooperation in providing insurance for American Express payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Contract for payroll processing	Komerční pojišťovna, a.s.	Payroll maintenance	Contractual fee	None
Contract for mediation of: "MERLIN" and "PROFI MERLIN"	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the mediation of "TRAVEL INSURANCE"	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the mediation of: "VITAL", "VITAL GRANT" and "VITAL PLUS"	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the lease of non-residential premises (Brno, Jihlava) including the Amendment	Komerční pojišťovna, a.s.	Provision of non-residential premises	Rental	None
Contract for the mediation of: "RISK LIFE FOR MORTGAGE LOANS"	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the mediation of "PATRON" and "PROFI PATRON"	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Contract for the business representation in the sale of products as part of the Vital and Vital Plus programmes	Komerční pojišťovna, a.s.	Activities leading to conclusion of insurance contracts	Commission	None
Insurance contract – insurance of risks arising from the abuse of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance premium and insurance benefit	None
Framework contract for the Spektrum insurance programme including Amendment 1	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Master guarantee agreement	SG Equipment Finance Czech Republic s.r.o.	Provision of guarantee under conditions set in the contract	Contractual fee	None
Cooperation contract	SG Equipment Finance Czech Republic s.r.o.	Mediation of finance lease as part of the "KB Leasing" product	Fees for mediation	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Service level agreement	SG Frankfurt	Fees	Payments of clients	None
Amendment to Process Agent for Appointment Letter	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	SG New York	Fees according to the price list	Processing of payments	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivatives for pro SG Paris	Contractual fee	None
SG Paris-SurePay	SG Paris	Free of charge	Mediation of foreign payments from the payer's order to selected euro zone countries	None
SG-LABO agreement	SG Paris	Fees according to the price list	Review of SWIFT reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
ACPI-subscribing product of SG on KB's points of sale	SG Paris	Mediation of the sale of selected SG products	Contractual fee	None
Service Level Agreement, including an amendment	SG Paris	Fees according to the price list	Mediation of payments	None
SG Paris – PayAway	SG Paris	Free of charge	Mediation of foreign payments from the payer's order to African countries	None
Custody contract	SG Paris	Administration of securities traded on a stock exchange	Fees according to the price list	None
Management support agreement (including Amendments 1 and 2)	SG Paris	Contractual fee	Provision of management and consultancy services	None
Hosting Contract	SG Paris	Contractual fee	Processing of data	None
ISDA Master agreement	SG Paris	Fees	Mediation of transactions with all types of derivatives on the interbank market	None
Agency contract	SG Paris	Processing and mediation of the purchase and sale of securities and their transfer in the Securities Centre	Contractual fee	None
Service agreement – SNAP services	SG Paris	Fees	Transmission of SWIFT messages	None
SG Paris – Word Pay	SG Paris	Fees	Processing and transfer of payments	None
Contract for the provision of communication services	SG Paris	Fees	Provider of communication services	None
Sub-Custodian Service Agreement	SG Paris	Contractual fee	Administration of securities traded in France	None
Sub-Custodian Service Agreement	SG Paris	Contractual fee	Custody for mutual funds	None
Subordinated loan agreement	SG Paris	Interest	Provision of subordinated debt	None
Clearing agreement	SG Zürich	Fees according to the price list	Maintenance of a nostro account	None
Bank guarantee	SGBT Luxembourg	Paid fees	Provision of a guarantee	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 25 April 2007, the shareholder, SG Paris, received dividends of CZK 3,461,883,413 in respect of KB's shares for the year ended 31 December 2006.
On the basis of an agreement to purchase bonds 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 2007.

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 Bank's Board of Directors 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 13 March 2008

Laurent Goutard
Chairman of the Board of Directors
and CEO

Peter Palečka
Member of the Board of Directors
and Senior Executive Director

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