Komerční banka, a.s.

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2007

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the shareholdersof Komerční Banka, a.s.

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

We have audited the accompanying consolidated financial statements of Komerční Banka, a.s. and subsidiaries ("the Group"), which comprise the balance sheet as of 31 December 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

Deloitte

Audit firm: Deloitte Audit s.r.o. Certificate no. 79 Represented by:	Statutory auditor:
Diana Rogerová	Diana Rogerová
Diana Rogerová, authorised employee	Diana Rogerová, certificate no. 2045

Consolidated Profit and Loss Statement

Year ended 31 December 2007

	Note	**Year ended 31 December 2007 CZKm**	Year ended 31 December 2006 CZKm
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

	Note	31 December 2007 CZKm	31 December 2006 CZKm
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 and Senior Executive Director

Consolidated Statement of Changes in Shareholders' Equity

Year ended 31 December 2007

	Share capital CZKm	Capital and reserve funds and undistributed profit* CZKm	Hedging instruments CZKm	Revaluation gains or losses CZKm	Revaluation of available-for-sale securities CZKm	Total CZKm	Minority interest CZKm	Total, including minority interest CZKm
Balance at 31 December 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

Year ended 31 December 2007

	Year ended 31 December 2007 CZKm	**Year ended 31 December 2007 CZKm**	Year ended 31 December 2006 CZKm	Year ended 31 December 2006 CZKm
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.

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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's name	Direct holding %	Group holding %	Principal activity	Registered office
Penzijní fond Komerční banky, a. s.	100.0	100.0	Pension fund	Prague
Komerční banka Bratislava, a. s.	100.0	100.0	Banking services	Bratislava
Modrá pyramida stavební spořitelna, a. s.	100.0	100.0	Building society	Prague
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's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a. s.	49.0	49.0	Insurance	Prague
CBCB - Czech Banking Credit Bureau, a. s.	20.0	20.0	Data collection for credit risk assessments	Prague

2 Events for the year ended 31 December 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 spořitelny, 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 (q) 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/cashflow 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:

	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 cashflow 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 spořitelny, 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:

		Reclassification		Provisional accounting		
Category	Information presented in 2006 CZKm	Reallocation of the costs of personnel legal disputes CZKm	Reallocation of the costs of court fees CZKm	Adjustment of the fair value of MPSS's building CZKm	Adjustment of the fair values of MPSS clients' deposits CZKm	**Adjusted information for 2006 CZKm**
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:

	Universal banking		Investment banking		Total	
	2007	2006	**2007**	2006	**2007**	2006
	CZKm	CZKm	**CZKm**	CZKm	**CZKm**	CZKm
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:

	2007	2006
	CZKm	CZKm
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:

	Year ended 31 December 2007	Year ended 31 December 2006
	CZKm	CZKm
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:

	Year ended 31 December 2007	Year ended 31 December 2006
	CZKm	CZKm
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 (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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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:

	2007 **CZKm**	2006 CZKm
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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
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 %

* *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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007 Fair value CZKm	**31 December 2007 Cost CZKm**	31 December 2006 Fair value CZKm	31 December 2006 Cost CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

Trading shares and participation certificates issued by:	**31 December 2007 CZKm**	31 December 2006 **CZKm**
- 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:

Emission allowances	**31 December 2007 CZKm**	31 December 2006 CZKm
- Other currencies	0	21
Total emission allowances held for trading	**0**	21

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

Emission allowances held for trading issued by:	**31 December 2007 CZKm**	31 December 2006 CZKm
- Foreign state institutions	0	21
Total emission allowances held for trading	**0**	21

Debt trading securities at fair value comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

	Gross receivable	**Collateral applied**	**Net exposure**	**Provisions**	**Carrying value**	**Provisions**
	CZKm	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**%**
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:

	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions
	CZKm	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**%**
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):

	2007	2006
	CZKm	CZKm
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:

	Total client loan collateral 31 December 2007	**Discounted client loan collateral value 31 December 2007**	**Applied client loan collateral value 31 December 2007**	Total client loan collateral 31 December 2006	Discounted client loan collateral value 31 December 2006	Applied client loan collateral value 31 December 2006
	CZKm	**CZKm**	**CZKm**	CZKm	CZKm	CZKm
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

	2007	2006
	CZKm	CZKm
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:

	31 December 2007 Fair value CZKm	**31 December 2007 Cost CZKm**	31 December 2006 Fair value CZKm	31 December 2006 Cost CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

Shares and participation certificates available for sale issued by:	**31 December 2007 CZKm**	31 December 2006 **CZKm**
- 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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

Debt securities available for sale issued by:	**31 December 2007 CZKm**	31 December 2006 CZKm
- 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:

	31 December 2007 Carrying value CZKm	**31 December 2007 Cost CZKm**	31 December 2006 Carrying value CZKm	31 December 2006 Cost CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

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

	Goodwill CZKm
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:

	Internally generated assets CZKm	**Software CZKm**	**Other intangible assets CZKm**	**Assets under construction CZKm**	**Total CZKm**
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:

	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
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:

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

Subsidiaries	Group's ownership interest %	31 December 2007 CZKm Cost of investment	31 December 2007 CZKm Net book value	31 December 2006 CZKm Cost of investment	31 December 2006 CZKm Net book value
ALL IN REAL ESTATE LEASING, a. s.	100.00	39	4	39	4
Total subsidiaries		**39**	**4**	39	4
Associates		**Net book value**	**Share of net assets**	Net book value	Share of net assets
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**

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

Associates	2007 Assets CZKm	2007 Net operating income CZKm	2007 Profit CZKm	2006 Assets CZKm	2006 Not operating income CZKm	2006 Profit CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
In less than one year	3,789	1,430
In one to two years	3,632	3,569
In two to four years	0	5,057
In five to ten years	16,765	14,293
Over ten 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	Interest rate	Currency	Issue date	Maturity date	31 December 2007 CZKm	31 December 2006 CZKm
Mortgage bonds of Komerční banka, a. s., CZ0002000151	6M PRIBOR plus 350 bps	CZK	15 Sept 2000	15 Sept 2007	0	1,143
Mortgage bonds of Komerční banka, a. s., CZ0002000268	5.5%	CZK	21 Aug 2003	21 Aug 2009	3,702	5,150
Mortgage bonds of Komerční banka, a. s., CZ0002000383	4.5%	CZK	5 Aug 2004	5 Aug 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 Aug 2005	3 Aug 2015	5,026	2,789
Mortgage bonds of Komerční banka, a. s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,358	10,446
Mortgage bonds of Komerční banka, a. s., CZ0002000854	3.74%	EUR	1 Sept 2006	1Sept 2016	1,035	1,187
Bonds of Komerční banka, a. s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 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 Dec 2007	21Dec 2007	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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007	31 December 2006
	CZKm	CZKm
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:

Risk	**Balance 2007**	Balance 2006
	CZKm	CZKm
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:

	1 January 2007	Additions	Disposals	Accrual	Foreign exchange difference	**31 December 2007**
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
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, 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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	2007 CZKm	2006 CZKm
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:

Name of the entity	**Registered office**	**Ownership percentage**
SOCIETE GENERALE S. A.	29 Bld Haussmann, Paris	60.35
INVESTORS BANK & TRUST COMPANY	89 South Street, Boston	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

	31 December 2007 CZKm	31 December 2006 CZKm	**Change in the year CZKm**
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:

	2007 CZKm	2006 CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

	31 December 2007 CZKm	31 December 2006 CZKm
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:

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
ALD Automotive Czech Republic	1,596	967
ESSOX SK	98	18
Fimat London	32	36
Komerční pojišťovna	10	27
SG Brussels	0	5
SG Consumer Finance	1,151	0
SG Equipment Finance Czech Republic	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:

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
ESSOX SK	9	65
Fimat London	0	94
Komerční pojišťovna	369	142
SG Consumer Finance	7	0
SG Equipment Finance Czech Republic	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:

	31 December 2007 CZKm	31 December 2006 CZKm
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.*

	31 December 2007	31 December 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 (2005: 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.

	2007 CZKm	2006 CZKm
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

	2007 CZKm	2006 CZKm
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:

	Total exposure			**Applied collateral**		
	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total credit exposure CZKm**	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total collateral CZKm**
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 brutto values without impact of any provisions.

The Group's maximum credit exposure as of 31 December 2006:

	Total exposure			Applied collateral		
	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total credit exposure CZKm**	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total collateral CZKm**
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 – businessmen*

Maximum credit exposure is presented in brutto 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:

	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**	
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	**CZKm**	**CZKm**
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:

	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**	
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	**CZKm**	**CZKm**
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:

	Notional value		Notional value		**Fair value**		Fair value	
	2007 Assets CZKm	**2007 Liabilities CZKm**	2006 Assets CZKm	2006 Liabilities CZKm	**2007 positive CZKm**	**2007 negative CZKm**	2006 positive CZKm	2006 negative CZKm
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:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
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:

	Notional value		Notional value		**Fair value**		Fair value	
	2007 Assets CZKm	**2007 Liabilities CZKm**	2006 Assets CZKm	2006 Liabilities CZKm	**2007 positive CZKm**	**2007 negative CZKm**	2006 positive CZKm	2006 negative CZKm
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:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
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.

Assets	**Up to 3 months CZKm**	**3 months to 1 year CZKm**	**1 year to 5 years CZKm**	**Over 5 years CZKm**	**Undefined CZKm**	**Total CZKm**
Cash and current balances with central banks	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:

	Fixed interest rate 2007 CZKm	**Floating interest rate 2007 CZKm**	**No interest 2007 CZKm**	**Total 2007 CZKm**	Fixed interest rate 2006 CZKm	Floating interest rate 2006 CZKm	No interest 2006 CZKm	Total 2006 CZKm
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.

Assets	On demand within 7 days CZKm	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Cash and current balances with central banks	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	**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.

	Czech crowns	Euros	US dollars	Swiss francs	Slovak crowns	Other curren-cies	Total
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
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	**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:

	2007 Carrying value CZKm	**2007 Fair value CZKm**	2006 Carrying value CZKm	2006 Fair value CZKm
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.