Komerční banka, a.s.

UNCONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2007

Table of Contents

Independent Auditor’s Report

Unconsolidated Financial Statements under IFRS

- Unconsolidated Profit and Loss Statement
- Unconsolidated Balance Sheet
- Unconsolidated Statement of Changes in Shareholders’ Equity
- Unconsolidated Cash Flow Statement
- Notes to the Unconsolidated Financial Statements

Deloitte.

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

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka, a.s.

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

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

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

In Prague on 27 February 2008

Deloitte

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

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová, certificate no. 2045

Unconsolidated Profit and Loss Statement

Year ended 31 December 2007

	Note	**Year ended 31 December 2007 CZKm**	Year ended 31 December 2006 CZKm
Interest income	5	**29,901**	24,231
Interest expense	5	**(14,200)**	(9,373)
Net interest income		**15,701**	14,858
Net fees and commissions	6	**9,020**	8,691
Net profit on financial operations	7	**1,367**	961
Dividends and other income	8	**138**	121
Net banking income		**26,226**	24,631
Personnel expenses	9	**(5,390)**	(4,864)
General administrative expenses	10	**(5,475)**	(5,148)
Depreciation, impairment and disposal of fixed assets	11	**(1,349)**	(1,578)
Total operating expenses		**(12,214)**	(11,590)
Profit before provision for loan and investment losses, other risk and income taxes		**14,012**	13,041
Provision for loan losses		**(1,271)**	(1,315)
Provisions for impairment of securities		**15**	0
Provisions for other risk expenses		**253**	(305)
Cost of risk	12	**(1,003)**	(1,620)
Profit on subsidiaries and associates	13	**106**	6
Profit before income taxes		**13,115**	11,427
Income taxes	14	**(2,945)**	(2,680)
Net profit	15	**10,170**	8,747
Earnings per share (in CZK)	16	**267.96**	230.32

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

Unconsolidated Balance Sheet
As of 31 December 2007

	Note	31 December 2007 CZKm	31 December 2006 CZKm
Assets			
Cash and current balances with the Czech National Bank	17	**10,376**	14,082
Amounts due from banks	18	**198,529**	199,788
Financial assets at fair value through profit or loss	19	**26,731**	14,697
Positive fair value of financial derivative transactions	41	**9,430**	11,112
Loans and advances to customers, net	20	**267,108**	223,171
Securities available for sale	21	**34,522**	23,176
Investments held to maturity	22	**2,982**	3,283
Prepayments, accrued income and other assets	23	**4,597**	2,572
Income taxes receivable	14	**4**	167
Deferred tax asset	33	**432**	0
Assets held for sale	24	**505**	611
Intangible fixed assets, net	25	**2,708**	2,251
Tangible fixed assets, net	26	**7,388**	7,328
Investments in subsidiaries and associates, net	27	**23,380**	10,012
Total assets		**588,692**	512,250
Liabilities			
Amounts due to banks	28	**13,325**	12,839
Amounts due to customers	29	**454,289**	398,137
Negative fair value of financial derivative transactions	41	**8,613**	6,047
Securities issued	30	**44,495**	26,152
Accruals and other liabilities	31	**10,876**	11,552
Provisions	32	**1,665**	2,230
Income taxes payable	14	**189**	0
Deferred tax liability	33	**0**	637
Subordinated debt	34	**6,004**	6,002
Total liabilities		**539,456**	463,596
Shareholders' equity			
Share capital	35	**19,005**	19,005
Share premium and reserves		**30,231**	29,649
Total shareholders' equity		**49,236**	48,654
Total liabilities and shareholders' equity		**588,692**	512,250

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

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

Signed on behalf of the Board of Directors:

Laurent Goutard — Chairman of the Board of Directors and CEO

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

Palečka

Unconsolidated Statement of Changes in Shareholders' Equity

Year ended 31 December 2007

	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation of available-for-sale securities	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
Closing balance at 31 December 2005	**19,005**	**26,873**	**4,151**	**285**	**50,314**
Cash flow hedging:					
- net fair value, net of tax	0	0	359	0	359
- transfer to net profit, net of tax	0	0	(1,663)	0	(1,663)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	84	0	84
Gains or losses on available-for-sale securities, net of tax	0	0	0	461	461
Other treasury shares	0	(146)	0	0	(146)
Dividends	0	(9,502)	0	0	(9,502)
Net profit for the period	0	8,747	0	0	8,747
Balance at 31 December 2006	**19,005**	**25,972**	**2,931**	**746**	**48,654**
Cash flow hedging:					
- net fair value, net of tax	0	0	(2,511)	0	(2,511)
- transfer to net profit, net of tax	0	0	(1,116)	0	(1,116)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	155	0	155
Gains or losses on available-for-sale securities, net of tax	0	0	0	(423)	(423)
Dividends	0	(5,693)	0	0	(5,693)
Net profit for the period	0	10,170	0	0	10,170
Balance at 31 December 2007	**19,005**	**30,449**	**(541)**	**323**	**49,236**

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

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

Unconsolidated Cash Flow Statement

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	28,410		22,594	
Interest payments	(13,237)		(8,347)	
Commission and fee receipts	10,007		9,531	
Commission and fee payments	(990)		(843)	
Other income receipts	76		82	
Cash payments to employees and suppliers, and other payments	(9,643)		(9,663)	
Operating cash flow before changes in operating assets and operating liabilities	**14,623**		13,354	
Due from banks	1,187		45,419	
Securities held for trading	(12,035)		(7,196)	
Loans and advances to customers	(44,764)		(38,883)	
Other assets	(2,014)		(547)	
Total (increase)/decrease in operating assets	**(57,626)**		(1,207)	
Amounts due to banks	289		(17,891)	
Amounts due to customers	56,129		28,080	
Other liabilities	(633)		2,073	
Total increase/(decrease) in operating liabilities	**55,785**		12,262	
Net cash flow from operating activities before taxes	12,782		24,409	
Income taxes paid	(2,406)		(1,868)	
Net cash flows from operating activities		**10,376**		22,541
Cash flows from investing activities				
Dividends received	158		145	
Purchase of investments held to maturity	0		0	
Maturity of investments held to maturity *	340		126	
Purchase of securities available for sale	(20,330)		(10,598)	
Sale of securities available for sale*	8,722		3,662	
Purchase of tangible and intangible fixed assets	(1,953)		(1,607)	
Sale of tangible and intangible fixed assets	195		139	
Purchase of investments in subsidiaries and associates	(14,560)		(8,494)	
Sale of investments in subsidiaries and associates	1,298		6	
Net cash flow from investing activities		**(26,130)**		(16,621)
Cash flows from financing activities				
Paid dividends	(5,678)		(9,425)	
Securities issued	20,223		3,601	
Securities redeemed*	(2,810)		(997)	
Subordinated debt	0		6,000	
Net cash flow from financing activities		**11,735**		(821)
Net increase/(decrease) in cash and cash equivalents	**(4,019)**		5,099	
Cash and cash equivalents at beginning of year	**13,115**		8,016	
Cash and cash equivalents at end of year (see Note 36)		**9,096**		13,115

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

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

TABLE OF CONTENTS

1 PRINCIPAL ACTIVITIES ... 6
2 EVENTS FOR THE YEAR ENDED 31 DECEMBER 2007 ... 6
3 PRINCIPAL ACCOUNTING POLICIES ... 7
4 SOURCE OF INCOME AND EXPENSES ... 19
5 NET INTEREST INCOME ... 20
6 NET FEES AND COMMISSIONS ... 20
7 NET PROFIT/(LOSS) ON FINANCIAL OPERATIONS ... 21
8 DIVIDENDS AND OTHER INCOME ... 21
9 PERSONNEL EXPENSES ... 22
10 GENERAL ADMINISTRATIVE EXPENSES ... 22
11 DEPRECIATION, IMPAIRMENT AND DISPOSAL OF FIXED ASSETS ... 23
12 COST OF RISK ... 23
13 PROFIT OR LOSS ON SUBSIDIARIES AND ASSOCIATES ... 24
14 INCOME TAXES ... 24
15 DISTRIBUTION OF NET PROFIT ... 25
16 EARNINGS PER SHARE ... 26
17 CASH AND CURRENT BALANCES WITH THE CZECH NATIONAL BANK ... 26
18 AMOUNTS DUE FROM BANKS ... 26
19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ... 27
20 LOANS AND ADVANCES TO CUSTOMERS ... 29
21 SECURITIES AVAILABLE FOR SALE ... 31
22 INVESTMENTS HELD TO MATURITY ... 34
23 PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS ... 34
24 ASSETS HELD FOR SALE ... 35
25 INTANGIBLE FIXED ASSETS ... 35
26 TANGIBLE FIXED ASSETS ... 36
27 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES ... 36
28 AMOUNTS DUE TO BANKS ... 39
29 AMOUNTS DUE TO CUSTOMERS ... 39
30 SECURITIES ISSUED ... 40
31 ACCRUALS AND OTHER LIABILITIES ... 42
32 PROVISIONS ... 42
33 DEFERRED INCOME TAXES ... 43
34 SUBORDINATED DEBT ... 44
35 SHARE CAPITAL ... 44
36 COMPOSITION OF CASH AND CASH EQUIVALENTS AS REPORTED IN THE CASH FLOW STATEMENT ... 45
37 COMMITMENTS AND CONTINGENT LIABILITIES ... 45
38 RELATED PARTIES ... 48
39 MOVEMENTS IN THE REVALUATION OF HEDGING INSTRUMENTS IN THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ... 51
40 MOVEMENTS IN THE REVALUATION OF AVAILABLE-FOR-SALE SECURITIES ... 52
41 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS ... 52
42 ASSETS UNDER MANAGEMENT ... 70
43 POST BALANCE SHEET EVENTS ... 70

1 Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

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

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

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2006: 60.35 percent) of the Bank's issued share capital.

2 Events for the year ended 31 December 2007

Dividends declared in respect of the year ended 31 December 2006

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

Changes in the Bank's Financial Group

During 2007, the Bank formed Protos, uzavřený investiční fond, a. s. (close-ended investment fund). The Bank and its subsidiary Factoring KB, a.s. hold 89.64 percent and 10.36 percent of the entity's issued share capital, respectively. The Bank also increased the share capital of its subsidiaries Factoring KB, a.s. and ESSOX s.r.o. Additional information about changes in the Bank's Financial Group is presented in Note 27.

3 Principal accounting policies

These financial statements are unconsolidated. The consolidated financial statements are issued as of the same date. The total consolidated equity is CZK 50,654 million and total consolidated profit is CZK 11,225 million.

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

(a) Basis of accounting

The unconsolidated statutory financial statements are prepared in accordance with and comply with International Financial Reporting Standards ('IFRS') and IFRSs as adopted by the European Union, applicable for unconsolidated financial statements effective for the year ended 31 December 2007. As of the date of issuance of these unconsolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS, except for fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the EU. The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements containing accounting policies and explanatory disclosures.

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

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

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

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

(b) Investments in subsidiaries and associates

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

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

The Bank regularly assesses equity investments for impairment. An equity investment is impaired if its carrying amount is greater than the recoverable value.

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

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

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

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

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

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

(d) Foreign currency translation

Transactions and balances are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The Bank's functional currency is Czech Crowns (CZK), which is also the presentation currency for the unconsolidated financial statements. Transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date:

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

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

(e) Cash and cash equivalents

Cash comprises cash on hand and cash in the process of collection.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

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

(f) Originated loans and provisions for loan impairment

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

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

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

The provisioning policy is set out in Note 41 ('Provisioning for receivables') to these financial statements.

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

(g) Securities

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

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

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

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

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

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

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

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

Securities at fair value through profit or loss

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

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

Investments held to maturity

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

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

Loans and receivables

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

(i) assets that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(ii) assets that the entity upon initial recognition designates as available for sale; or
(iii) assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

Available for sale securities

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

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

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/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 Bank recognises an impairment loss on assets held for sale if their selling price less costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either in accordance with IFRS 5 or IAS 36.

(i) Tangible and intangible fixed assets

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

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

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

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

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

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

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

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

(j) Leases

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

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

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

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

(k) Provisions

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

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

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

Specific provisions are made for estimated losses on these commitments on the same basis as used in provisioning (refer to Note 41).

(l) Employment benefits

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

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

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

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

(m) Securities issued

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

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

(n) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. Loan origination fees are included in the effective interest rate and are therefore reported in '*Interest income*'.

Other fees and commissions are recognised in the period to which they relate on an accruals basis. Penalty interest is accounted for and included in interest income on a cash basis.

(o) Income taxation

Income taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic, based on the profit recognised in the profit and loss statement net of the effects of International Financial Reporting Standards. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly taken to equity.

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

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

(p) Repurchase agreements

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

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

The Bank’s off balance sheet accounts also reflect securities obtained under reverse repos and provided as collateral reflected at fair value. The corresponding liability arising from the received loan is included in ‘*Amounts due to banks*’ or ‘*Amounts due to customers*’ as appropriate.

The difference between the sale and repurchase price in respect of repo and reverse repo transactions is treated as interest and accrued evenly to expenses/income over the life of the repo agreement using the linear interest rate due to their short-term maturities.

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

(q) Derivative financial instruments and hedging

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

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

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

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

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

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

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

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either
(i) a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge), or (ii) a hedge of a future 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 Bank hedges the selected portfolios of foreign currency assets and a selected loan portfolio. The effectiveness of the hedge is regularly tested on a quarterly basis through prospective and retrospective tests.

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

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 41.

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

(r) Regulatory requirements

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

(s) Fiduciary activities

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

(t) Share capital and treasury stock

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

(u) Contingent assets and contingent liabilities

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

Under IAS 37 a contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, bid bonds and warrants.

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

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

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

(v) Changes of accounting policies arising from the implementation of new IFRSs and revised

IASs effective from 1 January 2007

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

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

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

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

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

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

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

4 Source of income and expense

Set out below is a business segment analysis:

	Universal banking		Investment banking		Total	
	2007	2006	**2007**	2006	**2007**	2006
	CZKm	CZKm	**CZKm**	CZKm	**CZKm**	CZKm
External income	15,647	14,661	10,579	9,970	26,226	24,631
Income from other segments	8,924	8,654	(8,924)	(8,654)	0	0
Total income	**24,571**	23,315	**1,655**	1,316	**26,226**	24,631
External expenses	(12,065)	(11,092)	(149)	(498)	(12,214)	(11,590)
Segment result	**12,506**	12,223	**1,506**	818	**14,012**	13,041
Unallocated expenses					(897)	(1,614)
Profit/(loss) before taxation					**13,115**	11,427
Taxation					(2,945)	(2,680)
Profit					**10,170**	8,747
Assets by segment	**373,724**	312,655	**214,532**	199,428	**588,256**	512,083
Unallocated assets					**436**	167
Total assets					**588,692**	512,250
Liabilities by segment	**324,166**	262,621	**215,101**	200,338	**539,267**	462,959
Unallocated liabilities					**189**	637
Total liabilities					**539,456**	463,596
Acquisition of assets	**1,944**	1,606	**9**	0	**1,953**	1,606
Depreciation and amortisation	**1,512**	1,595	**4**	35	**1,516**	1,630

The figures for the year ended 31 December 2006 in "*External expenses*" and "*Unallocated expenses*" were restated in accordance with the current reporting period.

The provisioning in the 'Investment banking' segment amounted to CZK 1 million (2006: CZK nil) in the year ended 31 December 2007, other recognition and release of provisions related only to the 'Universal banking' segment for all groups of assets that suffered impairment.

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

5 *Net interest income*

Net interest income comprises:

	2007	2006
	CZKm	CZKm
Interest income	29,901	24,231
Interest expense	(14,200)	(9,373)
Net interest income	**15,701**	14,858
Of which net interest income arising from		
- Loans and advances	20,992	16,805
- Securities held to maturity	116	119
- Securities available for sale	1,019	1,049
- Financial liabilities at amortised cost	(7,902)	(5,274)

'*Interest income*' includes interest on substandard, doubtful and loss loans of CZK 524 million (2006: CZK 462 million) due from customers and interest of CZK 1 million (2006: CZK 1 million) on securities that have suffered impairment.

'*Interest income*' also includes accrued interest income from hedging financial derivatives of CZK 7,774 million (2006: CZK 6,258 million) and '*Interest expense*' from hedging financial derivatives of CZK 6,298 million (2006: CZK 4,099 million). '*Net interest income*' from these derivatives amounts to CZK 1,476 million (2006: CZK 2,159 million).

6 *Net fees and commissions*

Net fees and commissions comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
	CZKm	CZKm
Net fees and commission from services and transactions	7,442	7,116
Net gain from foreign exchange commissions from clean payments	1,034	1,037
Net gain from foreign exchange commissions from other transactions	544	538
Total net fees and commissions	**9,020**	8,691

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

Net fees and commissions include fees arising from loans and advances not revaluated through profit or loss accounts in the amount of CZK 2,528 million (2006: CZK 2,451 million) and management and administration of assets fees in the amount of CZK 59 million (2006: CZK 57 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Net realised gains/(losses) on securities held for trading	5	(118)
Net unrealised gains/(losses) on securities held for trading	411	157
Net realised gains/(losses) on securities available for sale	28	64
Net realised gains on securities acquired under initial public offering, not designated for trading	0	34
Net realised gains/ (losses) on own bonds	18	1
Dividend income on securities available for sale	96	106
Net realised and unrealised gains/(losses) on security derivatives	21	198
Net realised and unrealised gains/(losses) on interest rate derivatives	232	127
Net realised and unrealised gains/(losses) on trading commodity derivatives	10	4
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	546	388
Total net profit/(loss) on financial operations	**1,367**	961

The line '*Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities*' shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net loss of CZK 1,750 million in 2007 (2006: a net loss of CZK 1,546 million).

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

8 Dividends and other income

Dividends and other income comprises:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Dividend receipts from subsidiaries and associates	62	40
Other income	76	81
Total dividends and other income	**138**	121

'*Other income*' shown above is predominantly composed of property rental income.

9 Personnel expenses

Personnel expenses comprise:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Wages, salaries and bonuses	3,766	3,512
Social costs	1,624	1,352
Total personnel expenses	**5,390**	4,864
Physical number of employees at the period-end	7,816	7,563
Average recalculated number of employees during the period	7,764	7,552
Average cost per employee (CZK)	**694,208**	644,100

The figures for the year ended 31 December 2006 were recalculated in restated in accordance with the presentation in the current reporting period. The release of reserves for personnel legal disputes in the amount of CZK 45 million was transferred from the line '*Provisions for other risk expenses*' to the line '*Wages, salaries and bonuses*'.

'*Social costs*' include costs of CZK 98 million (2006: CZK 79 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2006: CZK 41 million) incurred in contributing to the employees' capital life insurance scheme.

10 General administrative expenses

General administrative expenses comprise:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Insurance of deposits and transactions	442	400
Marketing and entertainment costs	561	452
Costs of sale and banking products	1,263	1,185
Staff costs	287	268
Property maintenance charges	1,204	1,189
IT support	796	795
Office equipment and other consumption	77	74
Telecommunications, post and other services	243	239
External advisory services	443	442
Other expenses	159	104
Total general administrative expenses	**5,475**	5,148

Figures for the year ended 31 December 2006 were restated in accordance with the presentation in the current reporting period. The costs of court fees in the amount of 26 million were transferred from the line '*Provision for other risk expenses*' to the line '*Other expenses*'.

'*Insurance of deposits and transactions*' shown as a component of '*General administrative expenses*' includes an estimated balance of payments to the Deposit Insurance Fund of CZK 360 million (2006: CZK 330 million).

11 Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Depreciation of tangible and intangible fixed assets	1,516	1,630
Provisions for assets and net gain on the sale of assets	(167)	(52)
Total depreciation, impairment and disposal of fixed assets	**1,349**	1,578

12 Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

	2007 CZKm	2006 CZKm
Balance at 1 January	(8,078)	(7,316)
Net provisioning for loan losses	(1,271)	(1,315)
Impact of loans written off and transferred	31	177
Exchange rate differences attributable to provisions	267	376
Balance at 31 December	**(9,051)**	(8,078)

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

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Specific provisions for loans to customers (refer to Note 20)	(8,284)	(7,298)
Provisions for other loans to customers (refer to Note 20)	(12)	(16)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(755)	(764)
Total	**(9,051)**	(8,078)

Provisions for securities

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

Provisions for other risk expenses

The balance of '*Provisions for other risk expenses*' of CZK 253 million (2006: loss of CZK 305 million) principally consists of the charge for provisions of CZK 73 million (2006: CZK 153 million) and the release of provisions of CZK 539 million (2006: CZK 711 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 217 million (2006: CZK

705 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 4 million (2006: loss of CZK 162 million).

The cost incurred for personnel legal disputes, use of the reserve for personnel legal disputes, release of the reserve for personnel legal disputes and the costs of court fees, which were reported in this category in 2006, were transferred to '*Personnel expenses*' and '*General administrative expenses*'.

Additional information about the provisions for other risk expenses is provided in Note 32.

13 Profit or loss on subsidiaries and associates

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

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Release of provisions	103	0
Gain/(loss) on the sale of investments in subsidiaries and associates	3	6
Total profit or loss on subsidiaries and associates	**106**	6

The balance of provisions is as follows:

	2007 CZKm	2006 CZKm
Balance at 1 January	(493)	(493)
Release and use of provisions	103	0
Balance at 31 December	**(390)**	(493)

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

14 Income taxes

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

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Tax payable – current year, reported in profit or loss	(2,785)	(2,533)
Tax paid – prior year	(1)	206
Deferred tax	(203)	(401)
Hedge of a deferred tax asset against foreign currency risk	44	48
Total income taxes	**(2,945)**	(2,680)
Tax payable - current year, reported in equity	28	(2)
Total tax expense	**(2,917)**	(2,682)

	Year ended 31 December 2007 CZKm	Year ended 31 December 2006 CZKm
Profit before tax	**13,115**	11,427
Theoretical tax calculated at a tax rate of 24%	3,148	2,742
Tax on pre-tax profit adjustments	(2)	11
Non-taxable income	(1,019)	(1,062)
Expenses not deductible for tax purposes	731	896
Tax allowance	(2)	(3)
Tax credit	(71)	(52)
Tax on a standalone tax base	0	1
Hedge of a deferred tax asset against foreign currency risk	(44)	(48)
Movement in deferred tax	203	401
Income tax expense	**2,944**	2,886
Prior period tax expense	1	(206)
Total income taxes	**2,945**	2,680
Tax payable on securities available for sale reported in equity *	(28)	2
Total income tax	**2,917**	2,682
Effective tax rate	22.45%	23.45%

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

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

In 2007, the Bank reported an increase in the tax liability of CZK 1 million (2006: a reduction of CZK 206 million) in the line '*Prior period tax expense*' which was attributable to the filing of additional tax returns for prior periods.

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

Further information about deferred tax is presented in Note 33.

15 Distribution of net profit

For the year ended 31 December 2007, the Bank generated a net profit of CZK 10,170 million.

In accordance with the resolution of the General Meeting of Shareholders held on 25 April 2007, the aggregate balance of the net profit of CZK 8,747 million for the year ended 31 December 2006 was allocated as follows: CZK 5,693 million was paid out in dividends, CZK 437 was allocated to the reserve fund and the remaining balance of the net profit was allocated to retained earnings.

16 Earnings per share

Earnings per share of CZK 267.96 (2006: CZK 230.32 per share) have been calculated by dividing the net profit of CZK 10,170 million (2006: CZK 8,747 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number of treasury shares held by the Bank during the period.

17 Cash and current balances with the Czech National Bank

Cash and current balances with banks comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Cash and cash equivalents	7,203	7,202
Balances with the Czech National Bank	3,173	6,880
Total cash and current balances with banks	**10,376**	14,082

Balances with the Czech National Bank represent obligatory minimum reserves. The obligatory minimum reserves bore interest at 3.50 percent and 2.50 percent as of 31 December 2007 and 2006, respectively.

18 Amounts due from banks

Balances due from banks comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Deposits with banks (current accounts)	94	255
Loans and advances to banks	5,818	4,636
Debt securities of banks acquired under initial offerings not designated for trading	11,516	11,527
Advances due from the Czech National Bank (reverse repo transactions)	117,274	129,199
Term placements with other banks	63,827	54,172
Total	**198,529**	199,789
Provisions	0	(1)
Total amounts due from banks	**198,529**	199,788

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the Czech National Bank and other debt securities with fair value:

	31 December 2007 CZKm	31 December 2006 CZKm
Treasury bills	114,942	126,632
Debt securities issued by state institutions	2,747	2,325
Debt securities issued by other institutions	0	29
Shares	216	673
Total	**117,905**	129,659

Securities acquired as loans and receivables

As of 31 December 2007, the Bank maintains in its portfolio bonds at an amortised cost of CZK 11,516 million (2006: CZK 11,527 million) and a nominal value of CZK 11,410 million (2006: CZK 11,410 million), of which CZK 10,000 million represents a bond issued by the parent company Société Générale S. A. (2006: CZK 10,000 million) which the Bank acquired under an initial offering and normal market conditions in 2002. The bond is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. The Bank additionally carries in this portfolio two issues of securities placed by financial institutions with an aggregate nominal value of CZK 1,410 million.

19 Financial assets at fair value through profit or loss

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

Trading securities comprise:

	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	17,940	18,108	8,746	8,728
Variable yield debt securities	313	313	273	273
Bills of exchange	998	999	0	0
Treasury bills	7,406	7,414	5,562	5,559
Total debt securities	**26,657**	**26,834**	14,581	14,560
Total trading securities	**26,731**	**26,908**	14,697	14,680

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 7,406 million (2006: CZK 5,562 million).

As of 31 December 2007, the portfolio of trading securities includes securities at a fair value of CZK 18,327 million (2006: CZK 8,994 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 8,404 million (2006: CZK 5,703 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

	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	25,064	13,383
- Other currencies	1,280	925
Total fixed income debt securities	**26,344**	14,308
Total trading debt securities	**26,657**	14,581

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

	31 December 2007 CZKm	31 December 2006 CZKm
Debt trading securities issued by:		
- State institutions in the Czech Republic	22,599	12,623
- Foreign state institutions	1,199	926
- Financial institutions in the Czech Republic	159	170
- Foreign financial institutions	382	537
- Other entities in the Czech Republic	1,988	185
- Other foreign entities	330	140
Total trading debt securities	**26,657**	14,581

Of the debt securities issued by state institutions in the Czech Republic, CZK 21,747 million (2006: CZK 12,355 million) represents securities eligible for refinancing with the Czech National Bank.

20 Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Loans to customers	273,537	228,630
Bills of exchange	851	758
Forfaits	940	1,023
Other amounts due from customers	76	74
Total gross loans and advances to customers	**275,404**	230,485
Provisions for loans to customers	(8,284)	(7,298)
Provisions for other amounts due from customers	(12)	(16)
Total loans and advances to customers, net	**267,108**	223,171

Loans and advances to customers include interest due of CZK 1,482 million (2006: CZK 1,096 million), of which CZK 866 million (2006: CZK 616 million) relates to overdue interest.

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

The amount of restructured loans was immaterial in the years ended 31 December 2007 and 2006.

The loan portfolio of the Bank as of 31 December 2007 (net of other amounts due from customers) comprises the following breakdown by classification:

	Gross receivable CZKm	Collateral applied CZKm	Net exposure CZKm	Provisions CZKm	Carrying value CZKm	Provisions %
Standard	252,014	96,363	155,651	0	252,014	0%
Watch	12,456	4,716	7,740	688	11,768	9%
Substandard	1,837	959	878	454	1,383	52%
Doubtful	1,657	401	1,256	729	928	58%
Loss	7,364	291	7,073	6,413	951	91%
Total	**275,328**	**102,730**	**172,598**	**8,284**	**267,044**	

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

	Gross receivable CZKm	Collateral applied CZKm	Net exposure CZKm	Provisions CZKm	Carrying value CZKm	Provisions %
Standard	206,520	85,011	121,509	0	206,520	0%
Watch	13,903	6,030	7,873	574	13,329	7%
Substandard	2,790	1,264	1,526	711	2,079	47%
Doubtful	1,122	328	794	508	614	64%
Loss	6,076	252	5,824	5,505	571	95%
Total	**230,411**	**92,885**	**137,526**	**7,298**	**223,113**	

Loans classified as loss in the above table include amounts of CZK 4,414 million (2006: CZK 3,765 million), on which interest is not being accrued.

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

	2007 CZKm	2006 CZKm
Agriculture, forestry and mining	10,405	9,431
Processing industry	42,267	37,502
Distribution and production of energy	4,691	4,790
Construction	9,879	8,245
Trade, catering, transport and communication	43,298	41,586
Insurance, banking	30,943	20,805
Other	133,845	108,052
Total loans to clients	**275,328**	230,411

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

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

	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	18,295	17,613	16,347	13,967	12,462	11,270
Guaranteed deposits	783	783	595	665	660	501
Issued debentures in pledge	15	15	15	0	0	0
Pledge of real estate	155,733	98,670	66,818	136,835	83,964	55,748
Pledge of movable assets	6,243	528	471	5,720	751	660
Guarantee by legal entity	12,444	6,212	5,324	13,377	5,667	4,795
Guarantee by individual (physical entity)	2,810	473	388	3,624	645	554
Pledge of receivables	40,470	8,135	7,284	36,177	17,214	12,567
Insurance of credit risk	1,829	1,731	1,730	1,164	1,101	1,087
Other	5,925	1,220	813	3,167	189	155
Total nominal value of collateral	**248,638**	**138,642**	**102,730**	221,216	128,762	92,885

Pledges on industrial real-estate represent 14 percent of total pledges on real estate (2006: 17 percent).

Trade finance losses

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

As of 31 December 2007, on balance sheet loans to this client included an amount of CZK 1,226 million (2006: CZK 1,414 million) that was fully provided for. The year-on-year decrease in the balance between 2006 and 2007 arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2007 and 2006.

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

21 Securities available for sale

Securities available for sale comprise:

	31 December 2007 Fair value	**31 December 2007 Cost**	31 December 2006 Fair value	31 December 2006 Cost
	CZKm	**CZKm**	CZKm	CZKm
Shares and participation certificates	**839**	**93**	878	93
Fixed income debt securities	27,065	27,401	21,584	21,374
Variable yield debt securities	6,618	6,636	714	745
Total debt securities	**33,683**	**34,037**	22,298	22,119
Total securities available for sale	**34,522**	**34,130**	23,176	22,212

As of 31 December 2007, the available-for-sale portfolio includes securities at a fair value of CZK 33,481 million (2006: CZK 21,884 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,041 million (2006: CZK 1,292 million) that are not publicly traded.

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

	31 December 2007 CZKm	31 December 2006 CZKm
Shares and participation certificates		
- Czech Crowns	837	876
- Other currencies	2	2
Total shares and participation certificates available for sale	**839**	878

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

Shares and participation certificates available for sale issued by:	**31 December 2007 CZKm**	31 December 2006 **CZKm**
- Banks in the Czech Republic	806	845
- Non-banking entities in the Czech Republic	31	31
- Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**839**	878

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

Debt securities available for sale at fair value comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Variable yield debt securities		
- Czech Crowns	6,427	323
- Other currencies	191	391
Total variable yield debt securities	**6,618**	714
Fixed income debt securities		
- Czech Crowns	15,186	11,719
- Other currencies	11,879	9,865
Total fixed income debt securities	**27,065**	21,584
Total debt securities available for sale	**33,683**	22,298

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

Debt securities available for sale issued by:	31 December 2007 CZKm	31 December 2006 CZKm
- State institutions in the Czech Republic	4,490	4,307
- Foreign state institutions	10,931	9,118
- Financial institutions in the Czech Republic	14,777	7,312
- Foreign financial institutions	1,928	0
- Other entities in the Czech Republic	241	243
- Other foreign entities	1,316	1,318
Total debt securities available for sale	**33,683**	22,298

Of the debt securities issued by state institutions in the Czech Republic, CZK 3,805 million (2006: CZK 3,582 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

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

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

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

Other debt securities

During the year ended 31 December 2007, the Bank acquired Government bonds with a nominal value of CZK 400 million and EUR 86 million (CZK 2,425 million). In 2007, the Bank also acquired and sold securities issued by financial institutions. The aggregate volume of securities issued by financial institutions held by the Bank increased by the nominal volume of CZK 8,939 million. The Bank incurred a loss of CZK 34 million on the sale of debt securities issued by financial institutions.

22 Investments held to maturity

Investments held to maturity comprise:

	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	2,982	2,982	3,283	3,283
Total investments held to maturity	**2,982**	**2,982**	3,283	3,283

As of 31 December 2007, investments held to maturity include bonds of CZK 2,982 million (2006: CZK 3,283 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Fixed income debt securities		
- Czech Crowns	1,369	1,357
- Other currencies	1,613	1,926
Total fixed income debt securities	**2,982**	3,283
Total debt securities held to maturity	**2,982**	3,283

Investments held to maturity, allocated by issuer, comprise:

	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	1,613	1,926
Total debt securities held to maturity	**2,982**	3,283

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,369 million (2006: CZK 1,357 million) represents securities eligible for refinancing with the Czech National Bank.

No transactions within this portfolio took place during the year ended 31 December 2007. During 2007, debt securities in the total nominal amount of EUR 8 million (CZK 218 million) were redeemed at maturity.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Prepayments and accrued income	235	383
Settlement balances	1,274	679
Receivables from securities trading	1,519	234
Other assets	1,569	1,276
Total prepayments, accrued income and other assets	**4,597**	2,572

The year-on-year increase in '*Receivables from securities trading'* is predominantly due to new trading on the energy stock exchange in 2007, increased volume of transactions with the stock exchange and increase in the customer funds for margin trading with securities.

In the year ended 31 December 2006, '*Other assets'* reflected a provision of CZK 152 million charged for the decrease in the carrying amount of prepaid building rentals which was used in full in 2007 against the write-off of the relevant receivable.

24 Assets held for sale

As of 31 December 2007, the Bank reported assets held for sale at a carrying amount of CZK 505 million (2006: CZK 611 million) comprising buildings and land owned by the Bank which management of the Bank decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated. The difference between the amounts as of 31 December 2007 and 2006 arises from the sale of these assets and reclassification of buildings and land that do not meet the criteria for recognition as assets held for sale back to *'Tangible fixed assets'*, refer to Note 26. The impact on the profit and loss statement is immaterial.

25 Intangible fixed assets

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

	Internally generated assets CZKm	Software CZKm	Other intangible assets CZKm	Assets under construction CZKm	Total CZKm
Cost					
31 December 2006	4,179	1,408	529	536	6,652
Additions	796	193	0	1,210	2,199
Disposals/Transfers	40	448	190	989	1,667
31 December 2007	**4,935**	**1,153**	**339**	**757**	**7,184**
Accumulated amortisation and provisions					
31 December 2006	2,844	1,068	469	20	4,401
Additions	541	161	37	0	739
Disposals	40	448	189	0	677
Impairment charge	0	0	0	13	13
31 December 2007	**3,345**	**781**	**317**	**33**	**4,476**
Net book value					
31 December 2006	1,335	340	60	516	2,251
31 December 2007	**1,590**	**372**	**22**	**724**	**2,708**

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

26 Tangible fixed assets

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

	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
Cost					
31 December 2006	154	9,862	6,455	221	16,692
Reallocation from assets held for sale	8	213	0	0	221
Additions	0	209	415	743	1,367
Disposals/Transfers	1	118	471	638	1,228
31 December 2007	**161**	**10,166**	**6,399**	**326**	**17,052**
Accumulated depreciation and provisions					
31 December 2006	0	3,970	5,394	0	9,364
Reallocation of accumulated depreciation of assets held for sale	0	75	0	0	75
Additions	0	336	441	0	777
Disposals	0	66	465	0	531
Impairment charge	0	(21)	0	0	(21)
31 December 2007	**0**	**4,294**	**5,370**	**0**	**9,664**
Net book value					
31 December 2006	154	5,892	1,061	221	7,328
31 December 2007	**161**	**5,872**	**1,029**	**326**	**7,388**

As of 31 December 2007, the net book value of assets held by the Bank under finance lease agreements was CZK 4 million (2006: CZK 10 million).

As of 31 December 2007, the Bank recognised provisions against tangible assets of CZK 50 million (2006: CZK 71 million). These provisions primarily included provisions charged in respect of leasehold improvements.

27 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

	31 December 2007	31 December 2006
	CZKm	CZKm
Investments in subsidiary undertakings	22,897	9,632
Investments in associated undertakings	483	380
Total investments in subsidiaries and associates	**23,380**	10,012

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2007:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZKm	Provisions CZKm	Carrying value CZKm
ALL IN REAL ESTATE LEASING, a.s.	100	100	Supporting banking services	Prague	39	35	4
Komerční banka Bratislava, a. s.	100	100	Banking services	Bratislava	466	0	466
Penzijní fond Komerční banky, a. s.	100	100	Additional pension insurance	Prague	230	0	230
Factoring KB, a. s.	100	100	Factoring	Prague	1,190	0	1,190
Protos, uzavřený investiční fond, a. s.	89.64	100	Financial services	Prague	11,705	0	11,705
Bastion European Investment S. A.	99.98	99.98	Financial services	Brussels	3,814	0	3,814
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,323	0	4,323
Total					**22,932**	**35**	**22,897**

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2007:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZKm	Provisions CZKm	Carrying value CZKm
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	838	355	483
CBCB, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Total					**838**	**355**	**483**

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

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

Company name	**Investment at cost at 1 January 2007 CZKm**	**Additions CZKm**	**Decreases CZKm**	**Investment at cost at 31 December 2007 CZKm**
ALL IN REAL ESTATE LEASING, a.s.	39	0	0	39
Komerční banka Bratislava, a. s.	466	0	0	466
Penzijní fond Komerční banky, a. s.	230	0	0	230
Factoring KB, a. s.	90	1,100	0	1,190
Protos, uzavřený investiční fond, a. s.	0	13,000	1,295	11,705
Bastion European Investment S. A.	3,814	0	0	3,814
ESSOX s. r. o.	705	460	0	1,165
Modrá pyramida stavební spořitelna, a. s.	4,323	0	0	4,323
Total subsidiaries	**9,667**	**14,560**	**1,295**	**22,932**
Komerční pojišťovna, a. s.	838	0	0	838
CBCB, a.s.	0*	0	0	0*
Total associates	**838**	**0**	**0**	**838**

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

Changes in equity investments in subsidiaries and associates in 2007

In June 2007, the Bank formed Protos, uzavřený investiční fond a.s. (“Protos”). It is a fund of qualified investors and its equity amounted to CZK 7,500 million as of the date of its formation. In August 2007, the Bank, as the sole owner of Protos, decided to transfer 518 shares of the fund (the nominal value of one share is CZK 1 million) to Factoring KB, a. s. which acquired a 17.26 percent share of the share capital following the transfer. The purchase price of 518 shares was determined to be CZK 1,298 million on the basis of an expert appraisal. The Bank made a gain of CZK 3 million on this sale transaction; refer to Note 13. The process of the Bank’s investment in Protos was completed following the increase in its share capital of CZK 5,500 million as decided by the General Meeting of Protos in November 2007 (it was paid in December 2007). The share capital increase resulted in the Bank’s shareholding in Protos increasing to 89.64 percent.

In May 2007, the Bank, as the sole shareholder, decided to increase the share capital of its subsidiary Factoring KB, a. s. by CZK 1,100 million, from CZK 84 million to CZK 1,184 million. The share capital increase was recorded in the Register of Companies on 28 June 2007. The share capital was increased in an effort to strengthen the financial position of the entity and to improve its competitiveness in non-recourse factoring.

In November 2007, the Bank approved the increase in the share capital of ESSOX s.r.o. of CZK 903 million to CZK 2,288 million. The Bank’s investment amounting to CZK 460 million was paid on 29 November 2007 and its equity investment of 50.93 percent remained unchanged.

28 Amounts due to banks

Amounts due to banks comprise:

	31 December 2007	31 December 2006
	CZKm	CZKm
Current accounts	1,374	1,222
Other amounts due to banks	11,951	11,617
Total amounts due to banks	**13,325**	12,839

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

29 Amounts due to customers

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

	31 December 2007	31 December 2006
	CZKm	CZKm
Current accounts	303,845	250,934
Savings accounts	7,800	8,875
Term deposits	101,835	93,939
Depository bills of exchange	38,438	42,466
Other payables to customers	2,371	1,923
Total amounts due to customers	**454,289**	398,137

As of 31 December 2007, the Bank received no repurchase loans from customers. As of 31 December 2006, the fair value of securities and treasury bills used as collateral for received repo loans from customers was CZK 1,326 million.

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

	31 December 2007	31 December 2006
	CZKm	CZKm
Private companies	193,439	168,181
Other financial institutions, non-banking entities	17,907	6,755
Insurance companies	5,885	4,120
Public administration	5,322	1,977
Individuals	142,090	129,245
Private entrepreneurs	25,937	24,629
Government agencies	50,103	50,780
Other	8,218	6,932
Non-residents	5,388	5,518
Total amounts due to customers	**454,289**	398,137

30 Securities issued

Securities issued comprise bonds of CZK 466 million (2006: CZK nil) and mortgage bonds of CZK 44,029 million (2006: CZK 26,152 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.

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

	31 December 2007 CZKm	31 December 2006 CZKm
In less than one year	3,899	1,460
In one to two years	3,632	4,898
In two to four years	0	5,235
In five to ten years	17,938	14,559
In ten to fifteen years	3,163	0
Over fifteen years	15,863	0
Total debt securities	**44,495**	26,152

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

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

Name	Interest rate	Currency	Issue date	Maturity date	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	5,334
Mortgage bonds of Komerční banka a.s. CZ0002000383	4.5%	CZK	5 Aug 2004	5 Aug 2008	3,592	4,986
Mortgage bonds of Komerční banka a.s. CZ0002000565	3M PRIBID minus the higher of 10 bps or 10 % value of 3M PRIBID	CZK	2 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	10,633	10,713
Mortgage bonds of Komerční banka a.s. CZ0002000854	3.74%	EUR	1 Sept 2006	1 Sept 2016	1,035	1,187
Mortgage bonds of Komerční banka a.s. CZ0002001142	5%	CZK	16 Aug 2007	16 Aug 2019	3,219	0
Mortgage bonds of Komerční banka a.s. CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,070	0
Mortgage bonds of Komerční banka a.s. CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,066	0
Mortgage bonds of Komerční banka a.s. CZ0002001365, CZ0002001373, CZ0002001381, CZ0002001399	4.23% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,012	0
Mortgage bonds of Komerční banka a.s. CZ0002001431, CZ0002001449, CZ0002001456, CZ0002001464, CZ0002001472, CZ0002001480	4.14% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,012	0
Mortgage bonds of Komerční banka a.s. CZ0002001498, CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	3,012	0
Mortgage bonds of Komerční banka a.s. CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	2,008	0
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. CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	904	0
Mortgage bonds of Komerční banka a.s. CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,738	0
Mortgage bonds of Komerční banka a.s. CZ0002001746	Rate of the interest swap sale in CZK for 5 years plus 150 bps	CZK	28 Dec 2007	28 Dec 2037	0	0
Total bonds					**44,495**	26,152

Note: Six-month PRIBOR was 414 basis points as of 31 December 2007 (2006: 261 basis points).

Three-month PRIBID was 401 basis points as of 31 December 2007 (2006: 245 basis points).

The value of interest rate swap CZK sale average for five years as of 31 December 2007 was 436 bps (2006 - 343 bps)

The value of the interest rate swap CZK sale average for ten years as of 31 December 2007 was 459 bps (2006 - 374 bps)

** The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, swap sale for two to thirty years*

31 Accruals and other liabilities

Accruals and other liabilities comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Settlement balances and outstanding items	99	1
Payables from securities trading and issues of securities	2,356	1,234
Payables from payment transactions	5,618	7,456
Other liabilities	2,658	2,700
Accruals and deferred income	145	161
Total accruals and other liabilities	**10,876**	11,552

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

'Payables from payment transactions' in the year ended 31 December 2007 decreased due to a lower amount of payments passed onto the Czech National Bank's clearing centre.

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

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

32 Provisions

Provisions comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Provisions for contracted commitments	910	1,466
Provisions for other credit commitments	755	764
Total provisions	**1,665**	2,230

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

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

Risk	**Balance 2007**	Balance 2006
	CZKm	CZKm
Provision for off balance sheet commitments	619	632
Provision for undrawn loan facilities	136	132
Total	**755**	**764**

Movements in the provisions for contracted commitments are as follows:

	1 January 2007	Additions	Disposals	Accrual	Foreign exchange difference	**31 December 2007**
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
Jubilee bonuses	85	8	6	5	0	92
Other provisions for contracted commitments	1,381	89	612	0	(40)	818
Total	**1,466**	**97**	**618**	**5**	**(40)**	**910**

As of 31 December 2007, the Bank held a provision of CZK 200 million (2006: CZK 244 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Bank intends to vacate. This provision is included in '*Other provisions for contracted commitments'.*

'Other provisions for contracted commitments' in the year ended 31 December 2007 decreased due to the use and release of provisions for discontinued legal disputes with the Bank's customers.

33 Deferred income taxes

Deferred income taxes are calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 24 percent until 2007, 21 percent in 2008, 20 percent in 2009 and 19 percent starting from 2010.

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

	31 December 2007	31 December 2006
	CZKm	CZKm
Banking reserves and provisions	258	344
Provisions for non-banking receivables	0	42
Provisions for assets	132	182
Non-banking reserves	125	88
Depreciation	(307)	(253)
Leases	(1)	(2)
Revaluation of hedging derivatives - equity impact	210	(896)
Revaluation of a foreign currency equity investment - equity impact	0	(30)
Revaluation of available-for-sale securities - equity impact	(34)	(170)
Other temporary differences	49	58
Net deferred tax asset/(liability)	**432**	(637)

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign currency equity investment.

Deferred tax recognised in the financial statements:

	2007	2006
	CZKm	CZKm
Balance at the beginning of the period	**(637)**	(478)
Movement in net deferred tax liability - profit and loss impact	(203)	(401)
Movement in net deferred tax liability - equity impact	1,272	242
Balance at the end of the period	**432**	(637)

The impact of changes in tax rates represented a reduction of the deferred tax asset of CZK 41 million in 2007.

34 Subordinated debt

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

35 Share capital

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

Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2007:

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 Bank held 54,000 treasury shares at a cost of CZK 150 million (2006: 54,000 treasury shares at a cost of CZK 150 million).

Capital Management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Bank takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.

The Bank's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.

The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Bank's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 percent of the Tier 1 capital.

At the end of 2007, the Company completed the implementation of Basel II - Pillar 1 and performed internal reporting. The Bank approved the updated categorisation of its operations into the investment (banking) and trading portfolios. In January, the Bank will commence using the Internal Rating Based Advanced Approach for the credit risk capital requirement calculation. The Bank will also start using the Advanced Measurement Approach for the operational risk capital requirement calculation.

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

	31 December 2007 CZKm	31 December 2006 CZKm	**Change in the year CZKm**
Cash and balances with central banks	10,376	14,082	(3,706)
Amounts due from banks – current accounts	94	255	(161)
Amounts due to banks - current accounts	(1,374)	(1,222)	(152)
Total	**9,096**	13,115	**(4,019)**

37 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2007. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 193 million (2006: CZK 603 million) for these legal disputes. The Bank has also recorded an accrual of CZK 298 million (2006: CZK 408 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2007, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

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

Capital commitments

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

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions against these instruments on the same basis as is applicable to loans.

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

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

Financial commitments and contingencies comprise:

	31 December 2007 CZKm	31 December 2006 CZKm
Non-payment guarantees including commitments to issued non-payment guarantees	25,676	19,706
Payment guarantees including commitments to issued payment guarantees	9,414	6,465
Received bills of exchange/acceptances and endorsements of bills of exchange	75	77
Committed facilities and unutilised overdrafts	19,189	13,098
Undrawn credit commitments	47,881	33,790
Unutilised overdrafts and approved overdraft loans	52,888	42,687
Unutilised discount facilities	146	136
Unutilised limits under Framework agreements to provide financial services	50,100	50,306
Letters of credit uncovered	1,033	989
Stand by letters of credit uncovered	719	666
Confirmed letters of credit	67	225
Letters of credit covered	80	137
Total contingent revocable and irrevocable commitments	**207,268**	168,282

The Bank provides a variety of credit facilities to its largest clients. Of the Bank's committed facilities and guarantees, CZK 35,148 million (2006: CZK 28,502 million) is revocable.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2007, the Bank recorded provisions for these risks amounting to CZK 755 million (2006: CZK 764 million) - for further information see Note 32.

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

	31 December 2007 CZKm	31 December 2006 CZKm
Agriculture, forestry and mining	3,447	4,630
Processing industry	45,354	33,403
Distribution and production of energy	18,756	15,519
Construction	34,905	28,089
Trade, catering, transport and communication	37,171	31,486
Insurance, banking	18,470	20,046
Other	49,165	35,109
Total	**207,268**	168,282

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

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2007, the Bank was controlled by Société Générale which owns 60.35 percent of its issued share capital.

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

Amounts due to and from the Group companies

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

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
Komerční banka Bratislava, a.s.	2,643	721
Factoring KB, a.s.	2,468	562
ESSOX s.r.o.	4,937	3,651
Modrá pyramida stavební spořitelna, a.s.	553	553
Bastion European Investment S. A.	3,629	3,787
Total loans	**14,230**	9,274
Komerční banka Bratislava, a.s.	2	35
Factoring KB, a.s.	4	68
ESSOX s.r.o.	18	8
ALL IN REAL ESTATE LEASING, a.s.	3	4
Modrá pyramida stavební spořitelna, a.s.	24	16
Protos, uzavřený investiční fond, a. s.	5,588	0
Total deposits	**5,639**	131

As of 31 December 2007 and 2006, other amounts due to and from the Group companies were immaterial.

Interest income from loans granted to Group companies:

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
Komerční banka Bratislava, a.s.	95	79
Factoring KB, a. s.	52	15
ESSOX s.r.o.	143	81
Modrá pyramida stavební spořitelna, a.s.	35	54
Bastion European Investment S. A.	148	120
Total interest from loans granted by Bank	**473**	349

In addition to interest on loans from the Bank's Financial Group, other income in the year ended 31 December 2007 amounted to CZK 378 million (2006: CZK 307 million) and total expenses amounted to CZK 544 million (2006: CZK 361 million).

As of 31 December 2007, the Bank reported guarantees granted to the Group companies totalling CZK 2 million (2006: CZK 1,302 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
ALD Automotive Czech Republic s.r.o.	1,590	849
Fimat London	32	36
Komerční pojišťovna, a. s.	4	0
SG Equipment Finance Czech Republic s.r.o.	6,720	4,040
SG London	352	69
SG New York	0	16
SGBT Luxemburg	1	1,644
Société Générale Paris	13,002	13,288
Total	**21,701**	19,942

Principal balances owed to the Société Générale Group entities include:

Company	**31 December 2007 CZKm**	31 December 2006 CZKm
Komerční pojišťovna, a. s.	365	107
SG Equipment Finance Czech Republic s.r.o.	2,028	2
SG Private Banking Switzerland	1	13
Société Générale Paris	10,644	11,674
Société Générale Warsaw	169	46
Investiční kapitálová společnost KB, a. s.	85	95
SG Cyprus	18	11
Total	**13,313**	11,866

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer also to Note 18), issued bonds and subordinated debt (refer also to Note 34).

As of 31 December 2007, the Bank also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 141,363 million (2006: CZK 128,142 million) and CZK 148,997 million (2006: CZK 136,901 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives and guarantees for credit exposures.

As of 31 December 2007 and 2006, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2007, the Bank made total income of CZK 8,609 million (2006: CZK 2,731 million) and total expenses, including a net loss from financial transactions, of CZK 8,648 million (2006: CZK 1,723 million) with Société Générale Paris. Income includes interest income from debt securities issued by Société Générale Paris, income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives and net profit on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, net loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

In the years ended 31 December 2007 and 2006, the Bank realised no material amounts of income or expenses with other Société Générale Group entities.

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

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

	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 Bank recorded an estimated payable of CZK 15 million (2006: CZK 17 million) for Management Board bonuses.

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

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

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

	2007 CZKm	2006 CZKm
Cash flow hedge fair value at 1 January	3,857	5,463
Deferred tax liability at 1 January	(926)	(1,312)
Balance at 1 January	**2,931**	4,151
Movements during the year		
Gains/losses from changes in fair value	(3,265)	471
Deferred income tax	754	(112)
	(2,511)	359
Transferred to interest income/expense	(1,469)	(2,188)
Deferred income tax	353	525
	(1,116)	(1,663)
Change in the hedge of foreign currency risk of foreign currency investments	126	111
Deferred income tax	29	(27)
Balance at 31 December	**155**	84
Balance at 31 December	(751)	3,857
Deferred income tax	210	(926)
Balance at 31 December	**(541)**	2,931

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

	2007	2006
	CZKm	CZKm
Reserve from fair-value revaluation at 1 January	996	389
Deferred tax liability/income tax liability at 1 January	(250)	(104)
Balance at 1 January	**746**	**285**
Movements during the year		
Gains/losses from changes in fair value	(559)	624
Deferred tax liability/income tax liability	157	(150)
	(402)	**474**
Gains and losses from the sale and use of provisions against securities	(28)	(17)
Deferred tax liability/income tax liability	7	4
	(21)	**(13)**
Balance at 31 December	409	996
Deferred tax liability/income tax liability	(86)	(250)
Balance at 31 December	**323**	**746**

41 Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

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

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

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

a) Ratings for business clients

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

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

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

b) Ratings for Banks and Sovereign

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

c) Ratings for individual clients

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

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

All loan product innovations in 2007, especially in the case of mortgage activities, were implemented following a careful assessment of their specific credit risks, and after introducing specific adjustments of the granting process aimed at mitigating these risks.
In addition to the ratings which address default risk related to individual clients, the Bank calculates Loss Given Default (LGD) ratings for all individual client's transactions. The LGD ratings are being incorporated in the credit risk granting process, pricing and portfolio provisioning.

d) Credit registers

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

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

Credit risk concentration

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

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

	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**
Balances with the Czech National Bank	**3,173**	**x**	**3,173**	**0**	**x**	**0**
Amounts due from banks	**198,529**	**4,714**	**203,243**	**121,141**	**7**	**121,148**
Securities held for trading	**26,731**	**x**	**26,731**	**0**	**x**	**0**
Positive fair value of financial derivative transactions	**9,430**	**x**	**9,430**	**0**	**x**	**0**
Loans and advances to customers	**275,404**	**202,554**	**477,958**	**102,730**	**15,476**	**118,206**
Corporate clients **	181,678	187,128	**368,806**	45,749	14,409	**60,158**
Of which: top corporate clients	82,691	109,467	**192,158**	23,249	9,847	**33,096**
Individuals – non-businessmen	93,650	15,426	**109,076**	56,981	1,067	**58,048**
Of which: mortgage loans	74,957	6,677	**81,634**	55,535	972	**56,507**
consumer loans	15,329	486	**15,815**	1,446	92	**1,538**
Other amounts due from customers	76	x	**76**	0	x	**0**
Securities available for sale	**34,522**	**x**	**34,522**	**0**	**x**	**0**
Securities held to maturity	**2,982**	**x**	**2,982**	**0**	**x**	**0**
Total	**550,771**	**207,268**	**758,039**	**223,871**	**15,483**	**239,354**

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

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

The Bank'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**
Balances with the Czech National Bank	**6,880**	**x**	**6,880**	**0**	**x**	**0**
Amounts due from banks	**199,788**	**2,514**	**202,302**	**132,863**	**21**	**132,884**
Securities held for trading	**14,697**	**x**	**14,697**	**0**	**x**	**0**
Positive fair value of financial derivative transactions	**11,112**	**x**	**11,112**	**0**	**x**	**0**
Loans and advances to customers	**230,485**	**165,768**	**396,253**	**92,885**	**10,086**	**102,971**
Corporate clients **	158,493	153,370	**311,863**	47,997	9,322	**57,319**
Of which: top corporate clients	71,310	92,392	**163,702**	20,656	4,537	**25,193**
Individuals – non-businessmen	71,918	12,398	**84,316**	44,888	764	**45,652**
Of which: mortgage loans	56,839	4,405	**61,244**	43,918	748	**44,666**
consumer loans	12,147	232	**12,379**	970	16	**986**
Other amounts due from customers	74	x	**74**	0	x	**0**
Securities available for sale	**23,176**	**x**	**23,176**	**0**	**x**	**0**
Securities held to maturity	**3,283**	**x**	**3,283**	**0**	**x**	**0**
Total	**489,421**	**168,282**	**657,703**	**225,748**	**10,107**	**235,855**

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

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

Classification of receivables

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

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

Characteristics of receivables that are not categorised

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

Provisioning for receivables

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

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

	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	**252,113**	5,611	0	0	0	0	**5,611**	**257,724**
Watch	**11,300**	22	5	1	0	0	**28**	**11,328**
Total	**263,413**	5,633	5	1	0	0	**5,639**	**269,052**

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

	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	**206,378**	4,667	1	0	0	0	**4,668**	**211,046**
Watch	**12,583**	346	329	155	0	0	**830**	**13,413**
Total	**218,961**	**5,013**	**330**	**155**	**0**	**0**	**5,498**	**224,459**

Collateral used in respect of the past due loans that were not provisioned amounts to CZK 2,363 million (2006: CZK 2,486 million).

Loan collateral

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

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

Recovery of amounts due from borrowers

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

Credit risk hedging instruments

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

Revocable contractual commitments

The Bank monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored monthly, but no provisions or reserves are created. As of 31 December 2007, the revocable commitments account for 21 percent (2006: 20 percent) of all the Bank's revocable and irrevocable commitments.

Credit risk of financial derivatives

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

As of 31 December 2007, the Bank posted a credit exposure of CZK 22,073 million (2006: CZK 28,569 million) on financial derivative instruments (expressed in CVaR). Note that this amount represents the gross replacement risk at market rates as of 31 December 2007 of all outstanding agreements. The netting agreement is taken into account where applicable,

(B) Market risk

Segmentation of the Bank's financial operations

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

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

Products traded by the Bank

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

Market risk in the Market Book

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

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

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

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 991,000 and EUR 374,000 as of 31 December 2007 and 2006, respectively. The average Global Value-at-Risks were EUR 667,000 and EUR 320,000 for the years ended 31 December 2007 and 2006, respectively.

In addition, the Bank also performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk scenarios, and that measure on a daily basis potential losses relevant to all open positions generated by larger shocks. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from a hypothetical crisis that could harm the positions.

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

Market risk in the Structural Book

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

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

The indicator of sensitivity to a change in market interest rates shows a change in the Bank's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2007, the interest rate risk sensitivity was CZK 23 million (2006: CZK 161 million). The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

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

(C) Financial derivatives

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

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

Financial derivative instruments designated as held for trading:

	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	296,197	296,197	230,009	230,009	1,909	1,929	2,475	2,429
Interest rate forwards and futures*	379,466	379,466	306,979	306,979	226	220	228	225
Interest rate options	2,753	2,753	1,481	1,481	7	7	1	1
Total interest rate instruments	**678,416**	**678,416**	538,469	538,469	**2,142**	**2,156**	2,704	2,655
Foreign currency instruments								
Currency swaps	100,377	99,851	76,716	76,478	1,812	1,254	1,163	897
Cross currency swaps	21,164	19,977	20,741	20,141	1,316	150	807	216
Currency forwards	21,087	21,363	15,919	16,056	327	611	194	385
Purchased options	37,944	38,040	26,523	26,528	1,089	0	762	0
Sold options	38,040	37,944	26,528	26,523	0	1,089	0	762
Total currency instruments	**218,612**	**217,175**	166,427	165,726	**4,544**	**3,104**	2,926	2,260
Other instruments								
Futures on debt securities*	1,329	1,329	573	572	0	0	0	0
Forwards on emission allowances	6,519	6,433	213	179	433	330	84	50
Equity forwards	0	0	131	149	0	0	55	73
Commodity forwards	1,218	1,218	654	654	44	43	89	94
Commodity swaps	1,674	1,674	3,404	3,404	230	228	163	158
Purchased commodity options	24	24	0	0	2	0	0	0
Sold commodity options	24	24	0	0	0	2	0	0
Total other instruments	**10,788**	**10,702**	4,975	4,958	**709**	**603**	391	375
Total	**907,816**	**906,293**	709,871	709,153	**7,395**	**5,863**	6,021	5,290

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

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

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
Interest rate instruments				
Interest rate swaps	112,046	127,037	57,114	**296,197**
Interest rate forwards and futures*	334,557	44,909	0	**379,466**
Interest rate options	1,760	993	0	**2,753**
Total interest rate instruments	**448,363**	**172,939**	**57,114**	**678,416**
Foreign currency instruments				
Currency swaps	94,894	4,900	583	**100,377**
Cross currency swaps	2,085	16,960	2,119	**21,164**
Currency forwards	13,039	7,354	694	**21,087**
Purchased options	25,262	12,682	0	**37,944**
Sold options	25,346	12,694	0	**38,040**
Total currency instruments	**160,626**	**54,590**	**3,396**	**218,612**
Other instruments				
Futures on debt securities	1,329	0	0	**1,329**
Forwards on emission allowances	2,177	4,342	0	**6,519**
Commodity forwards	1,218	0	0	**1,218**
Commodity swaps	1,462	212	0	**1,674**
Purchased commodity options	24	0	0	**24**
Sold commodity options	24	0	0	**24**
Total other instruments	**6,234**	**4,554**	**0**	**10,788**
Total	**615,223**	**232,083**	**60,510**	**907,816**

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

Financial derivative instruments designated as hedging:

	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	224,537	224,537	185,632	185,632	1,835	2,750	5,091	749
Interest rate swaps for fair value hedging	**3,515**	**3,515**	3,678	3,678	200	0	0	8
Total	**228,052**	**228,052**	189,310	189,310	**2,035**	**2,750**	5,091	757

Remaining maturity of derivatives designated as hedging:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
Interest rate swaps for cash flow hedging	48,805	83,181	92,551	**224,537**
Interest rate swaps for fair value hedging	0	0	3,515	**3,515**
Total	**48,805**	**83,181**	**96,066**	**228,052**

The Bank treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.

During 2007, the Bank recorded the following hedges:

(i) Interest rate risk hedge:
  a. The fair value of a provided long-term loan is hedged by an interest rate swap;
  b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis); and
  c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis).

(ii) Foreign exchange risk hedge:
  a. In selected material cases, the Bank hedges future cash flows of firm commitments arising from the Bank's contractual obligations (e.g., contractual payments to third parties in a foreign currency), the hedging instrument includes foreign currency assets (e.g., securities); and
  b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent upon foreign exchange rate developments, by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

(iii) Hedge of an investment in a foreign subsidiary:
  a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is not longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

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

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

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

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 the Czech National Bank	1,738	0	0	0	8,638	**10,376**
Amounts due from banks	185,772	3,339	8,007	1,411	0	**198,529**
Financial assets at fair value through profit or loss	7,487	6,191	11,480	1,499	74	**26,731**
Positive fair values of financial derivative transactions	0	0	0	0	9,430	**9,430**
Loans and advances to customers, net	131,036	51,306	73,212	11,554	0	**267,108**
Securities available for sale	4,191	1,920	9,210	18,362	839	**34,522**
Investments held to maturity	1,431	213	665	673	0	**2,982**
Prepayments, accrued income and other assets	2,856	0	0	0	1,741	**4,597**
Income taxes receivable	0	0	0	0	4	**4**
Deferred tax asset	0	0	0	0	432	**432**
Assets held for sale	0	0	0	0	505	**505**
Intangible fixed assets, net	0	0	0	0	2,708	**2,708**
Tangible fixed assets, net	0	0	0	0	7,388	**7,388**
Investments in subsidiaries and associates, net	0	0	0	0	23,380	**23,380**
Total assets	**334,511**	**62,969**	**102,574**	**33,499**	**55,139**	**588,692**
Liabilities						
Amounts due to banks	12,048	1,277	0	0	0	**13,325**
Amounts due to customers	134,723	4,898	716	62	313,890	**454,289**
Negative fair values of financial derivative transactions	0	0	0	0	8,613	**8,613**
Securities issued	16,777	3,749	4,532	19,437	0	**44,495**
Accruals and other liabilities	0	0	0	0	10,876	**10,876**
Provisions	0	0	0	0	1,665	**1,665**
Deferred tax liability	0	189	0	0	0	**189**
Subordinated debt	6,004	0	0	0	0	**6,004**
Total liabilities	**169,552**	**10,113**	**5,248**	**19,499**	**335,044**	**539,456**
On balance sheet interest rate sensitivity gap at 31 December 2007	**164,959**	**52,856**	**97,326**	**14,000**	**(279,905)**	**49,236**
Derivatives*	266,744	357,217	199,318	104,353	0	**927,632**
Total off balance sheet assets	**266,744**	**357,217**	**199,318**	**104,353**	**0**	**927,632**
Derivatives*	313,008	366,081	209,219	38,137	0	**926,445**
Undrawn portion of loans **	(5,324)	(3,048)	6,403	1,969	0	**0**
Undrawn portion of revolving loans **	(518)	(160)	283	395	0	**0**
Total off balance sheet liabilities	**307,166**	**362,873**	**215,905**	**40,501**	**0**	**926,445**
Net off balance sheet interest rate sensitivity gap at 31 December 2007	**(40,422)**	**(5,656)**	**(16,587)**	**63,852**	**0**	**1,187**
Cumulative interest rate sensitivity gap at 31 December 2007	**124,537**	**171,737**	**252,476**	**330,328**	**50,423**	**x**
Total assets at 31 December 2006	309,241	56,072	76,689	27,666	42,582	512,250
Total liabilities at 31 December 2006	152,907	5,667	11,101	11,871	282,050	463,596
Net on balance sheet interest rate sensitivity gap at 31 December 2006	156,334	50,405	65,588	15,795	(239,468)	48,654
Net off balance sheet interest rate sensitivity gap at 31 December 2006	(57,983)	(21,683)	14,306	65,960	0	600
Cumulative interest rate sensitivity gap at 31 December 2006	98,351	127,073	206,967	288,722	49,254	x

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

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

Average interest rates as of 31 December 2007 and 2006:

	2007			2006		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and balances with the CNB	0.69%	x	x	1.07%	x	x
Treasury bills	3.64%	x	x	2.76%	x	x
Amounts due from banks	3.66%	5.32%	4.45%	2.65%	5.31%	3.73%
Loans and advances to customers	4.77%	5.41%	5.01%	4.36%	5.88%	4.22%
Interest earning securities	5.07%	4.99%	3.83%	3.90%	5.10%	3.53%
Total assets	**3.94%**	**5.18%**	**4.11%**	2.44%	9.79%	4.31%
Total interest earning assets	**4.38%**	**5.28%**	**4.54%**	2.70%	5.32%	3.91%
Liabilities						
Amounts due to banks	1.92%	4.10%	3.94%	2.46%	4.93%	3.54%
Amounts due to customers	1.05%	2.59%	2.10%	0.85%	2.85%	1.31%
Securities issued	3.62%	x	3.74%	3.20%	x	3.73%
Subordinated debt	3.73%	x	x	2.89%	x	x
Total liabilities	**1.29%**	**2.27%**	**2.24%**	0.77%	2.53%	1.58%
Total interest bearing liabilities	**1.30%**	**2.59%**	**2.31%**	1.02%	2.86%	1.66%
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	3.85%	5.02%	4.29%	3.37%	5.15%	3.73%
Undrawn portion of loans	4.63%	x	4.94%	3.72%	x	4.11%
Undrawn portion of revolving loans	7.42%	5.44%	4.44%	6.74%	6.28%	3.10%
Total off balance sheet assets	**4.32%**	**5.03%**	**4.32%**	3.79%	5.13%	3.66%
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	3.67%	5.01%	4.36%	2.89%	5.03%	3.77%
Undrawn portion of loans	4.63%	x	4.94%	3.72%	x	4.11%
Undrawn portion of revolving loans	7.42%	5.44%	4.44%	6.74%	6.28%	3.10%
Total off balance sheet liabilities	**4.18%**	**5.01%**	**4.38%**	3.40%	5.08%	3.67%

Note: The above table sets out the average interest rates for December 2007 and 2006 calculated as a weighted average for each asset and liability category.

During 2007, both CZK and EUR interest rates witnessed year-on-year growth; short-term rates grew faster than the long-term rates, the result being the flattening of their yield curves. USD interest rates remained approximately on the same level for most of 2007. At the end of 2007, USD rates decreased when the short-term rates declined more rapidly than the long-term rates.

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

	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 the Czech National Bank	0	1,738	8,638	**10,376**	0	5,293	8,789	14,082
Amounts due from banks	11,699	186,523	307	**198,529**	12,404	187,177	207	199,788
Financial assets at fair value through profit or loss	26,344	313	74	**26,731**	14,308	273	116	14,697
Positive fair values of financial derivative transactions	0	0	9,430	**9,430**	0	0	11,112	11,112
Loans and advances to customers, net	140,729	125,603	776	**267,108**	113,419	109,365	387	223,171
Securities available for sale	27,065	6,618	839	**34,522**	21,584	714	878	23,176
Investments held to maturity	2,982	0	0	**2,982**	3,283	0	0	3,283
Liabilities								
Amounts due to banks	5,898	5,276	2,151	**13,325**	4,336	6,373	2,130	12,839
Amounts due to customers	6,620	442,970*	4,699	**454,289**	6,194	385,826	6,117	398,137
Negative fair values of financial derivative transactions	0	0	8,613	**8,613**	0	0	6,047	6,047
Securities issued	23,551	20,944	0	**44,495**	22,220	3,932	0	26,152
Subordinated debt	0	6,004	0	**6,004**	0	6,002	0	6,002

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

** This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.*

(E) Liquidity risk

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

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

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

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

Assets	**On demand 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 the Czech National Bank	8,152	0	0	0	0	2,224	**10,376**
Amounts due from banks	134,406	49,697	3,262	8,682	2,374	108	**198,529**
Financial assets at fair value through profit or loss	496	6,983	6,085	11,583	1,510	74	**26,731**
Positive fair values of financial derivative transactions	0	0	0	0	0	9,430	**9,430**
Loans and advances to customers, net	4,254	22,318	69,246	65,534	90,696	15,060	**267,108**
Securities available for sale	42	1,175	875	8,859	22,732	839	**34,522**
Investments held to maturity	0	1,388	222	685	687	0	**2,982**
Prepayments, accrued income and other assets	2,856	0	0	0	0	1,741	**4,597**
Income taxes receivable	0	0	0	0	0	4	**4**
Deferred tax asset	0	0	0	0	0	432	**432**
Assets held for sale	0	0	505	0	0	0	**505**
Intangible fixed assets, net	0	0	0	0	0	2,708	**2,708**
Tangible fixed assets, net	0	0	0	0	0	7,388	**7,388**
Investments in subsidiaries and associates, net	0	0	0	0	0	23,380	**23,380**
Total assets	**150,206**	**81,561**	**80,195**	**95,343**	**117,999**	**63,388**	**588,692**
Liabilities							
Amounts due to banks	7,471	894	688	1,003	3,269	0	**13,325**
Amounts due to customers	399,822	44,002	5,514	3,867	1,084	0	**454,289**
Negative fair values of financial derivative transactions	0	0	0	0	0	8,613	**8,613**
Securities issued	0	62	3,837	3,632	36,964	0	**44,495**
Accruals and other liabilities	10,507	369	0	0	0	0	**10,876**
Provisions	8	58	525	85	25	964	**1,665**
Deferred tax liability	0	0	189	0	0	0	**189**
Subordinated debt	0	4	0	0	6,000	0	**6,004**
Equity	0	0	0	0	0	49,236	**49,236**
Total liabilities	**417,808**	**45,389**	**10,753**	**8,587**	**47,342**	**58,813**	**588,692**
On balance sheet liquidity gap at 31 December 2007	**(267,602)**	**36,172**	**69,442**	**86,756**	**70,657**	**4,575**	**0**
Off balance sheet assets *	39,798	59,855	64,266	54,591	3,395	0	**221,905**
Off balance sheet liabilities *	42,071	79,115	176,744	80,979	25,714	23,114	**427,737**
Net off balance sheet liquidity gap at 31 December 2007	**(2,273)**	**(19,260)**	**(112,478)**	**(26,388)**	**(22,319)**	**(23,114)**	**(205,832)**
Total assets at 31 December 2006	146,782	78,431	66,591	82,542	82,101	55,803	512,250
Total liabilities at 31 December 2006	360,074	49,976	7,802	15,658	21,897	56,843	512,250
Net on balance sheet liquidity gap at 31 December 2006	(213,292)	28,455	58,789	66,884	60,204	(1,040)	0
Net off balance sheet liquidity gap at 31 December 2006	(2,587)	(21,423)	(91,570)	(14,092)	(17,850)	(20,056)	(167,578)

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

(F) Foreign exchange position

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

	Czech crowns CZKm	Euros CZKm	US dollars CZKm	Swiss francs CZKm	Slovak crowns CZKm	Other curren-cies CZKm	Total CZKm
Assets							
Cash and current balances with the Czech National Bank	8,754	1,071	176	57	93	225	**10,376**
Amounts due from banks	161,046	22,436	11,445	11	2,617	974	**198,529**
Financial assets at fair value through profit or loss	25,451	90	0	0	161	1,029	**26,731**
Positive fair values of financial derivative transactions	8,746	590	50	0	23	21	**9,430**
Loans and advances to customers, net	241,925	21,741	1,408	97	1,468	469	**267,108**
Securities available for sale	22,450	9,956	2,116	0	0	0	**34,522**
Investments held to maturity	1,369	1,427	186	0	0	0	**2,982**
Prepayments, accrued income and other assets	3,660	860	64	0	0	13	**4,597**
Income taxes receivable	1	1	0	0	0	2	**4**
Deferred tax asset	432	0	0	0	0	0	**432**
Assets held for sale	505	0	0	0	0	0	**505**
Intangible fixed assets, net	2,708	0	0	0	0	0	**2,708**
Tangible fixed assets, net	7,388	0	0	0	0	0	**7,388**
Investments in subsidiaries and associates, net	19,100	3,814	0	0	466	0	**23,380**
Total assets	**503,535**	**61,986**	**15,445**	**165**	**4,828**	**2,733**	**588,692**
Liabilities							
Amounts due to banks	7,401	4,187	9	0	556	1,172	**13,325**
Amounts due to customers	407,120	38,290	7,333	161	500	885	**454,289**
Negative fair values of financial derivative transactions	8,045	328	115	0	32	93	**8,613**
Securities issued	43,460	1,035	0	0	0	0	**44,495**
Accruals and other liabilities	9,667	1,004	165	1	7	32	**10,876**
Provisions	899	68	691	0	6	1	**1,665**
Deferred tax liability	189	0	0	0	0	0	**189**
Subordinated debt	6,004	0	0	0	0	0	**6,004**
Equity	49,236	0	0	0	0	0	**49,236**
Total liabilities	**532,021**	**44,912**	**8,313**	**162**	**1,101**	**2,183**	**588,692**
Net FX position at 31 December 2007	**(28,486)**	**17,074**	**7,132**	**3**	**3,727**	**550**	**0**
Off balance sheet assets included in the FX position*	957,802	127,653	38,723	5	10,592	4,868	**1,139,643**
Off balance sheet liabilities included in the FX position *	928,859	143,487	46,163	7	14,207	5,398	**1,138,121**
Net off balance sheet FX position at 31 December 2007	**28,943**	**(15,834)**	**(7,440)**	**(2)**	**(3,615)**	**(530)**	**1,522**
Total net FX position at 31 December 2007	**457**	**1,240**	**(308)**	**1**	**112**	**20**	**1,522**
Total assets at 31 December 2006	443,647	46,111	18,172	201	2,385	1,734	512,250
Total liabilities at 31 December 2006	462,914	37,216	9,718	193	956	1,253	512,250
Net FX position at 31 December 2006	(19,267)	8,895	8,454	8	1,429	481	0
Off balance sheet net FX position at 31 December 2006	19,317	(7,884)	(8,851)	(7)	(1,384)	(470)	721
Total net FX position at 31 December 2006	50	1,011	(397)	1	45	11	721

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

(G) Operational risk

In the operational risks area, the Bank has been targeting Société Générale's objective of the Advanced Measurement Approaches ('AMA') method validation at the group level through the end of 2007. Therefore, all operational risks management instruments required by the AMA method have been progressively implemented in the Bank. These instruments include data collection, risk control self assessment, scenario analysis (all implemented in 2006) and key risk indicators (implemented in the first quarter of 2007).

The Czech National Bank has approved locally these advances approaches under the validation process and the Bank may allocate the lowest volume of capital to operational risks under Basel II.

(H) Legal risk

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

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

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

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

(a) Cash and balances with the central bank

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

(b) Investments held to maturity

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

(c) Amounts due from banks

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

(d) Loans and advances to customers

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

(e) Amounts owed to banks and customers

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

(f) Debt securities issued

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

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

	2007 Carrying value CZKm	**2007 Fair value CZKm**	2006 Carrying value CZKm	2006 Fair value CZKm
Financial assets				
Cash and current balances with the Czech National Bank	10,376	**10,376**	14,082	14,082
Amounts due from banks	198,529	**198,440**	199,788	200,121
Loans and advances to customers, net	267,108	**272,749**	223,171	229,831
Investments held to maturity	2,982	**2,940**	3,283	3,253
Financial liabilities				
Amounts due to banks	13,325	**13,311**	12,839	12,835
Amounts due to customers	454,289	**454,192**	398,137	398,100
Securities issued	44,495	**43,570**	26,152	26,034
Subordinated debt	6,004	**6,003**	6,002	6,004

42 Assets under management

As of 31 December 2007, the Bank managed client assets in the amount of CZK 2,852 million (2006: CZK 3,472 million), of which no assets were from the Bank's subsidiaries. The Bank is transferring asset management services to other trustees.

43 Post balance sheet events

Philippe Rucheton, Deputy CEO and Vice Chairman of the Board of Directors, resigned from his positions and accepted the positions of member of the Board of Directors and CFO of Newedge which was formed as a joint venture between Société Générale and Calyon. With effect from 1 February 2008, the Bank's Supervisory Board appointed Patrice Taillandier-Thomas a new member of the Board of Directors and COO. This appointment is subject to the approval by the Czech National Bank.