Komerční banka, a.s.
Annual Report
2006

06

My world. My bank.

Social Responsibility



Komerční banka ranks among the leading banking institutions in the Czech Republic and the CEE region. As a part of the Société Générale (SG) international group, it provides a comprehensive range of services in retail, corporate and investment banking.

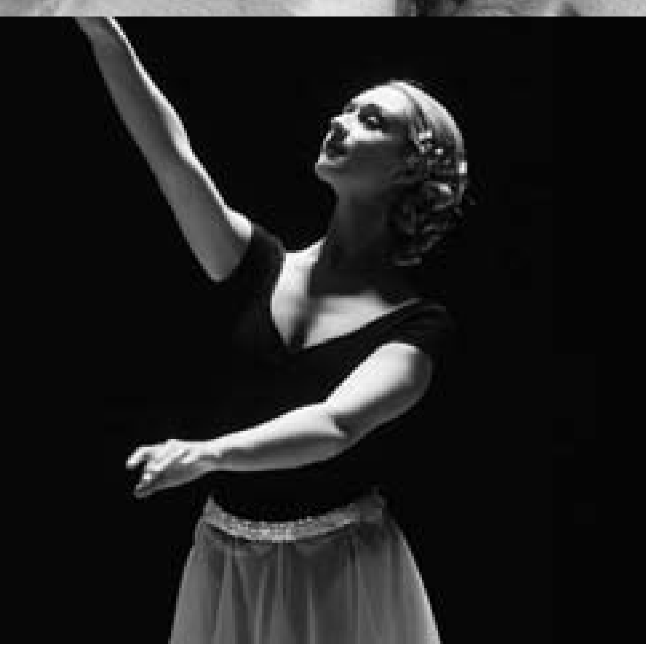
Professionalism




Innovation

Team Spirit

Komerční banka honours its commitments to society that arise from its position as a major Czech financial institution. Sponsorship and donating activities reflect the fundamental values to which KB subscribes: professionalism, innovation and team spirit.
The Bank has become a traditional partner for Czech culture, amateur sport and educational institutions.


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

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Company Profile

KB provides a comprehensive range of services in retail, corporate and investment banking.

Komerční banka (KB) ranks among the leading banking institutions in the Czech Republic and the CEE region. As a part of the Société Générale (SG) international group, it provides a comprehensive range of services in retail, corporate and investment banking. Additional specialised financial services, such as pension fund and building society schemes, as well as factoring, consumer lending and insurance, are provided by member companies of the Komerční banka Group.

The Bank's more than 1.5 million clients can access its banking services via internet, telephone and mobile phone banking channels, as well as through 378 branches and 649 ATMs across the Czech Republic. Within its branch network, the Bank has built 35 business centres designed for medium enterprises and municipalities. Eight centres dedicated to large corporates have been restructured into four business divisions as of 1 January 2007.

Komerční banka's continuous aim is to further improve relationships with its clients. By constantly innovating products and services, the Bank aspires to meet its customers' changing needs and to custom tailor its offer. To achieve this, KB co-operates not only with KB Group companies but also with partners from SG Group and other leading providers of various financial products and services. The product range includes mortgages, consumer loans, credit cards, building savings and loans, life and non-life insurance, pension schemes, mutual funds investments, leasing, factoring, asset management, custody services, financial advisory and more.

Already the first in the Czech market having committed itself to providing a guaranteed level of services, Komerční banka has gone on to adopt the Code of Conduct on Relations between Banks and Clients that had been created within the Czech Banking Association. Acknowledgement of these sustained efforts to improve quality came during 2006 in the form of several awards, including the "MasterCard Corporate Bank of the Year 2006" recognition and "Best Deal 2006" from the magazine Global Trade Review.

KB's prudent risk management, good liquidity and capital adequacy, solid financial results and support from SG are reflected in the Bank's ratings. As of the end of 2006, Komerční banka's long-term ratings stood at A1 from Moody's Investors Service, A from Standard & Poor's, and AA- from Fitch Ratings.

KB's ratings reflect its good liquidity, capital adequacy and solid financial results.

Komerční banka Group

As of 31 December 2006, Komerční banka Financial Group consisted of nine companies controlled to some extent by the Bank. Seven companies within the Group were subsidiaries wherein KB held controlling interests, while two were affiliated companies in which it had influential ownership interests. The average number of Komerční banka Group's employees reached 8,266 during 2006.

Société Générale Group

Komerční banka has been a part of the Société Générale Group since October 2001. The SG Group operates in the core business areas of Retail Banking and Financial Services, Global Investment Management and Services, and Corporate and Investment Banking. The Retail Banking and Financial Services arm of the SG Group serves 22.5 million clients. The SG Group has some 120,000 employees in 77 countries.

Komerční banka represents an important part of SG's retail banking business outside of France.

Financial Highlights

The cost/income ratio further improved in 2006 to

47.2%.

Consolidated data		IFRS *	
CZK million	2006	2005	2004
Financial Results			
Net Banking Income	26,302	24,502	23,752
of which: Net Interest Income	16,155	14,643	13,264
of which: Net Fees and Commissions	8,769	8,736	8,936
Total Operating Costs	(12,418)	(12,135)	(12,475)
Net Profit	9,120	8,911	8,938
Balance Sheet			
Total Assets	597,555	513,856	473,411
Loans to Customers, net	252,505	189,212	158,085
Amounts Due to Customers	480,107	388,431	373,371
Total Shareholders' Equity	50,598	51,327	44,814

Consolidated data		IFRS *	
%	2006	2005	2004
Ratios			
Return on Average Equity, ROAE	17.9	18.5	20.7
Return on Average Assets, ROAA	1.6	1.8	1.9
Capital Adequacy – CNB	11.9	13.2	12.9
Net Interest Margin	3.2	3.2	3.2
Cost/Income Ratio	47.2	49.5	52.5

* IFRS – International Financial Reporting Standards

Unconsolidated data	2006	2005	2004
Other data			
Number of Employees, average	7,552	7,388	7,855
Number of Points of Sale	378	360	335
Number of clients (thousands)	1,515	1,467	1,407
Number of ATMs	649	607	555

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

* As of March 2007

In 2006, KB was serving more than 1.5 million clients.

Interview with the Chairman of the Board of Directors

The consolidated net income reached CZK **9.1** billion.

For several years now, Komerční banka has been increasing its profitability and has ranked among the most successful banks in the Czech Republic. In 2006, Komerční banka Group reported a net profit of CZK 9.1 billion. Can you explain what is behind this strong financial performance?

In 2006, we benefited from successful implementation of our business model and also from the favourable economic and financial environment in the Czech Republic. Our strong performance reflects our focus on developing business activities and on operating efficiency. Together with great emphasis on risk management, these are the main pillars of our long-term strategy. The Group's net profit increased by 2.3% year on year to CZK 9.1 billion. I should point out that we have seen a favourable development especially in recurring income, which is very important for maintaining further growth. In 2005, the Bank's consolidated result had been influenced by certain one-off items, but in 2006 the effect of these items decreased significantly. If we were to calculate the results net of these effects, the net consolidated profit would rise by 18%. This is our best performance since 2002.

This year, for the first time, KB has presented consolidated results for the entire KB Group. Can you describe how successful were the subsidiary companies' business activities?

I would like to mention, for example, the strong growth in the loans provided by Modrá pyramida stavební spořitelna (MPSS) and the significant growth in the sales of consumer finance products by our subsidiary ESSOX. The rapid development of the ESSOX business is contributing substantially to strengthening the Group's position in the consumer finance market. Also, Penzijní fond KB is maintaining an upward trend; in 2006, the new contracts executed by the pension fund increased to 91,500. After a period of slower growth, we can also report a 24% increase in Factoring KB's turnover.

The results achieved by KB's subsidiaries and associates show a rising trend, and I am convinced that this is so thanks to our well-designed business model, which separates the development of products from their sales.

The KB Group's objective is to intensify business co-operation both with its subsidiaries and with its sister companies in the SG Group that operate on the Czech market. I am convinced that the full integration of MPSS into the KB Group offers great potential for growth.

Laurent Goutard
Chairman of the Board of Directors
and CEO

The acquisition of MPSS was one of the most important strategic decisions that the Bank executed in 2006. For a 60% equity interest in MPSS, KB paid slightly more than CZK 4 billion. What will this major investment bring to Komerční banka?

The full integration of MPSS into the KB Group in fact brings us really exceptional opportunities for promoting our business activities. MPSS has an extensive network of experienced sales representatives, who have the potential to become genuine family advisers. Naturally, MPSS will continue to focus on selling its key product, which is building society savings schemes, and our objective is to become a leader on that market. At the same time, however, MPSS also will offer to its clients other products of the KB Group in co-operation with companies such as Komerční pojišťovna. Because of this acquisition, the Bank will be able to approach a considerable number of new clients and offer even better services to both KB and MPSS clientele.

In light of this co-operation, a new team of experienced Komerční banka managers, headed by André Léger and Libor Löfler, have joined the management of MPSS. Then, too, MPSS managers have been given opportunities in KB. I am convinced that this will be a good catalyst for developing MPSS and the good mutual cooperation.

Moreover, these were not the only important personnel changes that took place in the Bank's top management in 2006.

That is true. As early as the beginning of 2006, the KB team was reinforced by Jan Juchelka, who was appointed to the Board of Directors and is responsible for corporate banking. In February 2006, Pavel Čejka became Chief Finance Officer. At the end of 2006 and beginning of 2007, several new Executive Committee members were appointed, namely, Zdeněk Mojžíšek as Executive Director for Marketing, David Formánek as Executive Director for Human Resources, Václav Grepl as Executive Director for IT, and Tomáš Pardubický as Executive Director for Project Management and Organisation.

The integration of MPSS brings exceptional opportunities for promoting business activities of the KB Group.

I believe it is extremely important that Komerční banka is able to offer its employees opportunities for their professional development and advancement. Not only does this apply within KB and its subsidiaries but also within the whole SG Group. Some 20 KB employees accepted new challenges in various positions within SG. They are now working not only in France but also, for example, in Russia, Egypt, Singapore and other countries.

This international mobility is one of the key prerequisites for the development of KB and of the whole Société Générale Group.

Komerční banka is extending its distribution network significantly. What are your objectives for this expansion?

As the number of clients rises and the offer of services expands, development of the distribution network is another prerequisite for promoting business activities. The opening of new points of sale mostly reflects the demographic evolution in the Czech Republic. We opened 19 new branches during 2006, and mainly in locations where new municipal districts are emerging and where new residential and commercial centres are being established. We reviewed where some of our existing branches are situated and decided to relocate four of them to be nearer to our clients. KB also places great emphasis on the functionality of the branches and wants its clients to feel good and comfortable in them. This is the main reason that we have started to change the internal arrangement of branches so that it better meets the clients' needs. Seventeen points of sale were newly opened or refurbished in a new design in 2006.

In 2006, KB was very much involved in organising an exhibition of pictures from the collection of its parent, Société Générale, at Sovovy mlýny in Prague. Is this a sign that you will be expanding the scope of your sponsorships in the future?

As a major Czech bank, KB of course has commitments to the society as a whole. Culture, amateur sport and education continue to be the fundamental areas of our sponsorship. In culture, our key project remains partnership with the National Theatre, but quite understandably we also support a number of other cultural activities. Thanks to the KB – Jistota Foundation, Komerční banka and its employees also contribute significantly to charitable activities.

KB opened **19** branches, located in new residential and commercial centres.

So, having reviewed the year 2006, what are the main tasks facing KB in 2007?

When we looked back at the past year, we can see that a lot has emerged. Currently, we are facing the challenges of designing the new business model for MPSS and defining all the key areas of its cooperation with KB. We also will continue developing our branch network, and during 2007 we would like to open at least 20 new branches for our customers. The broadening of the offer of Komerční banka's and our subsidiaries' products and services also requires new business approaches. The planned opening of our new call centre in 2008, in addition to offering standard phone-banking services, will strengthen active sales to clients. The development of the distribution network, together with further improvements in our offering of products and services, is absolutely essential for meeting another of our key objectives, which is growth in the client base.

KB is a major financial partner also for companies, and we are introducing a number of important changes in services to these clients. As a result of these innovations, we will be able to offer better services to corporate clients.

We have ambitious goals, and we only will achieve these when all the employees of KB and its subsidiaries and sister companies work together. The trust of our clients and shareholders is also extremely important for us. I would like to thank them all for their loyalty, and I look forward to our continued co-operation.

Major Events in 2006

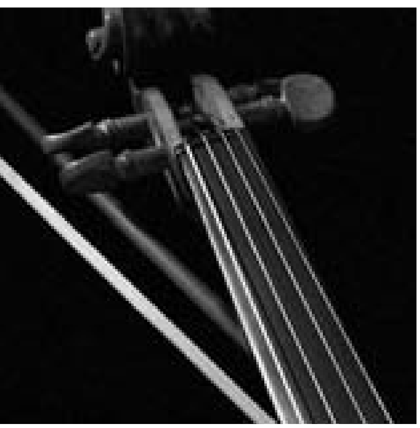
By becoming a **100%** shareholder of MPSS, KB gained access to 610,000 new customers.

Komerční banka became 100% shareholder in Modrá pyramida stavební spořitelna, a.s.

In October 2006, Komerční banka finalised acquisition of the remaining shares of Modrá pyramida stavební spořitelna from BHW and Česká pojišťovna. KB thereby raised its stake in the company from 40% to 100%. The acquisition price was EUR 144 million (approximately CZK 4.2 billion). The transaction has provided KB with better access to Modrá pyramida's more than 800,000 clients, of which some 610,000 had no other banking relationship with KB. The acquisition is in line with KB's strategic focus on continuing to enhance its business activities and revenues generation. This represents a significant strategic step in expanding on its home market. KB and MPSS will benefit from significant cross-selling potential and synergies stemming mainly from the MPSS customer base and its well-trained and exclusive network of financial agents.

Continuous improvement of distribution network

Komerční banka has made it a priority to get closer to its clients. During 2006, therefore, the Bank continued to extend its business network. Nineteen new points of sale were opened and four branches were relocated to better locations. In 2006, the Bank also successfully completed implementation of the Flexible Branch System project. This has brought a new and modern overall look and client-friendly layout to several branch facilities. Komerční banka put an additional 41 new ATMs into operation. At the end of 2006, KB was serving its clients through 378 points of sale and 649 ATMs. KB continued to focus on providing its services through direct banking channels. Clients can reach the Bank at any time through a 24-hour call centre, internet banking and mobile phone banking.



CZK
250 per share
The AGM decided to pay out dividends amounting to CZK 9.5 billion for 2005.

Significant enlargement of products and services offer

New products and services available to Komerční banka clients from 2006 include:
- loan consolidation for credit card, consumer loan and overdraft debt repayment;
- a new and advantageous authorised overdraft for doctors and pharmacists;
- increase in the KB EuroPayment limit from EUR 12,500 to EUR 50,000;
- a new Residential House Programme for housing co-operatives and condominiums;
- launch of three new guaranteed funds – MAX 6, MAX 7 and MAX 8;
- an enlarged portfolio of SGAM funds offered to KB customers;
- Profi Loan (an SME loan product) without the need to submit financial statements;
- a new student credit card and higher authorised overdraft limit;
- internet access to loan limits information;
- Vital Invest – a life insurance policy with investment option;
- significantly reduced interest rates on the American mortgage loan product Profi Garant;
- advantageous financing for eligible projects of small and medium enterprises and municipalities using EBRD and EIB credit lines.

Annual General Meeting

On 26 April 2006, KB held its regular Annual General Meeting (AGM). Shareholders approved the management report from the Board of Directors for 2005, the annual financial statements, and the proposal for the 2005 profit distribution. The AGM also decided to pay out dividends of CZK 250 per share for 2005, amounting to CZK 9.5 billion. The AGM approved a proposal allowing KB to acquire its own shares equalling up to 10% of its capital within the price range of CZK 2,000 to CZK 4,500. The shareholders also ratified amendments to the Articles of Association, including to change the number of members of the Board of Directors from six to five.

Changes in the Board of Directors

Matúš Púll, member of the KB Board of Directors since 5 October 2001, passed away tragically on 23 February 2006. He had been among the most recognised experts and personalities in the Czech-French community. In September 2005, Mr Púll had been awarded the French Order of Merit decoration (*Médaille de Chevalier de l'Ordre National du Mérite).*

In April, Jan Juchelka was appointed to the Board of Directors with effect from 1 July 2006. Prior to this appointment, Mr Jan Juchelka had been a member of the Bank's Supervisory Board.

Komerční banka joined the Code of Conduct

Effective from 1 June 2006, KB acceded to the Code of Conduct on Relations between Banks and Clients issued by the Czech Banking Association. The Bank also had been actively involved in preparation of the Code of Conduct. Upon introducing its Guaranteed Service Level in the beginning of 2005, KB had already met all the requirements and obligations contained in the Code of Conduct. Adopting the Code, therefore, merely confirmed that a transparent relationship between the Bank and its clients is an integral part of KB's long-term strategy.

Several awards and prizes for KB in 2006

Komerční banka won several important prizes and awards last year. One of the major prizes was that of first place in the MasterCard Corporate Bank of the Year 2006 competition. This recognition confirms that, thanks to its strong market position, experienced teams and continuous innovation, KB provides its corporate clients with comprehensive financial solutions. Another prestigious award was that of Best Deal 2006 from Global Trade Review. This was awarded for the first multi-sourcing export financing arranged in the Czech Republic with a Czech bank as the lead bank. This success was achieved thanks to long co-operation with the territory of the Russian Federation and the comprehensiveness of KB's services offering.

Komerční banka was awarded the MasterCard Corporate Bank of the Year 2006 title.

Rating upgrades

In May 2006, the agency Fitch Ratings upgraded the Bank's long-term rating to AA- from A+ and short-term rating to F1+ from F1.

In October 2006, Standard & Poor's Ratings Services revised its outlook on Komerční banka to positive from stable. At the same time, the agency affirmed its A/A-1 long- and short-term foreign and local currency counterparty credit ratings.

Long-term investment via KB's subsidiary Bastion

In March 2006, Komerční banka purchased, via its Belgium-based subsidiary, Bastion, a long-term amortising portfolio of receivables owed by the European Commission. The volume of the transaction was EUR 140 million. This transaction improves the diversification of KB's portfolio of low-risk financial assets and provides an appealing return for this class of credit. Due to the transaction's long-term nature (26 years), it is refinanced by KB's providing both loan and capital funding to Bastion. Shareholder's equity was increased by EUR 134 million in July 2006.

KB's ratings were affirmed or upgraded.

Subordinated Debt

In December 2006, Komerční banka accepted subordinated debt in the amount of CZK 6 billion from Société Générale, parent company of KB. The subordinated debt will strengthen the Bank's capital and thereby support further growth potential as well as optimise capital structure.

Komerční banka Share Price

KB shares are among the most liquid issues traded on the Prague Stock Exchange.

Trading in Komerční banka Shares

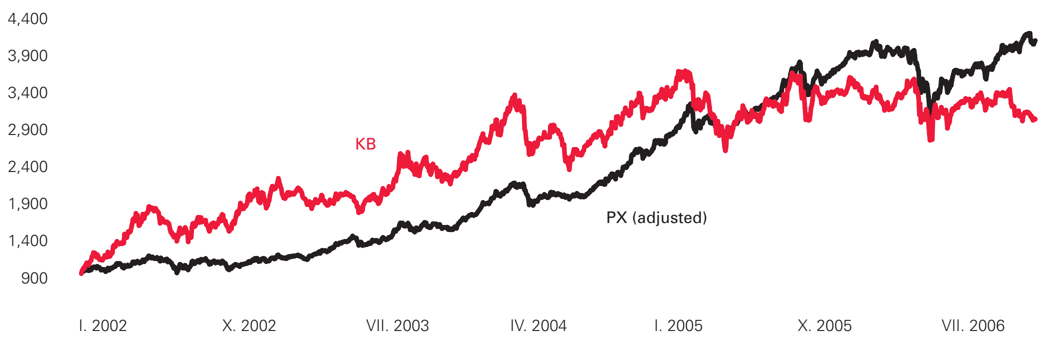
Komerční banka shares trade under ISIN CZ0008019106 on public capital markets in the Czech Republic organised by the Prague Stock Exchange (PSE) and the RM-SYSTEM. The shares are listed on the PSE's prestigious Main market and rank among the most liquid issues. Moreover, Komerční banka shares are traded in the form of Global Depository Receipts (GDRs) on the London Stock Exchange.

Share Price Development

Komerční banka shares closed the year 2006 at a price of CZK 3,099. Developments on financial markets were less favourable last year in comparison with the large gains of previous years. Negative sentiment affected emerging markets generally from the beginning of the year and reached a low point in mid-June. Between mid-May and mid-June, the Czech equity market lost as much as 24% of its value. KB's stock price development was influenced by the overall market sentiment. Moreover, the stock began trading without dividend rights on May 23, which caused an additional "technical" drop of CZK 250. In mid-June, the share price reached its yearly minimum of CZK 2,815, losing in that period some 23% (or CZK 800). The sentiment improved during the summer, and KB's stock partly recovered. However, in the last two months of 2006, the stock was again under pressure. The total return on Komerční banka shares in 2006 was -2.7%. This consisted of a decrease in price of 9.9% and a dividend yield of 7.2%. With average daily trading volume of some CZK 420 million and a market capitalisation of CZK 118 billion, Komerční banka remained one of the most important issues traded on the PSE.

Development of KB share price in 2006 (% change)

Development of KB share price vs. PX index in 2002–2006



Earnings per share reached CZK **240** in 2006.

Information on Komerční banka Shares

	2006	2005	2004	2003	2002
Number of outstanding shares [1]	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Market capitalisation (CZK billion)	117.8	130.8	124.4	91.9	79.0
EPS (CZK) [2]	240.1	234.4	235.2	228.0	237.5
BVPS (CZK) [3]	1,331.2	1,350.3	1,179.0	1,089.2	930.4
Share price (CZK)					
maximum	3,663	3,754	3,452	2,655	2,161
minimum	2,815	2,673	2,418	1,837	1,016
closing price at the end of period	3,099	3,441	3,272	2,418	2,078

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

Dividend payment

In April 2006, the Komerční banka Annual General Meeting (AGM) approved a dividend payment for 2005 of CZK 250 per share before tax, which amounted to 106.6% of consolidated net profit. According to the Bank's Articles of Association, shareholders holding KB stock on the thirtieth calendar day following the date of the AGM are entitled to receive the dividends.

	2005	2004	2003	2002	2001
Dividend (CZK) [1]	250.0	100.0	200.0	40.0	11.5
Payout ratio (%) [2]	106.6	42.5	87.7	16.8	15.1

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

Macroeconomic Development in 2006

GDP increased in 2006 by **6.1%.**

The year 2006 was another one of rapid economic growth in a context of solid macroeconomic stability. The GDP growth in 2006 amounted to 6.1%, which was exactly the same as in 2005. Economic expansion has remained strongly above the growth rates of developed European economies, demonstrating steady progress in the real convergence process. According to Eurostat, GDP per capita in 2005 was at 74% of the EU 25 average, and, according to preliminary estimates, that improved to 76% in 2006.

The structure of economic growth has notably changed in comparison with 2005, as domestic demand has become the leading growth factor. Investment demand was the main engine of growth, as it rose by 7.3% year on year in 2006. At the same time, consumer demand was strengthening from the beginning of the year. After growing by 2.8% in 2005, it rose by 4.1% in the first quarter of 2006 from the same period one year earlier. This acceleration was confirmed in the following quarters, and so full-year growth of consumer demand amounted to 4.6%. A mix of factors positively influenced consumer demand. The improving situation on the labour market (as unemployment declined to 7.7% at the end of 2006) combined with relatively low inflation to produce quite rapid growth in incomes. Meanwhile, households debt also continued to grow briskly throughout the year, and that further supported consumer demand.

On the other hand, the impact on economic growth of foreign trade in goods and services was less than in 2005, as the dynamics of exports and imports were very similar to one another. While 2005 had been the first year to achieve a foreign trade surplus, which had totalled CZK 39 billion, the trade surplus improved to just CZK 44 billion for 2006. Although exports stayed on a solid growth course, imports rose at almost the same pace, driven both by high world fuel prices and strong domestic demand. The balance of services recorded a surplus, too. The income deficit widened year on year, however, and the balance of current transfers also was in deficit. The external balance, as measured by the ratio of the current account deficit to GDP, thus deteriorated to 4.2%. That is not, however, a risky level.

The effects of massive inflow of foreign direct investments have been strongly felt in the Czech economy. The penetration of firms under foreign control increased further. Foreign controlled industrial companies, which are strongly export oriented, have been the main driver of good machinery export performance and solid growth in industrial output. Acceleration of industrial output toward the 10% level appeared already from the beginning of 2006, driven also by recovery in the euro zone (particularly Germany). The accelerating consumer demand was reflected, too, in retail sales. Retail sales growth registered only minor fluctuations through the year and amounted to 6.4% in 2006. That points to the best result of the past decade.

In spite of strong domestic demand and high world fuel prices, Czech inflation remained under control. The CPI stayed below the Czech National Bank's 3% inflationary target during the year. After the autumn decline of oil prices on world markets, inflation slowed. The year-end figure – at 1.7% year on year – confirms the strong sensitivity of Czech consumer prices to raw materials prices. The appreciating Czech currency played an important role in subduing growth in both consumer and producer prices, and that continued in spite of considerable political uncertainty after the summer parliamentary election. In 2006, the CZK appreciated by an average 4.8% against the EUR and 5.6% against the USD. This is despite the fact that the Czech Republic had the lowest interest rates in all of the EU. Although the CNB increased its basic interest rates two times in the third quarter of 2006, the central bank's repo rate was just 2.5% at the end of 2006, and that was 100 basis points under the European Central Bank's refinance rate. At year's end, 3M PRIBOR was more than 100bp below 3M EURIBOR (which were at 2.6% and 3.7%, respectively).

Total borrowing amounted to **44%** of GDP compared to euro zone countries with ratios between 70% and 110%.

Financial intermediation witnessed another successful year, but the Czech economy is still far behind the old EU countries in that regard. Total borrowing rose by 20% year on year and amounted to 44% of GDP at the close of 2006. In the euro zone countries, this ratio varies from 70% to 110%. Credits to households registered the most rapid growth – at 28.6% year on year – and household indebtedness thus reached 16.5% of GDP. The mortgage market, in particular, grew at a very fast pace of between 40% and 50% year on year throughout 2006. Consequently, the housing market boom continued. It was driven, too, by uncertainties as to possible VAT changes in 2008.

Public finance has been the weakest point in the Czech macroeconomic development. The country has not taken advantage of the period of rapid economic growth to reform public finance when the needed social adjustments might have been less painful. The pre-election atmosphere even saw the adoption of expensive social measures that will increase public expenditures in future. Reform of public finance is nevertheless a prerequisite for adopting the euro, as the Maastricht 3% limit of public finance deficit will need to be respected. Moreover, from the long-term viewpoint, demographics make the reform of public finance inevitable. Czech public finances are so far completely unprepared to address the ageing of the Czech population.

Report of the Board of Directors

Continuously improving products and services reflecting quality commitments to clients.

Strategy

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

The Bank will focus on further developing business activities on the retail market, which constitutes its largest growth potential. KB's objective is to increase the number of clients in all segments of the individuals market, with special focus on students and young people. Komerční banka will also concentrate on strengthening its position on the mass market.

KB aims to fortify further its leading position in the small and medium enterprises market and to maintain its unique position in serving large corporations in the Czech Republic.

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

- Continuously improving products and services reflecting technological progress and the quality commitments to clients.
- Enhancing the individualised approach to business clients and emphasising the development of tailor-made products and services.
- Based on a multi-channel approach, enabling the clients to access the Bank non-stop via its branch network, along with its telephone, mobile and internet banking services.
- Interconnecting all distribution channels and employing the call centres more in the active sales process.
- Further developing cross-selling activities.
- Exploiting synergies and expertise arising from co-operation within KB and SG groups.
- Maintaining a high level of efficiency stemming from markedly faster growth in revenues than in costs.
- Properly identifying and prudently managing all types of risks.

Client services

- To effectively meet clients' needs, Komerční banka endeavours to offer a wide range of sophisticated products developed either by KB itself or by companies from KB/SG Group and external partners.
- In order to make itself easily accessible to the clients, the Bank is intensively expanding its branch network. At the same time, KB is installing new ATMs and further developing the services of the telephone, mobile, internet and PC banking channels.
- Komerční banka continuously strives to improve the quality of services and transparency in the relations with its clients. Therefore, it has undertaken to provide a guaranteed level of services based on clearly defined principles in relation to its products, services and approach to clients.
- In June 2006, KB adopted the Code of Conduct on Relations between Banks and Clients. This reconfirms that transparency in the relationship with its clients is an integral part of the Bank's long-term strategy.

Main challenges for the Bank

- Growing the number of clients will remain of strategic and fundamental importance for the Bank. Special emphasis will be directed to client acquisition in the mass market and youth sub-segments.
- The Bank will continue in developing its lending activities in both the retail and corporate segments, and one of the main targets will be to further expand its mortgage lending. KB's medium-term objective is to acquire and maintain a 25% share on the individual mortgage market while keeping portfolio yield and cost of risk within acceptable levels.
- In line with the business expansion, KB will continue in opening new branches. The target is to reach 400 points of sale in the first half of 2008. Moreover, the operations of other distribution channels will be enhanced by opening a second call centre.
- Komerční banka expects that full integration of the building society Modrá pyramida stavební spořitelna will improve services to clients, bring additional revenues from new business cooperation and exploit synergy effects across the entire KB group.
- In order to retain its leading market position in the corporate segment, the Bank will concentrate on developing tailor-made products and services while promoting its individualised approach to the clients. Integral to this effort is an extensive reorganisation within the distribution network that was carried out with effect from January 2007.

KB's medium-term objective is to acquire and maintain a 25% share on the individual mortgage market.

Expected developments in the financial situation

KB's financial performance in past years has been impacted by significant one-off gains that are not likely to be repeated in coming years. Management expects, however, that Komerční banka's business strategy will:

- have a positive impact on the Bank's revenues generation and the level of recurring profitability,
- sustain a high level of efficiency due to faster growth in revenues than in costs, thus targeting the cost/income ratio to remain below 50%,
- imply a slight increase in the cost of risk as a result of rapidly developing retail lending activities, although it will remain under control and correspond to the risk profile of the Bank.

Management also expects that the strategy's implementation will not have significant impact on Komerční banka's very good liquidity. Moreover, KB will maintain its strong capital base, as reflected in the targeted Tier 1 capital-adequacy ratio's remaining close to 10%.

Number of branches to reach

400

in 2008.

Serving the Clients

Thanks to its individual approach, innovations and emphasis on services quality, Komerční banka continued to win new clients in 2006. The total number of clients rose by 48,000 year on year – which means by 3% – and reached nearly 1.52 million by the end of 2006. The Bank served a total of 1.23 million individual customers and some 283,000 entrepreneurs and companies.

KB uses a detailed segmentation of clients, which enables the Bank to customise the product offer to most closely meet the clients' needs and requirements. Represented in the individual segments are:

- some 1.5 million individual clients, small businesses and entrepreneurs, who are further subdivided into groups receiving dedicated products and services,
- more than 17,000 medium enterprises and municipalities, and
- over 2,000 large corporations.

Aiming always to boost the customers' satisfaction and loyalty, the Bank works unceasingly to enhance its services and improve its communication with clients.

Number of clients increased by 3% and exceeded

1.5 million.

Communication with clients and managing quality in KB

Komerční banka continued during 2006 to intensify communication with the existing as well as potential clients by means of such already traditional events as Meeting Day with KB, expert conferences and fairs.

In 2006, the Bank focused on further developing activities in the children's and youth segment. KB organised the G2 JoyRide tour 2006 – a sport-and-music festival held in each of the Czech Republic's regions – and thus began successfully building up the G2 brand on the Czech market.

For the second year in a row, the Bank invited clients from small and medium companies to breakfasts where they could learn more about new products and also meet other clients who already have been using those products.

The quality principles of Komerční banka were first introduced in the middle of 2004 as the Guaranteed Service Level. In committing to fulfil these obligations, KB has declared that a good and transparent relationship between the Bank and the client is an integral part of its long-term strategy.

In November 2006, Komerční banka established the Quality Management and Innovations Department, whose aims are to evaluate what is currently achieved in the quality management area and more effectively to execute broader projects in quality and innovation. This department has enlarged its competence to cover all departments of the Bank and all client segments. Moreover, the quality principles will be implemented by KB's subsidiaries, whose products are also sold by the Bank.

An integral part of the quality management is also addressing clients' complaints and resolving their claims. The Bank particularly emphasises standards and speed in settling such issues. Komerční banka has a three-level system of dealing with complaints and claims: the branches, the Client Relations Team, and an independent Ombudsman.

The Bank's employees play an important role in the quality programme. During 2006, employees in the distribution network underwent several training sessions intended to improve the quality of services provided to clients. Subsequently, independent surveys showed that the level of service quality had improved across the entire branch network. KB also welcomes innovative approaches, original suggestions and ideas coming from its employees. Therefore, a competition is conducted each year for the best ideas, and several hundred employees regularly participate. The top suggestions are then implemented in projects.

The priority for 2007 remains to fulfil, further develop and extend the obligations within the Guaranteed Service Level, which are founded on four basic values: security, trustworthiness, speed and satisfaction.

Sales Network

Business Network

The year 2006 brought further extension of the branch network. Komerční banka successfully opened 19 new points of sale. Most new branches – 13 in total – were opened in the Prague region. The Bank intends to continue significantly expanding the branch network in the next two years. The plan for 2007 is to open up to 22 new points of sale, and the total number of branches should reach 400 in early 2008.

A positive change for clients as well as employees was the successful completion of the Flexible Branch System project. This project has brought a new look to the branch atmospheres. As a result, the branches today appear more modern and pleasant. Radical changes in the shapes of furniture, the colours used and the overall look and impression should have positive impact on public perception of Komerční banka and the entire financial group. There were 17 new branches opened in the new design, and the appearance of all branches to be newly built in 2007 will be in accord with the Flexible Branch System manual.

The Bank continued also in relocating some branches. Four points of sale have been transferred to better locations and constructed to have the new design look.

In 2006, KB enlarged its ATM network by 42 new machines. With the ATMs total reaching 649, the Bank stands second on the Czech market in the number of installed machines. Komerční banka continues its strategy established in recent years, wherein new ATMs are placed in new points of sale and in places with high concentrations of people. In addition to cash withdrawals, KB ATMs also permit mobile telephone recharging for all three Czech operators. Komerční banka has implemented even more ATM functionalities, such as balance inquiry and advertising of KB products during the waiting time.

Direct Banking

In 2006, Komerční banka continued in innovating and enhancing the quality of services in direct banking. The number of clients using at least one of the direct banking services increased by 7% to total some 851,000, which represents 56% of all KB clients.

Mobilní banka showed the most significant rate of growth in clients, gaining 154% to reach a total of some 12,500 clients. Internet banking also demonstrated good progress, as growth of 22% brought its number of clients to about 352,000 by the end of 2006. Telephone banking, too, is continuously expanding, albeit not so significantly in percentage terms, as it grew by 6% to total some 707,000 customers. The mounting popularity of direct banking also is seen in the fact that 90% of all the Bank's non-cash domestic and foreign payment orders are now entered via the internet or telephone.

Mobilní banka showed the most significant rate of growth in clients, gaining 154%.

A fundamental development in internet banking was the reinforcement of its security. KB introduced an additional authorisation for users of the Mojebanka internet banking channel. A client having a personal certificate saved in a computer file will now use this certificate in combination with an SMS authorisation code. The SMS code is basically a one-time password that will be a required part of the client's authorisation for active operations. To make communication easier between a client and the Bank, Mojebanka and Express Line Plus have newly begun to display information as to the maximum available loan amounts that KB can grant to individual clients without proof of income or submitting financial statements. Clients can thus see their amounts available for consumer loans, personal credit cards and allowed debits. For small business clients, this brings an opportunity to see limits on Profi loans, business credit cards and authorised overdrafts on current accounts.

Number of active credit cards rose by more than 36%.

The year 2006 also brought improvements in the telephone banking area. Express Line clients are now able to trade shares on the Prague Stock Exchange via telephone. Almost 1,600 transactions were made using this new service during 2006, and those trades totalled CZK 310 million.

The Call Centre is traditionally involved in selling and promoting the products of KB and its subsidiaries to current customers, and it is also active in new client acquisition. One of these activities is direct selling of credit cards for individuals, and 21% of the Bank's credit card sales were made through the Call Centre.

Innovations in direct banking should make daily contact with Komerční banka easier and enable its clients to manage their finances more comfortably and conveniently.

Payment Cards

During the entirety of 2006, Komerční banka continued to develop its payment cards programme and related activities. By the year's end, there were 1.49 million active cards in its portfolio. Most of these were VISA, VISA Electron, MasterCard and Maestro debit cards and American Express cards. Of the total number of active payment cards, some 171,000 were credit cards. This number had risen year on year by more than 36%.

Komerční banka is still the leading bank on the Czech market in terms of payment cards acceptance. Its leading position is seen especially in its ability to enable accepting the payment cards of all major systems – VISA, MasterCard, American Express, Diners Club and JCB. Payment card acceptance transactions rose by nearly 11% year on year. That the Bank maintained such a positive trend can be attributed especially to the quality of services offered for a broad spectrum of merchants. Komerční banka also kept its dominant share in the very important segment of the international hotel chains and multinational companies operating in the travel and tourism industry.

A significant step in the area of payment cards issuance was that Komerční banka began co-operating with the university sector. The Bank launched multifunctional payment cards based on the EMV standard for a contact chip in connection with the Mifare contactless chip technology. That card is issued in two variants, one of which also meets ISIC standards. Komerční banka will further extend its co-operation with universities.

Information technologies are essential for enhancing the quality of the Bank's services.

IT and Support Services

Information technologies are essential for enhancing the quality of services and convenience for Komerční banka's clients. For these reasons the Bank is persistently attentive to these technologies. During 2006, KB continued in its three-year strategic plan aimed at implementation of process management for the provided services under the COBIT and ITIL international standards. By optimising the process for managing failures, KB was able to reduce information systems downtime in 2006. Another significant improvement was achieved in the process of change management, which resulted in reducing operational risks related to changes in the production environment.

Also during 2006, KB implemented more efficient tools and methods for developing new information systems that are based on the modern SOA concept (Service Oriented Architecture). This tool will bring savings in the costs required to develop new information systems over the long term. Moreover, it will reduce development time and thus allow quicker reaction to changing market conditions.

In order to reduce operating costs, Komerční banka made fundamental architectural changes in the technical and telecommunication infrastructure relating to voice services. These improvements were directed to share the use of KB's communication network for data and voice (Voice over IP).

In the support services area, Komerční banka continued during 2006 in its efforts to boost efficiency in managing its assets and supplying internal services.

Along with expanding the branch network, the Bank worked to optimise that network and to move some of the existing points of sale to locations that are commercially more favourable. Within the optimising process 30 real estate properties were sold for a price of CZK 122 million, and two buildings with total area of 3,800 m^2 within the headquarters premises were vacated.

To reduce costs connected to building administration, KB implemented a project for outsourcing facilities management. The targeted reduction in the number of suppliers was achieved, and transparency was improved regarding the quality and cost management in these processes.

Another substantial step in the support services area was to transfer administration of Komerční banka's fleet to ALD Automotive ČR, a member of Société Générale Group. This improved quality in the automotive operation and reduced the operation costs.

Retail Banking

Individuals

The key event in 2006 was attaining full control over Modrá pyramida stavební spořitelna, as KB purchased the remaining 60% of this company. The acquisition of MPSS is a significant strategic step in the expansion on the domestic market. Both Komerční banka and MPSS will benefit from the potential of cross-selling of products, from synergies in servicing more than 800,000 MPSS clients, and from the MPSS network of well-trained and exclusive financial advisers.

At the beginning of 2006, KB introduced a new price list that had been simplified significantly. A great number of items in the price list were eliminated, such as all fees for cancelling products and services, or fees for cash deposit. A significant improvement has been the introduction of free of charge cash withdrawals from the Bank's ATMs. The number of free withdrawals depends on the type of card that the client uses, and it ranges from one per month for the electronic cards up to all withdrawals for gold cards.

KB continues improving the offer for youngsters and students.

During 2006, the number of individual clients grew to more than 1.23 million. The attractive offer for the youth segment played a key role in acquiring new clients. In this segment KB maintained its leading market position with more than 132,000 youngsters among its clients, representing more than 10% of all its customers. The biggest sport-music festival in Central Europe, the G2 JoyRide tour, was a great success, as the various events permitted Komerční banka to introduce its product offer for students to a wide spectrum of young people.

Key products in the individuals segment remained in particular all types of loans. As of the end of the year, the total volume of mortgage loans reached almost CZK 57 billion, which marked a year-on-year increase of 32%. The total volume of newly granted mortgage loans grew by 25%. Interest in mortgages still persists, and the average size of an individual loan reached CZK 1.4 million. A considerable change for both the clients and relationship managers was a further simplification of processes related to granting mortgage loans. In the field of financing through consumer loans, the total volume of these credits rose year on year by 18% to more than CZK 13.4 billion. The total volume of newly granted loans grew by 22% relative to the previous year. The dynamics of client demand for credit cards remained strong all through 2006, bringing an increase in the volume of carried credit card balances of more than 34% to CZK 1.7 billion. A major innovation in the field of consumer loans was the launch of KB Optimal Loan. This product is intended for consolidating existing loans into a single loan. At the same time a client can increase the total loan volume while maintaining the size of the monthly re-payments or, by contrast, reducing the amount of the instalments according to the client's need. Another benefit of this product is the option to pay off also non-banking consumer loans, credit card balances and authorised overdraft balances.

In the effort to continuously improve internet banking security, Komerční banka implemented a new authorisation method for active operations. Clients now use not only their personal certificates but also one-time passwords received as SMS messages.

In co-operation with Komerční pojišťovna, the Bank extended its offer of insurance products by introducing Vital Invest, an attractive combination of life insurance with an investment instrument where the client is able to select his or her own investment strategy. A benefit of the product is its maximum flexibility – the clients may at any time adjust the previously set parameters according to their needs. Another important innovation was to extend the offer of Allianz insurance products with a comprehensive car insurance that covers a wide range of casualties.

In the investment products area, guaranteed funds continue to be a favourite among KB's clients. During 2006, KB launched the Max 6 – 8 funds, which allow clients to participate in the gains of the bond, equity and real estate markets with a 100% guarantee of return of investment. The offer of SGAM foreign funds, too, has been significantly expanded.

The volume of mortgage loans reached CZK

57 billion.

Individuals	2006	2005	Change
Total number of mortgage loans	53,000	41,100	+29%
Total volume of mortgage loans (CZK billion)	56.9	43.1	+32%
Total number of consumer loans	168,900	144,900	+17%
Total volume of consumer loans and current account debits (CZK billion)	13.4	11.4	+18%
Total volume of loans from credit cards (CZK billion)	1.7	1.2	+34%
Number of active credit cards	136,700	96,200	+42%
Number of active packages	871,800	812,800	+7%
Number of child accounts	146,700	127,400	+15%

Small Businesses

With some 260,000 clients in the segment, Komerční banka has retained its leading position on the small business market. The Bank especially focused during the year on providing easier access to loan products. For example, the commercial loan offer was extended to include the Residential House Program, which enables housing co-operatives and owners associations to obtain business loans without the apartment owners needing to provide additional security. Also newly included into KB's offer was the Authorised Overdraft for Doctors, which offers a very attractive interest rate. During spring 2006, Komerční banka reacted to current events by launching a special flood offer and flood loan, helping entrepreneurs to bridge that complicated season.

The most important innovation for current clients seems to be the new simplified process for granting the Profi Loan, wherein financial statements need not be provided. Any business having had a current account with KB for at least six months can be granted a Profi Loan for up to CZK 500,000 without any formal evaluation of its financial situation. Since the new process was implemented in August 2006, Profi Loan sales through the end of the year more than doubled in comparison to the same period of 2005. Moreover, 65% of all Profi Loans sold were granted using this simplified process.

By means of current account statements and the internet banking service, clients have been newly informed about available limits for all key loan products. Entrepreneurs can obtain these products up to the offered limits without any formal financial evaluation, which means they need not submit financial statements.

KB products were given recognition in the Zlatá koruna 2006 contest that acknowledged excellent and innovative financial products. The Profi Loan and the Business Credit Card dominated in the business loans category (taking 1st and 3rd places), while the Efekt package placed 2nd and the Makro Card 3rd in the day-to-day banking category.

The Bank has not only focused on developing new products or product redesigns, but also on boosting the quality of service. In the second half of 2006, Komerční banka began to implement a new and focused approach in serving the most important entrepreneurs and small business clients. A specialised relationship manager examines an individual client's needs in detail, and this approach has brought an improved product offer through tailor-made solutions. Obviously, the service is characterised by high professionalism and confidentiality. KB introduced this high quality level of service in response to this clientele's increased needs and in order to retain its position as a main player in this business segment.

Small Business segment	2006	2005	Change
Number of business loans	24,100	15,700	+54%
Number of authorised overdrafts and lines of credit	67,400	65,600	+3%
Number of business credit cards	40,500	24,500	+65%
Drawn volume of business loans, current account debits and business credit cards (CZK billion)	12.2	9.7	+26%
Number of financial packages	160,100	144,300	+11%

Number of loans to small businesses increased by 54%.

Medium Enterprises and Municipalities

KB succeeded during 2006 to retain its position of Czech market leader in the medium enterprises and municipalities segment (MEM) with a market share over 40%. KB's individual approach in this segment is founded on an understanding of clients' needs and a long-term partnership perspective supported by a comprehensive product offer.

KB introduced a variety of new products answering to the needs of MEM clients during 2006. These included ProfiGuarantee, which is a short-term guarantee with a simplified approval process, as well as Housing Cooperatives Financing, Agricultural Equipment Financing, and an IT leasing offer in cooperation with SG's subsidiary ECS. Komerční banka's relationships with MEM clients were also supported by factoring and leasing offers, in which the Bank co-operates with its subsidiary and sister companies Factoring KB, SG Equipment Finance and ALD Automotive. Product innovations in the lending and trade finance areas contributed to further expanding the KB loan portfolio. As a result, the total volume of outstanding loans granted to this segment grew by 12% to CZK 51 billion.

In 2006, the Czech economy was strongly driven by booming foreign trade. To ensure our clients' competitiveness in exporting and importing, the Bank expanded the availability of KB EuroPayment to cover all cross-border transfers up to EUR 50,000 (up from EUR 12,500). Then it announced a 13% price decrease for EuroPayment in 2007.

Komerční banka continued also to strengthen its position in trade finance during 2006. The product developing most dynamically was that of bank guarantees, as the volume of newly granted guarantees grew by 77% compared to the previous year. Business in documentary letters of credit expanded significantly, too, with that volume rising by 46% year on year. Marketing activities in the regions contributed importantly to the rise in executed transactions. These involved the active participation of the Bank's trade finance specialists, presentations of trade finance products, consulting services and publishing of expert articles in the press.

To support Czech exporters and promote knowledge of foreign trade in the Czech SME market, KB signed, for the fourth consecutive year, a co-operation agreement with the Export Club of CzechTrade. Under this partnership, the Bank organised two export seminars in autumn 2006 that focused on financing foreign trade with Russia, China and India.

Trade finance products support competitiveness of KB's business clients.

Throughout 2006, KB organised a total of 74 brief events covering its 35 MEM Business Centres. These focused on specific corporate products, such as trade finance, investment banking, employee benefits, and special financing (e.g. FleetLease, leasing). The events were supported by specialists from KB subsidiaries and clients' testimonials.

In the municipal segment, KB reinforced its position as one of the market's two major players. To further improve its product offer and competitiveness on the municipal market, KB signed agreements for two new programs to obtain financing with direct EU support that can be passed on to its municipal clients. Facility agreements for on-lending were signed with the European Bank for Reconstruction and Development and European Investment Bank. The volume of loans granted to municipal clients increased by 29% year on year, and the total volume of municipal loans exceeded CZK 8 billion as of the end of December 2006.

KB continued its three-year partnership with the Union of Towns and Municipalities of the Czech Republic (SMO). The Bank took part in various events organised by the Union. The most significant was Komerční banka's presentation at the IX SMO Financial Conference in Prague, which, among other things, focused on KB's capabilities in water management project financing. In addition, KB participated in preparing a handbook for newly elected municipal representatives.

New programmes of municipalities' financing with EU support were introduced.

During the second half of 2006, KB restructured its network serving medium and large business clients. The former MEM Business Centres have been transformed into 35 new Corporate Business Centres. Offering close geographical proximity and the same high standards of service quality, the Centres now serve a major part of the former Corporate Banking clients in addition to MEM clients. The new organisation took effect on 1 January 2007.

Loans outstanding in the corporate segment increased to CZK **87.9** billion.

Corporate and Investment Banking

Corporates

In June 2006, Komerční banka was awarded the title "MasterCard Corporate Bank of the Year 2006" in the second year of that competition. This recognition confirms not just the Bank's position in this market segment but also its high level and quality of services. To further increase the standard of those services while maintaining the high level of clients retention, the Bank restructured its sales network for corporates in the second half of 2006. Therefore, from the beginning of 2007 the services provided to the biggest corporate clients are concentrated into four new points of sale where these clients are served by the most experienced and fully specialised staff.

The Bank further extended its loan portfolio in the corporate segment during 2006, this time by 15% to about CZK 87.9 billion. In 2006, Komerční banka acted as mandated lead arranger for five syndicated loans and club transactions, strengthening its leading position on the market. Close co-operation with Komerční banka Bratislava allows the large corporate clients to easily unify their investment and business activities in the Czech and Slovak republics.

In the field of investment banking, the Bank extended its offer with new types of transactions that allow clients to better hedge risks related to movements in market rates and that provide new kinds of investment opportunities. By adding several types of emission allowances derivatives to its product offer in a timely manner, KB became the first bank on the Czech market not only to allow its clients to gain from their current surplus balances but also to secure favourable prices for emission allowances that are to be issued in future periods.

The Bank further expanded its offer with additional products and services in co-operation with other companies from the KB/SG financial group. Komerční banka began providing information technologies leasing for the full range of IT equipment and services, including services for IT infrastructure. These custom-made solutions are prepared in co-operation with ECS and are used particularly by large and middle-sized companies.

In the payment services area, KB provides its clients with comprehensive cash management, particularly through direct banking. Security enhancements implemented for internet banking during 2006 contributed to safer payments, and the Bank will give heightened attention to this field in future. In collaboration with SG Paris, Komerční banka extended its individual cash-pooling solutions for leading Czech and international companies. These services allow those firms to efficiently manage funds within their corporate groups.

Investment Banking

In 2006, Komerční banka took advantage of the macroeconomic, interest rate and currency environments in the Czech markets to strengthen its position as a leading bank with corporates and institutions. The volumes of financing and hedging transactions with its customers grew significantly. Komerční banka has also successfully pursued trading activities as a market maker in the Czech financial markets. All together, KB's investment banking activities added substantially to the Bank's overall income.

Derivatives

In the context of the Czech crown's continuous appreciation to record levels, an increasing number of exporting companies have acknowledged the need to protect the value of their future receivables in foreign currencies (in particular, the EUR) against further depreciation. By means of derivatives, Komerční banka has provided its clients effective hedging strategies to help them reduce their exposures. With strongly growing volumes in FX options, the Bank has confirmed its leading position in the derivatives market.

In co-operation with Société Générale's commodity and emissions trading department, KB has further developed its activity on the market of carbon dioxide (CO_2) allowances, established in 2005 under the EU's multinational Emissions Trading Scheme (ETS). Komerční banka provided services to many Czech companies in managing their allowances for the first, 2005–2007 trading period.

Debt origination and corporate finance

Komerční banka remains a leading provider of large financings to both Czech and international clients, primarily by means of long-term, multi-tranche and multi-currency syndicated loans and primary bond issues. KB acted as the mandated lead arranger in five syndicated loans or club deals, and it provided financing in other six transactions. Several of the debt facilities used complex security packages and allowed clients to maximise their senior debt leverage at extremely competitive pricing levels. KB successfully completed facilities for both corporate borrowers, including Kord Group, a.s. and ŽDB Group, a.s., and for such municipal clients as the City of Karviná.

KB's investment banking activities substantially contributed to the Bank's overall income.

On the eurobond market, Komerční banka has co-operated closely with Société Générale's Debt Origination teams. In 2006, Société Générale Corporate and Investment Banking was awarded the joint lead management of a EUR 500 million seven-year bond issue for CEZ, which has set remarkable standards for the capital markets in the region. Komerční banka participated in the placement of the issue.

In 2006, Komerční banka's Corporate Finance Department provided high quality M&A advisory services to a growing number of corporate clients. Among a series of smaller transactions in various industry sectors, the Bank successfully concluded a first mandate with Unipetrol on the disposal of non-core assets, and it then advised the company on the sale of its Kaučuk subsidiary.

A new type of application rating model was implemented to assess individual clients applying for consumer loans or credit cards.

In its procedures, the Bank takes into consideration developments regarding all types of risk.

Risk Management

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

Credit Risk Management

Again in 2006, risk management units co-operated closely with the business units in order to support the Bank's business activities by making the credit process more efficient while closely monitoring the quality of Komerční banka's risk portfolio. Attention was increasingly focused on the Bank's development in retail segment lending.

Loan origination and monitoring credit risk

With regard to credit decision-making and monitoring processes, risk management units continued to develop and regularly improve internal risk processes and tools in all of KB's activity areas.

As in the previous year, special attention within risk activities was given to the retail portfolio, during 2006:

- The use of behavioural rating models was extended further in order to increase the number and individual limits of pre-scored individual clients, as well as to expand the list of products offered to small business clients (credit cards, authorised overdrafts and business loans). This activity supports the Bank's effort to speed up and simplify credit processes while maintaining the portfolio's high quality.
- With the aim of improving Komerční banka's capacity to statistically differentiate between good and poor clients, a new scoring model was developed for small business clients – and most notably those using single-entry accounting. The new function integrates a complex set of data (financial, non-financial, behavioural and personal) according to client size. The model will be implemented in 2007.
- A new type of application rating model was implemented to assess individual clients applying for consumer loans or credit cards and a more graduated rating scale was introduced allowing for more precise pricing. Limits for unsecured exposures to clients with the best risk profiles were increased.
- Preparations were made for connecting to the external credit register SOLUS, which will be functional in 2007.

With respect to the corporate portfolio, an important innovation was successfully completed. This will permit implementing rules for the "one borrower – one rating" principle within Société Générale Group.

The Bank also dedicated efforts to the following credit risk areas:

- ongoing, systematic and detailed portfolio monitoring (statistically for retail, on individual basis for corporate) in order to detect and react early to any negative signal. (Branches' monitoring of individual consumer loans, credit card and mortgage loans, as well as small business Profi loans was expanded. Monitoring of loans granted via third parties was made more detailed.);
- continuous monitoring and timely annual review of clients' credit limits and ratings;
- risk training for business units personnel (e.g. in risk principles and procedures, credit analysis) in order to enduringly upgrade the risk culture within KB;
- centralisation of all KB rating models for both individual and business clients into one IT tool.

Provisions and reserves

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

All significant impaired exposures are assessed individually and at least every quarter by three levels of provisioning committees or by recovery specialists. Provisions are established based upon the present value of estimated future cash flows to the Bank and after considering all available information, including the estimated value of collateral and expected duration of the recovery process. The remaining exposures are provisioned based on a statistical cash flow model that considers the segment, product type, classification and value of collateral. This is the so-called "group model", and in 2006 KB reviewed and updated the provisioning parameters for that model. The new provisioning formulas were set up based on historical observations or expert assessments.

Recovery activities

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

- pre-recovery activities,
- advisory and consulting support from recovery specialists to business units, and
- hard recovery (out of court and via legal proceedings).

An objective in 2006 was to improve the efficiency of the Bank's recovery process in order to better handle the significant development of its retail portfolio. To reach this target, KB improved its recovery organisation with a focus on pre-recovery activities, a segment approach, and streamlining of internal processes. KB also broadened its outsourcing of out-of-court and legal recovery in order to maintain high efficiency.

Foreign exposure

In addition to foreign exposures generated by transactions with international financial institutions on the inter-bank market, Komerční banka has increased its foreign exposure by investing into government bonds issued by EU member states. The Bank has developed a system and formalised appropriate procedures in order to monitor related counterparty and country risk exposures against pre-defined and approved limits.

Counterparty risk on capital market activities

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

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

An objective for 2006 was to improve the efficiency of the Bank's recovery process in light of the rapid development of the retail portfolio.

Market Risk Management

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

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

All regulatory requirements for risk management are fully respected.

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

Methods for measuring market risk and defining limits

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

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

Value-at-Risk method

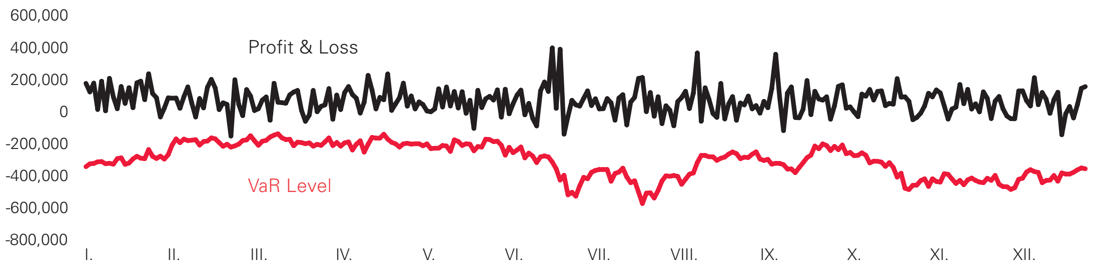
The VaR method ("historical simulation") has been used at Komerční banka since 2002 for foreign exchange and interest rate risk and since 2003 for equity risk. It takes into account correlations between all markets and the characteristics whereby the repeating of market parameters is not evenly distributed.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

Back testing

Komerční banka regularly reviews the accuracy of the VaR model through back testing. Trading results are compared with VaR results to monitor the number of violations against the 99% confidence level. In 2006, additional back testing was implemented that compares to VaR also a hypothetical profit and loss that excludes from daily results the intraday profit and loss.

During 2006, no daily loss (real or hypothetical) exceeded the 99% VaR level.

The Value-at-Risk and main exposures during 2006 were as follows:



Stress Test exposures (worst case) as of 29 December 2006

Foreign Exchange relative shock (EUR)	-454,000
Historical scenario	-2,966,000
Hypothetical scenario	-1,864,000

Operational Risk Management

In the operational risks area, Komerční banka aims to achieve Société Générale's objective of Advanced Measurement Approaches (AMA) method validation at Group level. Therefore, all operational risks management instruments required by the AMA method are progressively being implemented in KB. These instruments are: Data Collection, Risk Control Self Assessment, Scenario Analysis and Key Risk Indicators.

After implementing operational risk losses data collection in 2005, the Bank has completed an operational loss database with data since 1 January 2003 and the losses have been systematically reconciled with the accounting data. During the year, 230 operational risk losses were collected with a total gross amount of EUR 10.8 million.

The Risk Control Self Assessment (RCSA) exercise was completed in 2006. RCSA is a qualitative assessment of the Bank's processes in comparison to Société Générale Group's best practices. The exercise consists of a large questionnaire (more than 2,200 questions across the Bank), and its results were satisfactory. That indicates the good level of control mechanisms in KB. An action plan based on the RCSA results was implemented in order to improve the level of controls in the weakest areas.

The Scenario Analysis exercise aims to evaluate the Bank's vulnerability to events having low probabilities of occurrence but large potential impacts. Nine scenarios were identified and evaluated in 2006.

The Key Risk Indicators (KRI) exercise has as its objective to continuously monitor the exposure to operational risks. This exercise was begun at the end of 2006 and will be concluded in the first quarter of 2007.

The operational risks validation agenda has been agreed with the regulator. The Czech National Bank started the pre-validation process in mid-2005. This should end by May 2007. The validation process is then planned for the second half of 2007 after the assessment by KB's internal audit.

In the area of Business Continuity Management, all business-critical activities were covered during 2006 by a corresponding continuity plan. The majority of these were supported by a back-up site and the plan's functions have been tested. The systematic testing of the business continuity plan will continue in 2007, when the last back-up site will be established. Komerční banka's crisis management procedures also will be finalized in 2007.

The Risk Control Self Assessment exercise was completed in 2006.

The Key Risk Indicators exercise has as its objective to continuously monitor the exposure to operational risks.

Basel II in 2006

In the context of the strong risk management and control within the KB and Société Générale groups, Komerční banka aims under Basel II to adopt for purposes of regulatory capital adequacy reporting and examination Internal Rating Based (IRB) approaches for credit risk and the Advanced Measurement Approach (AMA) for operational risk. This will be supported by Société Générale's central model.

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

During 2006 KB focused on validating the IRB approach.

The Bank began its Basel II Project in 2002. For 2006, KB focused on the following areas and targets:

- Credit Risk Models
  - continuous update of existing models for estimating probability of default for corporate and retail clients,
  - extending utilisation of behavioural scoring models for purposes of credit decision-making processes in retail banking,
  - completion of models employed for estimating losses given default and exposure at default, and
  - enhanced implementation of Basel II models in internal processes to fulfil use test requirements (approval process, pricing, provisioning, etc.).

- Operational risks
  - data collection (continuous update of operational risks loss database);
  - completion of Risk Control Self Assessment (qualitative assessment of the Bank's processes in comparison to Société Générale Group's best practices);
  - scenario analysis to evaluate vulnerability to low-probability but large-impact events;
  - key risk indicators (KRI) exercise to monitor continuously the exposure to operational risks (to be completed in 2007); and
  - in Business Continuity Management, covering business-critical activities with a continuity plan.

- Validation of the IRB approach
  - A dedicated project for validating the IRB approach (in co-operation with Société Générale, KB Internal Audit and the Czech National Bank [CNB] on validation issues) and then establishing a detailed validation plan; and
  - validation of the IRB approach implementation, including Basel II models in KB, by Internal Audit.

- Data and capital requirement calculation
  - implementing and enhancing systems of credit risk data collection for regulatory reporting;
  - completing risk parameters set-up for KB models within Société Générale Group's common credit risk weight calculation tool; and
  - executing internal quarterly pilot calculations of Basel II capital requirements with the aim to test and calibrate data systems and processes.

- Training
  - general and specialised training for managers and specialists from risk management and finance departments in co-operation with Société Générale Group.

- Others
  - actively reviewing the proposed CNB Basel II decrees and commenting through the Czech Banking Association to the CNB.

Asset and liability management

Asset and Liabilities Management (ALM) proposes strategy and manages interest rate, liquidity and foreign exchange risks on the bank and group levels. It also proposes how the assets and liabilities may be managed to optimise the Bank's financial performance. The Assets and Liabilities Committee (ALCO) approves rules and methods for managing interest rate, liquidity and foreign exchange risks, including proposed hedging transactions. All ALM activities fully comply with requirements of the Czech regulatory authorities and with relevant international banking regulations.

Liquidity risk

Management of liquidity risk is primarily designed to ensure that KB can meet its funding requirements at all times. This includes maintaining adequate volumes of cash as well as balances on nostro accounts and the account for minimum mandatory reserves while keeping the Bank's costs low and not excessively restraining its business activities. Liquidity is maintained by consistent diversification of sources and by cash flow management, as these reduce the occurrence of unforeseen requirements for additional funding during a given period. This primary objective is achieved by way of managed coverage of the Bank's cash-out with a very high confidence level of 99% (this level was increased from the previous 97.5% after a methodology update in 2006) over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency – CZK, USD, EUR and others – is monitored on two levels of market behaviour: normal and stressed scenario. Sufficient liquidity is controlled using a system of limits. To achieve these, KB uses on-balance sheet instruments (e.g. bond issues, loans taken) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps). During the course of a regular methodology update, both stressed and normal liquidity scenarios methodologies were improved in 2006 in order to achieve more precise liquidity measurement. Thanks to the new methodology, the Bank achieved greater accuracy, especially in the deposits area, between the modelled estimated product amortisation and actual amortisation.

Komerční banka continued to issue mortgage bonds during 2006 in order to achieve an advantageous funding of mortgage loans. As of the end of 2006, the total nominal amount of mortgage bonds placed reached CZK 24.8 billion, which is CZK 3.32 billion more than as of year-end 2005. In 2006, KB completed a new EUR-denominated mortgage bond issue in the volume of EUR 42.67 million (CZK 1.17 billion) maturing in 2016 and with a fixed coupon of 3.74%.

At the end of 2006, the Bank increased its liquidity and capital adequacy by accepting a subordinated loan in the volume of CZK 6 billion and with an interest rate derived from 1M PRIBOR. By strengthening KB's capital, the subordinated debt supports further growth potential and optimises its capital structure.

At the end of 2006 KB accepted a subordinated loan in the amount of CZK 6 billion.

Structural interest rate and foreign exchange rate risk

Structural interest rate and foreign exchange rate risks are risks of potential loss arising from positions held in Komerční banka's Structural Book.

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

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

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

Price setting

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

KB continued strengthening its internal rules to ensure ethical behaviour of its employees.

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

Management of Regulatory Risk

Regulatory risk derives from potential non-compliance with laws and other regulations as well as subsequent sanctions imposed by the regulator. Komerční banka's management considers compliance with laws and other regulations as a natural aspect of a company's responsible management and behaviour of its employees. Therefore, this sphere is given high priority and considerable attention in the Bank. The Compliance Department, which deals with regulatory risk management, has been established in Komerční banka already since 2000.

Komerční banka's activities are subject to regulation by the Czech National Bank. As the country's financial markets supervision was centralised and integrated into the CNB during 2006, there were some changes in supervision of KB's activities as a securities trader and depository. With regard to anti-money laundering measures, Komerční banka is supervised by a specialised department of the Ministry of Finance. Stock exchange operations are supervised by the Prague Stock Exchange, a self-regulating body.

Depending on their activities, the Bank's subsidiaries are overseen by the CNB and the Ministry of Finance (Penzijní fond KB, Modrá pyramida stavební spořitelna) or by the National Bank of Slovakia (KB Bratislava).

Banking institutions in the Czech Republic are subject to practically the same rules as are valid in other EU countries. The year 2006 brought some regulatory changes relating to the Bank's activities, and particularly regarding the areas of consumer protection and of investment services. KB has accordingly incorporated the requirements resulting from these regulations into its internal rules and processes.

Komerční banka began during 2006 to examine a new EU directive on investment services, Markets in Financial Instruments Directive 2004/39/EC (MiFID). A project for implementing this important regulation will follow in 2007.

Also during 2006, Komerční banka examined a new Basel II capital concept (reflected in Directives 2006/48/EC and 2006/49/EC), which sets a large number of requirements for control and management system of the Bank.

As in the previous year, KB continued to give close attention to strengthening its internal rules to ensure the ethical behaviour of its employees.

Preparation for MiFID implementation started.

Environmental Risk Management

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

Komerční banka further improved the control systems for premises heating in 2006. For example, the control system for electric heating in KB's training centre was substantially modernised.

During 2006, the Bank changed the manner of facility management in all buildings, distributing the operations among four reputable facility management providers. As a result, Komerční banka expects that operating the buildings should be more efficient in environmental terms. Currently, KB is working on a system for comparing costs among the individual buildings in order to identify possible operating inefficiencies.

In reconstructing buildings or constructing new points of sale, modern materials and technologies are used, thus reducing the energy needs for operating these buildings and making them more environmentally friendly.

When assessing credit risk, KB takes into consideration compliance with ecological standards and the possible impacts of breaching those standards. The Bank identifies and monitors sensitive sectors and analyses the impacts of the clients' businesses on the environment. In case of a potential negative impact, the Bank, based on a special questionnaire, assesses direct and indirect environmental effects as well as coverage of those environmental risks and the measures adopted. Significant consideration is given also to information related to statutory standards and environmental audits at the clients. Moreover, Komerční banka seeks to finance ecologically friendly projects as well as cleanup programmes for environmental damages that occurred in the past.

The Bank strictly conforms to the legal requirements related to environmental and health protection and occupational safety.

Internal audit helps to improve the effectiveness of risk management, control and governance processes.

Internal Audit

Internal Audit is an independent body carrying out assurance and consulting activity to improve processes in the Bank. It helps Komerční banka to accomplish its objectives by bringing a systematic approach for evaluating and improving the effectiveness of risk management, control and governance processes.

The Internal Audit Arm (IA) closely co-operates with the Audit Committee of the Supervisory Board in providing all these activities, and it acts in accordance with the strategic vision for internal audit development approved by the Board of Directors. A transformation of IA began at the start of 2006. This involved centralisation, organisational changes and significant staff changes.

Great attention is given to training of the staff. All IA employees, including new ones, received proper training and instructions on how to correctly implement methodologies based on the best practices of the parent company.

Internal Audit was very attentive during 2006 to the analysis of risks required by the regulator. This analysis is based on the COSO Enterprise Risk Management standard, standards for internal audit and on KB/SG internal methodology. For the first time, representatives from all arms of the Bank took part in this risk analysis. A new system for the risk assessment of Komerční banka and support of audit tasks was also used for the first time. The risk analysis covers all areas of KB's activities and all essential risk categories enabling their comparison. Based upon this risk analysis, annual and strategic Internal Audit plans for 2007–2010 were prepared.

Internal Audit also provides consultancy services and assists the Bank's management with implementing First Level Control (FLC) in Komerční banka. FLC comprises two elements: day-to-day controls of all staff and formalised controls of the management. After implementation in the distribution network, FLC is being implemented also in the headquarters. Internal Audit also verifies the functionality of controls already implemented.

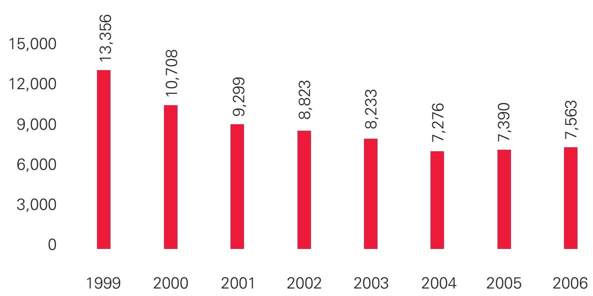
Apart from these activities, in 2006 IA started to review the implementation of the new capital adequacy requirements (Basel II). The independent assessment of all elements of the advanced internal models (IRB for credit risk, AMA for operational risk) will also be among the most significant IA tasks in 2007.

Human Resources

The main objective in human resources during 2006 was to strengthen the conceptual and strategic approach to human resources management. Komerční banka focused on increasing employees' motivation, deepening the internal communication, and unifying the corporate culture and fundamental values represented by professionalism, innovation and teamwork.

As of year's end, the Bank's total headcount stood at 7,563, of which 3,003 (40%) worked at headquarters and 4,560 (60%) in the distribution network. Compared to the previous year, the total number of employees had risen by 173, or 2.3%. This increase occurred due to significant growth in the number of new business locations, as the branch network was extended by 19 new points of sale in 2006.

Development of the year-end headcount



KB's expanding business activities and related growth in employee numbers intensified demands on the recruitment process and for its quality. In 2006, Komerční banka hired a total of 1,164 new employees, of which 444 were for headquarters and 720 for the distribution network. The Bank's main priority in support of its development remains the recruitment and selection of talented university graduates. The effort devoted to these activities has borne fruit, and, for the fourth year in a row, Komerční banka was named the "Most Desired Employer of the Year for University Graduates" in the "Employer of the Year" survey.

As of year's end, the Bank's total headcount stood at **7,563.**

The Young Graduate Programme continued for the fifth year. Its target is to initiate the professional development of young graduates coming into the Bank. Last year, KB Bratislava also joined this programme. Since its beginning in 2002, 195 participants have gone through the programme. Komerční banka also offers employment to college graduates, who find especially opportunities in the distribution network. The recruitment centre gave great support to the sales network in its efforts to improve the quality of services provided to the Bank's clients and in opening new points of sale. The intensive recruitment campaign and subsequent selection process resulted in the selection of 328 new relationship managers in 2006.

Komerční banka provides an attractive opportunity also to foreign students who are regularly hired as a part of the internship exchange programme. The students can gain interesting work experience while studying, and they also learn more about Komerční banka and its corporate culture. In this way, they can put their theoretical knowledge into practice and obtain information that can be utilised in their future studies and graduation theses.

Education and professional development is one of the Bank's priorities.

The Bank has become a traditional partner for Czech culture, amateur sport and educational institutions.

Education and professional development is one of the Bank's priorities. Expertise and skills required for the Bank's employees are continually changing. Therefore, one of the main objectives in 2006 was to deepen and broaden the employees' skills and qualifications. Komerční banka created for its employees an extensive system of courses, seminars and other educational programs. For the organisation of these training projects Komerční banka draws upon the offerings of renowned firms and accredited educational institutions. Part of the courses are also organised internally by the Bank, such as the welcome workshop for new employees, which in 2006 was attended by 817 newly recruited personnel. The average number of training days per employee reached almost 9 during 2006.

Komerční banka's fundamental strategy in the human resources area is to create long-term relationships with its employees and systematically to implement new management methods. Therefore, a new educational programme for managers was prepared under the name Evolution. Its objective is to improve the quality of managerial work at all management levels and to harmonise this with Komerční banka's objectives and strategy. This programme should contribute not only to the development of individual managers but also to that of the Bank as a whole. Another programme, called Progress, was successfully ongoing in KB for its second year. This is intended for the Bank's current employees with the goal of preparing a new generation of managers.

To improve the quality of services provided to clients and the sales skills of the relationship managers, the School Branch project has been created. Two training branches have been established in order to bring the training of relationship managers as close as possible to actual practice and so that they learn how to optimally address the clients' needs. A third training branch was established in February 2007.

The employer fulfilled its obligations for 2006 under the collective bargaining agreement and negotiated wage conditions for 2007 with the trade union. In particular, an agreement was reached regarding an increase in the base salaries corresponding to the trend in the banking market. Moreover, certain aspects of the benefits were modified.

The Société Générale Group global share plan for its employees was a great success for the third year. More than 45% of Komerční banka's employees participated in this plan last year, which is 16% more than in the previous year. In total, 3,203 employees took advantage of the opportunity to invest in Société Générale Group shares.

KB is developing its competitive strength in a dynamic job market, and therefore it is focusing on employees' motivation, development and retention. In this regard, great emphasis is also placed on internal mobility, which is considered one of the fundamental means of developing Komerční banka employees in accordance with Société Générale's long-term approach. There are currently many Czech employees working in various countries worldwide where Société Générale is present. In addition to France, for example, these countries include Switzerland, Russia, Egypt, Singapore and Bulgaria.

Corporate Citizenship

Komerční banka honours its commitments to society that arise from its position as a major Czech financial institution. Sponsorship and donating activities are therefore an integral part of the Bank's strategy, and these reflect the fundamental values to which KB subscribes: professionalism, innovation and team spirit. In its business policy, Komerční banka emphasises the importance of long-term relationships with clients, and, in a similar way, it is building long-term relationships in sponsoring. The Bank has become a traditional partner for Czech culture, amateur sport and educational institutions.

The partnership with the National Theatre continued to develop successfully during 2006. The year marked the fifth consecutive season that Komerční banka and the country's main theatrical stage worked hand in hand. For the first time in 2006, an expert jury awarded KB Prizes for the best debut performances from the 2005/2006 season to soloists of the National Theatre's ballet, drama and opera ensembles. This award is part of the extended co-operation between the Bank and the National Theatre, which had been sealed by a new partnership agreement signed in May 2005.

Komerční banka also supports selected concerts of the Prague Symphonic Orchestra. As part of its sponsorship activities for regional projects, KB has become the general partner of Concentus Moraviae, an important international music festival organised by 13 towns and cities. Moreover, the Bank is not forgetting young musical talents. Through a project of the French-Czech Music Academy in the town of Telč, which is organised with contributions from Komerční banka, young musicians have the possibility to learn from experienced Czech and French music teachers.

Also with support provided by Komerční banka, the Kampa Museum in Prague presented during 2006 exhibits from the Société Générale Group's collection of contemporary art. It was the first time works from this collection were lent outside of France. Visitors to the exhibition were able to enjoy the works of many such world-renowned artists as Andy Warhol, Pierre Alechinsky and Tom Carr.

For the fourth time, KB was the main partner in 2006 of the French Film Festival, which has also become well established in several regions of the Czech Republic. More than 11,000 visitors attended the 2006 festival.

The year 2006 marked the fifth consecutive season of co-operation between Komerční banka and the National Theatre.

Sponsorship of non-professional sports, and in particular the Czech Rugby Union, has become a long-established Komerční banka tradition. But the Bank's support is not intended only for the national team, as a major part of this funding is directed also to developing and promoting the game amongst young people. Through co-operation between Komerční banka, its parent Société Générale and the Czech Rugby Union, Czech rugby fans were given an opportunity to admire one of the world's most valuable trophies: the "Webb Ellis Cup". This trophy is awarded to the winner of the Rugby World Cup competition, and its lending for display to the Czech Republic was prepared by Komerční banka.

KB's partnership with the Czech Association of Disabled Athletes is also developing successfully. Thanks to Komerční banka's contribution to their training in spring and to organising the Czech Cup competitions, Czech athletes were able to prove their abilities by winning nine medals – four of them gold – at the European championship.

Co-operation with the Prague Zoo continued, too, in 2006. As has become tradition, the Bank made the Children's Day more pleasant for the little visitors by preparing an entertainment programme for them. Of course, KB also was among those who expressed congratulations to the Zoo's millionth visitor.

Komerční banka is building long-term relationships with Czech universities, too. In 2006, it was a partner of Prague's Charles University, University of Economics and Czech Technical University, as well as of Masaryk University in Brno, Technical University in Ostrava, Western Bohemian University in Plzen, University of Hradec Kralove and the University of Pardubice. The Bank supports technical conferences and seminars, and it assists students to participate in internships that enable them to gain practical experience while still at school. Another part of support for education is to grant scholarships and financial assistance for study visits abroad. Komerční banka's managers also share their practical experience with students through lectures or in mentoring work on diploma theses. In co-operation with the French Institute for Research in Social Sciences, KB grants scholarships each year to students who are selected by an expert jury. Komerční banka is also a traditional partner of the AIESEC and IASTE international student associations, to which it provides financial support in organising job fairs. The Bank also actively participates in those events.

Moreover, KB employees support charitable projects through the KB – Jistota Foundation. The Foundation is financed from both the Bank's contributions and those made by individual employees. The Jistota Foundation provided support totalling CZK 1,000,000 to the Scholarships project of the Livia and Václav Klaus Foundation, which is focused on students up to 26 years of age from foster and socially weak families. Among its cultural activities, the Foundation donated CZK 400,000 to the Czech Republic's National Library to make an artistic and digital copy of the Breviary of Kunhuta from Kolovraty.

KB and its employees support charitable projects through the KB – Jistota Foundation.

The Foundation also contributed CZK 1,000,000 to the Institute for the Care of Mother and Child in Prague for purchasing a 3D ultrasound instrument for the prenatal diagnostics department. The Bank donated CZK 360,000 to Masaryk University in Brno under a three-year programme, and this amount was targeted toward developing a tumour fighting vaccine. In 2006, KB contributed CZK 400,000 to the Czech Federation of Food Banks for the purchase of a special vehicle. Through its donations, the Jistota Foundation also supported the hospital in Most, the Traumatological Hospital of Brno, the medical emergency service of the Ústi Region, the Humanitarian Help Movement in Blansko, and a number of other social and health activities and projects.

Corporate Social Responsibility

Société Générale became a signatory to the United Nations Environment Programme Statement by Financial Institutions in 2001 and to the Global Compact (as a member of the National Council for Sustainable Development) in 2003. Komerční banka, as an integral part of the Société Générale Group, is also committed to operate in a manner consistent with the main principles of corporate social responsibility, sustainable development and environmental protection.

Komerční banka aims to become an acknowledged reference in corporate social responsibility (CSR), and thus to afford itself a major competitive edge. The challenge is to concretely integrate the notion of CSR into the strategies of its various businesses in order to create value for the KB Group and its stakeholders. It is not simply because KB is a responsible bank that it sets as a priority to address the environmental and social risks to which our activities are exposed, but it is also because the Bank manages its operating risk with the utmost care. Indeed, given the importance of its image and reputation in securing its future, KB Group is an advocate for maximum transparency in all communications and exchanges with its diverse partners.

KB's CSR policy means putting these commitments into practice and continually looking for ways to progress.

Corporate Governance Principles and Ethical Code of Komerční banka

Komerční banka gives strong consideration to observing rules for corporate governance and principles related to ethical behaviour of individual bank employees. These rules and principles are incorporated into the major internal rules of Komerční banka, collectively known as the Corporate Governance Principles and Ethical Code.

Corporate Governance Principles highlight the Bank's effort relating to respecting the interests and privacy of clients, business partners and employees, compliance with regulatory rules, co-operation with regulatory bodies responsible for supervising the Bank's activity, maintaining political neutrality and not financing political parties or movements, respecting the confidentiality of non-public information, complying with principles of economic competition, respecting fundamental human and worker's rights, respecting the environment, and actively combating money laundering and financing of terrorism.

The Ethical Code includes principles relating to behaviour and conduct of individual bank employees. Principles included in the Ethical Code refer, for example, to the obligation to avoid conflicts of interest and not abuse one's position, knowledge or confidential information to the detriment of the Bank or for trading with investment instruments, as well as to obligation to act professionally towards clients and to be aware of relevant internal rules and legal regulations. Included here, too, are the rules on protecting confidential information about clients, employees, the Bank itself, and the entire Société Générale.

Komerční banka is committed to operate in accordance with the principles of corporate social responsibility, sustainable development and environmental protection.

Corporate Governance Principles highlight the Bank's effort to respect the interests and privacy of clients.

Comments on the IFRS Consolidated Financial Results

The Komerční banka Group reported a rise in consolidated and audited net profit of 2.3% to CZK 9,120 million under International Financial Reporting Standards (IFRS) for 2006. The growth in profitability was driven by operating efficiency and rising revenues, and it was underpinned by the strong economic and financial environment in the Czech Republic. The net banking income grew by 7.3% while operating expenses climbed at a much slower pace of 2.3%. As a result, operating profit rose by 12.3% year on year to reach CZK 13,884 million. The recurring profit excluding exceptional items increased by 18%. The efficient cost control and growth in net banking income brought about further improvement in the cost-income ratio to 47.2%. Due to higher average shareholders' equity that was achieved in 2006 despite the significant dividend payment of CZK 9,502 million, the return on equity slightly declined from the 18.5% achieved in 2005 to 17.9% in 2006.

Growth in profitability was driven by operating efficiency and rising revenues.

The reported consolidated financial results were also influenced by acquisition of the outstanding 60% stake in Modrá pyramida stavební spořitelna (MPSS). That transaction was completed on 13 October 2006 and Komerční banka became the sole shareholder of MPSS. As a result, in the fourth quarter of 2006, MPSS started to be fully consolidated.

Profit and Loss Statement

Net interest income

Net interest income increased by 10.3% to CZK 16,155 million, or by 9.1% when adjusted for a contribution from the consolidation of MPSS. KB's standalone share in the total income stood at 90%. The net interest income benefited mainly from increased lending volumes, as gross loans rose by 21.1% year on year, and from growth in the deposit base of 8.3% (both rates adjusted for MPSS acquisition). The growth was partially moderated by narrowing spreads on all main products. The net interest income from deposits showed an increase of 7.5% to CZK 9,108 million, while from loans it grew by 16.8% to CZK 5,272 million. Investment banking activities contributed CZK 421 million to the net interest income, up by 131% compared to 2005. The latter was positively impacted by successful client transactions and proprietary trading. Net interest income also was affected by early redemptions of CDOs in the first half of 2006 totalling CZK 262 million. In spite of pressure on spreads, the net interest margin remained at 3.2%, due to an improving asset mix and growing volumes.

Net fees and commissions

While total net fees and commissions increased by 0.4% to CZK 8,769 million, these actually declined by the same percentage if adjusted for the larger stake in MPSS. The contribution from KB's subsidiaries was marginal and only after the full consolidation of MPSS did this show a 1% gain for the full year. Non-FX fees and commissions reached CZK 7,170 million, up 0.7% year on year, thanks to growing sales and transaction volumes but limited by overall pressure on prices and by clients' switching to more favourably priced financial packages and direct banking channels. The net lending fees were also impacted by a rise in commissions paid to mortgage intermediaries (+77%). At the Bank level the most dynamic growth was seen in the fees from cross-selling the products of the Group companies and other partners. This was driven by demand for mutual funds and insurance, although the share of these fees is still low. FX fees remained stable as the rising fee income from FX clean payments was offset by lower FX conversions. The relative decline of FX fees in the total fees is a gradual process that relates to the introduction of the euro and competitive pressures on prices.

Net profit from financial operations

Net profit on financial operations amounted to CZK 1,273 million, showing a gain of 2.8% compared to 2005. The Group companies contributed 22% to the consolidated result, with the main contributor being Penzijní fond Komerční banky (PF KB). KB's standalone contribution increased from 63% to 78%, mainly due to lower growth in the capital markets in 2006, which impacted PF KB's net profit on financial operations. The consolidated profit from securities and security derivatives declined therefore by 7.8% to CZK 722 million. Net profit from foreign exchange operations totalled CZK 418 million. This item was generated mainly by client spot operations and FX options. The net profit from interest rate and commodity derivatives recorded an upturn to reach CZK 132 million in 2006 after a loss of CZK 173 million in 2005.

Other income

Other income totalled CZK 105 million, compared to a loss of CZK 115 million in 2005. In 2006, other income consisted predominantly of property rental income. In 2005, the item had been influenced by the creation of life insurance technical provisions.

Net banking income

The net banking income rose by 7.3% to CZK 26,302 million. Adjusted for the MPSS acquisition, the increase was 6.3% to CZK 26,056 million.

Operating costs

The Group again succeeded in maintaining a high degree of cost control in 2006. Total operating costs grew by 2.3% (0.7% when restated for MPSS) to CZK 12,418 million, although it was positively influenced by some one-off items. The cost/income ratio thus further improved to 47.2% from 49.5% in 2005.

Personnel expenses climbed by 3.6% to CZK 5,213 million, driven by a rising average number of employees that followed the expansion of business-related activities, by an increase in the average salary, and by the MPSS acquisition. The result was also positively impacted by releases from the employees loyalty reserve of CZK 147 million. The average number of Group employees rose by 7.2% to 8,267 in 2006, but only by 2.5% if adjusted for MPSS. The 2.5% growth was driven by the net opening of 18 new branches and overall strengthening of the Group's sales force.

General administrative expenses totalled CZK 5,544 million, which was a year-on-year increase of 4.6% (2.5% when restated for MPSS). The growth of general administrative expenses was driven by rising costs of sale and banking products and in property maintenance charges. Also the deposit insurance contribution went up by CZK 49 million. On the other hand, the Group decreased its expenses on IT support, office equipment and external advisory services.

Depreciation, impairment and disposal of fixed assets declined by 7.8%, mainly due to last year's sale of property and a related CZK 395 million net provision charge created in 2005 for reclassification of buildings in the available-for-sale portfolio.

Net operating income

The higher revenues, driven by very good business performance in both retail and corporate banking, as well as by the efficient cost control, led to an improvement in the net operating income by 12.3% to CZK 13,884 million (11.8% and CZK 13,831 million, respectively, after restatement onto the same consolidation basis as in 2005).

Net banking income grew by 7.3% to CZK **26.3** billion.

Net operating income exceeded CZK 13.8 billion, growing by **12.3%.**

Total consolidated assets reached CZK 597.6 billion reflecting solid growth of 16.3%.

Cost of Risk

Cost of risk includes provisions for loan losses and for impairment of securities, as well as provisions for other risk expenses. In 2006, the Group recorded a net provisioning charge of CZK 1,790 million, which compares to CZK 471 million in 2005. The 2005 result had been affected by the release of CZK 1,389 million in reserves for ongoing commitments (previously accounted as general reserves). Moreover, the year 2005 was impacted by significantly higher write-backs of provisions for corporate clients compared to 2006. The year-on-year rise corresponds also with the continuous growth in the Group's mass-market retail activities during 2006.

Net creation of provisions for loan losses amounted to CZK 1,536 million, compared to CZK 797 million as of the end of 2005. Provisions for impairment of securities amounted to a net release of CZK 6 million, following a net creation of CZK 179 million in 2005. Provisions for other risks, which are mostly dedicated to legal and certain operational risks, amounted to CZK 260 million in 2006. In 2005, there had been a net reversal of CZK 505 million, and mainly due to the aforementioned provision release for ongoing commitments. The 2006 result included creation of a one-off reserve of CZK 149 million for litigation. The consolidated cost of credit risk in 2006 stood at 43 basis points, whereas the cost of risk for KB standalone was at 39 bp. The difference is mainly driven by ESSOX, which has a risk profile typical for a firm engaged in consumer finance activities.

Share of profit of pension scheme beneficiaries

The share of profit of pension scheme beneficiaries declined by 15.4% to CZK 462 million from CZK 546 million in 2005. This share of profit represents 85% of the pension fund's net profit which, in accordance with the statutory requirement, must be devoted to the pension scheme's participants.

Profit before taxes

As a result of aforesaid developments, consolidated profit before income taxes increased by 2.2% year on year to CZK 11,815 million (1.8% and CZK 11,778 million, respectively, as adjusted for MPSS).

Tax charge

Income tax totalled CZK 2,695 million, up 1.5% compared to 2005. The tax charge was favourably influenced by the decrease in the statutory corporate income tax from 26% to 24% that became valid from January 2006. The increase over the 2005 tax charge is partly due to one-off recognition of a deferred tax asset that had resulted in a lower effective tax rate in 2005.

Net profit

The Group's net profit for 2006 amounted to CZK 9,120 million, which represented an increase of 2.3% from 2005. The growth was driven mainly by recurring profit, as the importance of one-off gains declined significantly.

Balance Sheet

As of 31 December 2006, total consolidated assets reflected year-on-year increase of 16.3% to stand at CZK 597.6 billion, driven by KB deposit's growth and by MPSS full consolidation (5% when adjusted for MPSS).

Assets

Cash and current accounts with banks

Cash and balances with central banks increased 60.8% from a year earlier to CZK 15.0 billion. Balances with central banks, which increased by 122.7% to CZK 7.8 billion, represent obligatory minimum reserves. The interest earned on obligatory minimum reserves with the CNB is equal to the CNB's two-week repurchase rate, which stood at 2.5% percent as of 31 December 2006 and 2% as of 31 December 2005. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.5% and 1.5% as of 31 December 2006 and 2005, respectively.

Amounts due from banks

Amounts due from banks decreased to CZK 208.7 billion, which is down 15.4% from the end of 2005. Loans to the Czech National Bank as a part of reverse repo operations declined by 21.1% to CZK 133.0 billion. Term deposits with other banks rose by 8.1% to CZK 55.6 billion. The bond portfolio, at amortised cost of CZK 15.3 billion, was lower by 8.2%. Within this portfolio, CZK 13.7 billion represented bonds issued by the parent bank, Société Générale S.A., that were acquired under standard market conditions in 2002 and 2006. During 2006, the Group sold back, also under standard market conditions, a bond issued by Société Générale with a nominal value of CZK 5.0 billion.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss included only trading securities as of 31 December 2006 and 2005. The Group's portfolio increased by 93.6% to reach CZK 14.7 billion. Fixed income debt securities increased by 41.1% to CZK 8.7 billion, and treasury bills rose by 408% to CZK 5.6 billion. Approximately 62% of the securities in the portfolio are publicly traded on the stock exchanges.

Net loans and advances to customers

Total net loans and advances grew by 33.4% to CZK 252.5 billion. Gross loans expanded by 33.2% to CZK 260.8 billion, out of which CZK 24.7 was a contribution of the MPSS acquisition. The loan book expanded by 21.1% if adjusted for acquisition of MPSS. The share of the standalone KB on the loan portfolio was 85%. Also influenced by MPSS, the share of retail lending on the total loan book increased from 27% to 39%, extending the trend of this category's continuously growing significance. The balance of specific provisions for loan losses reached CZK 8.3 billion, up 26% year on year.

Gross mortgage loans to individuals grew year on year by 32% to CZK 56.9 billion, while consumer loans provided by KB and ESSOX expanded in the same period by 27% to CZK 19.1 billion. MPSS loans also rose by 27%, reaching CZK 24.7 billion at the end of 2006. The Group's business loans increased by 15% to CZK 156.7 billion, out of which loans to small businesses granted by KB climbed by 26% to CZK 12.2 billion, loans to corporations (provided by KB and KB Bratislava) increased by 15% to CZK 91.0 billion, and loans to medium enterprises and municipalities (extended by KB) rose by 12% to CZK 50.8 billion.

Net loans and advances grew by **21%** on comparable base.

The quality of the loan book remains very good despite dynamic loan growth in 2006. Standard loans increased by 38.7% to CZK 234.4 billion and the share in the total gross loan portfolio reached 90% (versus 86% in 2005). The share of KB's subsidiaries in total standard loans was 15%. Loans rated watch declined by 13.4%, decreasing their share in the total portfolio to 5.7% (compared to 8.7% in 2005). Subsidiaries contributed 6% to the volume of watch loans. Watch loans were provisioned on average at 4.4%. Meanwhile, loans under special review (substandard, doubtful, loss) increased to CZK 11.5 billion, or by 20.3%, which rate was slower than growth in the overall portfolio. As a result, their share in the portfolio declined to 4.4% from 4.9% in 2005. The share of subsidiaries in the loans under special review was 13%. At the end of December 2006, 66% of the loans under special review were covered by specific provisions, up from 63% at the end of 2005.

The quality of the loan book remains very good despite dynamic loan growth in 2006.

The used value of collateral for client loans increased by 37% to CZK 102.4 billion, of which 62% was in the form of real estate.

Securities available for sale

The portfolio of securities available for sale grew by 138.8% to CZK 72.2 billion, out of which CZK 1.4 billion are shares and participation certificates and CZK 70.7 billion are debt securities. The proportion of securities held by standalone KB was 32%, amounting to CZK 23.2 billion, which represents an increase of 57.4%. Debt securities issued by state institutions in the Czech Republic amounted to CZK 44.7 billion, up 174.4% year on year, the value of debt securities issued by foreign state institutions reached CZK 10.5 billion (+133%), and the value of debt securities issued by financial institutions in the Czech Republic amounted to CZK 13.4 billion (+235%). Almost 86% of the debt securities are denominated in CZK. The Group also held a portfolio of CDOs denominated in USD which had been restructured between 2004 and 2005. As of December 2006, the carrying value of the CDO portfolio was USD 20 million, down from USD 137 million as of 31 December 2005 due to redemptions and sales. The majority of that portfolio now consists of CDOs rated A+ or higher.

Investments held to maturity

As of the end of 2006, the portfolio of securities held to maturity had declined slightly from CZK 3.4 billion to CZK 3.3 billion. The reduction was mostly attributable to foreign exchange rate changes, since no transactions took place within this portfolio during 2006. This portfolio is comprised of bonds from countries within the European Monetary Union and the Czech Republic.

Assets held for sale

This portfolio is made up of buildings and land owned by the Group and which the management had decided to sell. The carrying value of the property was CZK 613 million, compared to CZK 826 million as of 31 December 2005. The difference arises from the sale of part of these assets and some reclassifications.

Goodwill

At the end of 2006, goodwill amounted to CZK 2,903 million, compared to CZK 162 million at the end of 2005. The increase reflected the acquisition of MPSS. In recognising goodwill, the Group, in accordance with IFRS 3, used provisional values in circumstances where the fair values of identifiable assets, liabilities, contingent liabilities and the cost of the combination are determined only provisionally. Any adjustments to those provisional values must be recognised within 12 months of the acquisition date.

Tangible and intangible fixed assets

The amount of tangible fixed assets rose by 5.1% to CZK 8.0 billion. Intangible fixed assets increased by 10.5% to CZK 2.4 billion. The movements were influenced by the MPSS acquisition.

Investment in associates and unconsolidated subsidiaries

Total investment in associates and unconsolidated subsidiaries declined to CZK 434 million as of 31 December 2006, compared to CZK 1,023 million as of 31 December 2005. The decline follows the acquisition of the remaining 60% stake in MPSS.

Liabilities and Shareholder's Equity

Amounts due to banks

In 2006, amounts due to banks decreased by 55.5% to CZK 14.6 billion. The decline stems mainly from repo operations with the CNB and other banks.

Amounts due to customers

Amounts due to customers totalled CZK 480.1 billion, which represents an increase of 23.6% compared to the end of 2005. Of this, CZK 59.7 billion is a contribution from the MPSS acquisition, adjusted for which the deposit base increased by 8.3%. Partially due to the acquisition, the proportion of retail deposits rose from 36% to 44%. The volume of deposits on current accounts reached CZK 252.0 billion, up by 5.6% and represented 52.5% of total primary deposits. Total term and saving deposits increased by 67.0% to CZK 161.5 billion, the biggest contributor being the acquired deposit base of MPSS. Clients' pension assets grew by 23.5% to CZK 18.8 billion.

The Group's shareholders' equity stood at CZK **50.6** billion.

Securities issued

The Group's certificated debt grew by 7.4% to CZK 24.3 billion. The portfolio comprises publicly tradable mortgage bonds issued to fund Komerční banka's mortgage activities.

Reserves

This line item declined by 34.8% to CZK 2.3 billion. It includes provisions for contracted commitments, which decreased by 35.6% and were influenced by release of provisions for loyalty bonuses amounting to CZK 147 million, and provisions for other credit commitments, which decreased by 33.1% to CZK 766 million. It also comprises a provision for off balance sheet commitments and a provision for undrawn loan facilities.

Subordinated debt

In 2006, Komerční banka accepted a subordinated debt of CZK 6.0 billion in order to strengthen its capital and support further growth potential as well as optimise the capital structure. The subordinated debt was issued by Société Générale, at standard market conditions.

Shareholders' equity

In 2006, the Group's shareholders' equity decreased by 1.4% to the total of CZK 50.6 billion, mainly influenced by a dividend payment of CZK 9.5 billion (approved at the 2006 Annual General Meeting). KB's share capital remained stable at CZK 19.0 billion. The hedging revaluation reserve, which reflects changes in the fair value of hedging derivatives, decreased from CZK 4.2 billion to CZK 2.8 billion as a result of an increase in interest rates. Also part of equity is the revaluation reserve for the available-for-sale portfolio, which amounted to CZK 1.2 billion (up 92.2%) at the end of 2006. Shareholder's equity also includes the attributable net profit of the current period in the amount of CZK 9.1 billion. Total shareholders' equity represents 8.5% of the Group's total assets.

Komerční banka Financial Group

As of 31 December 2006, KB Financial Group consisted of nine companies controlled to some degree by the Bank. Seven companies within the Group were subsidiaries wherein KB held controlling interests, while two were affiliated companies in which it held influential ownership interests.

In addition to its presence in the Group, KB has maintained several strategic interests where it has ownership of 20% or less, including in the Czech and Moravian Guarantee and Development Bank (13%) and Prague Stock Exchange (11.46%).

KB Financial Group continued during 2006 to co-operate closely with other companies from the Société Générale Group that are active on the Czech market, and especially in product development and sales through KB's distribution network. Emphasis is especially given to utilising the well-established know-how and market position. The result of such co-operation is a comprehensive offer of products for both private and business clientele.

Changes in Interest Ownership in 2006

On 7 September 2006, KB concluded contracts with BHW Holding (BHW) and with Česká pojišťovna (ČP) to buy those entities' shares in Modrá pyramida stavební spořitelna. The total purchase price for the 60% of the shares that the Bank did not already own was EUR 144 million (CZK 4.2 billion). The transaction was completed on 13 October 2006 and Komerční banka became the sole shareholder of MPSS. The process of acquiring MPSS has been successfully completed and the Bank has achieved its goal of gaining control over one of the key players on the market for building savings and loans.

During 2006 a main strategic step was the acquisition of Modrá pyramida stavební spořitelna.

In November 2006, the share capital of ESSOX was increased from the original value of CZK 245 million to CZK 1,385 million. The shares of both owners (i.e. KB, a.s. and SG Consumer Finance) have not changed, which means that KB still owns 50.9% in ESSOX.

The equity of Bastion European Investment (Belgium) was increased by EUR 134 million in July 2006. Thus, the share capital has risen from the original value of EUR 62,000 to EUR 562,000. This company was created by KB in December 2005 with the purpose to acquire financial investments in Belgium. The recapitalisation represents the completion of Bastion's funding structure as announced by Komerční banka in March 2006 when Bastion purchased a long-term amortising portfolio of receivables worth EUR 140 million owed by the European Commission.

The process of liquidating Komercni Finance (The Netherlands) was completed in 2006. The impact on KB's profit and loss account is insignificant (profit in the amount of CZK 5.9 million).

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

The co-operation in distribution was broadened with other members of KB Financial Group, and especially in integrating the products of those companies into Komerční banka's offering and in using the extensive KB distribution network.

The co-operation with other Société Générale Group companies active in the Czech market also continued in 2006. In the area of asset management, Investiční a kapitálová společnost (IKS) launched new guaranteed funds. The offer of Komerční pojišťovna (KP) was extended by the Vital Invest investment life insurance products. In the pension insurance segment, Penzijní fond Komerční banky (PFKB) has continually strengthened its market position as measured by number of participants.

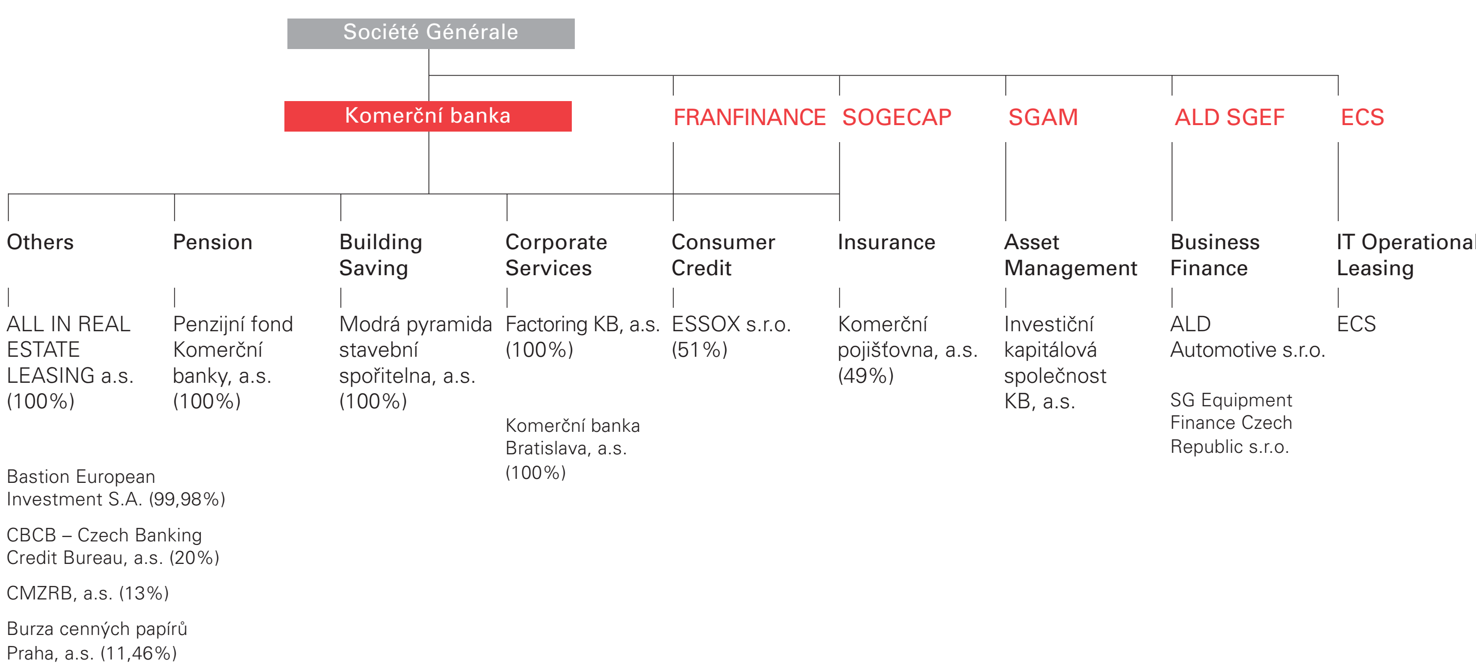
The acquisition of MPSS is a major strategic step for KB in terms of expanding on the domestic market. The deeper co-operation will create new potential for both KB and MPSS stemming from closer partnership, from the cross-selling of a broader offer of products to a larger client base, and from synergies connected to the MPSS network of well-trained financial advisers.

Subsidiaries and associate companies in the KB Financial Group

Company	Share capital CZK thousand	KB participation in the share capital – nominal CZK thousand	KB participation in the share capital – relative %	Net book value CZK thousand	Nominal value per share CZK thousand	Consolidation method
DOMESTIC PARTICIPATION						
Modrá pyramida stavební spořitelna, a.s.	500,000	500,000	100	4,322,204	100	Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	230,000	100	Full
Factoring KB, a.s.	84,000	84,000	100	90,000	100 and 10	Full
ALL IN REAL ESTATE LEASING a.s.	2,000	2,000	100	4,170	100	None
ESSOX s.r.o.	1,384,708	705,271	50.9	705,271	–	Full
Komerční pojišťovna, a.s.	602,768	295,344	49	379,413	74.6 and 37.3	Equity
CBCB – Czech Banking Credit Bureau, a.s.	1,200	240	20	240	10	None
Total	–	**1,786,855**	–	**5,727,128**	–	–
FOREIGN PARTICIPATION						
Komerční banka Bratislava, a.s. *	399,290	399,290	100	466,499	100,000 SKK	Full
Bastion European Investment S.A. **	16,029	16,026	99.98	3,814,101	1 EUR	Full
Total	–	**440,116**	–	**4,280,600**	–	–
Total	–	**2,226,971**	–	**10,011,898**	–	–

* CZK/SKK exchange rate 0.79858 as of 29 December 2006 (CNB)
** CZK/EUR exchange rate 27.495 as of 29 December 2006 (CNB)

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



MPSS maintains third position on building savings market.

Market share of Penzijní fond Komerční banky measured by volume of assets under management is 13.7%.

Modrá pyramida stavební spořitelna

Shareholder Structure	Komerční banka (100%)
Core Business	Building savings deposits and loans
Market Position	Third position on building savings market (market share 16.0% measured by deposits from clients)
Main Products	State-subsidised savings accounts Bridging loans Building savings loans

Financial Summary

CAS, CZK thousand	31 December 2006	31 December 2005
Total Assets	63,740,725	57,650,455
Total Loans (net)	24,358,023	19,221,921
Shareholder's Equity	2,529,409	1,604,826
Share Capital	500,000	500,000
Net Interest Income	793,041	666,199
Profit Before Tax	425,846	293,598
Net Profit	378,789	270,578

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

Penzijní fond Komerční banky

Shareholder Structure	Komerční banka (100%)
Core Business	Pension fund
Market Position	Penzijní fond Komerční banky, a.s. strengthened its position on the pension fund market in 2006. Market share by number of participants is 11.5% and as measured by volume of assets under management is 13.7%.
Rating	Aa1.cz according to Moody's Central Europe (the highest rating among Czech pension funds)
Main Products	State-subsidised pension insurance

Financial Summary

CAS, CZK thousand	31 December 2006	31 December 2005
Total Assets	19,907,830	16,590,659
Total Volume on Client Accounts	18,771,591	15,199,163
Shareholder's Equity	1,060,060	1,292,296
Share Capital	200,000	200,000
Net Financial Income	819,673	883,003
Profit Before Tax	527,979	632,582
Net Profit	528,754	620,910

Contact **Penzijní fond Komerční banky, a.s.**
Lucemburská 7/1170, 130 11 Prague 3, ID: 61860018
Tel.: +420 272 173 111, 272 173 172-5, Fax: +420 272 173 171
E-mail: pf-kb@pf-kb.cz, Internet: www.pfkb.cz

Factoring KB

Shareholder Structure	Komerční banka (100%)
Core Business	Factoring
Market Position	Fourth place on the factoring market, managing 15.5% of the factoring portfolio on the Czech market, which represents a 24% increase in volume of factoring turnover compared to 2005.
Main Products	Domestic factoring Foreign factoring Reverse factoring

Financial Summary

CAS, CZK thousand	31 December 2006	31 December 2005
Total Assets	5,324,145	4,441,835
Factoring Portfolio	5,230,597	4,352,916
Shareholder’s Equity	188,900	161,983
Share Capital	84,000	84,000
Net Factoring Income	186,357	156,746
Profit Before Tax	35,605	28,409
Net Profit	27,521	18,044

Contact **Factoring KB, a.s.**
Na Poříčí 36, P.O. Box 59, 110 02 Prague 1, ID: 25148290
Tel.: +420 222 825 111, Fax: +420 224 814 628
E-mail: info@factoringkb.cz, Internet: www.factoringkb.cz

Factoring KB is the fourth largest in the factoring market.

ESSOX

Shareholder Structure	Komerční banka (51%) Franfinance (49%)
Core Business	Providing consumer goods and automobile financing, credit cards and personal loans
Market Position	Increased its market share on the Czech market for non-banking consumer financing to almost 9% during 2006.
Main Products	Consumer loan Revolving loan Car leasing

Financial Summary *

IFRS, CZK thousand	31 December 2006	31 December 2005
Total Assets	5,106,359	2,500,273
Shareholders’ Equity	1,182,983	49,478
Share Capital	1,384,708	245,221
Loans to Clients (net)	3,636,707	2,205,309
Net Interest Income	395,795	259,175
Net Profit/Loss	-5,982	-48,195

* unaudited

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

ESSOX increased its portfolio of consumer loans by almost 65%.

Komerční banka Bratislava

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

Financial Summary

IFRS, CZK thousand	31 December 2006 *	31 December 2005 **
Total Assets	4,534,525	4,816,295
Loans to Customers	2,916,587	2,361,085
Deposits from Customers	2,559,572	2,284,465
Shareholder's Equity	653,217	580,657
Share Capital	399,290	382,825
Net Interest Income	98,923	78,819
Net Profit	52,987	1,086

* CZK/SKK exchange rate 0.79858 as of 29 December 2006 (CNB)
** CZK/SKK exchange rate 0.76565 as of 30 December 2005 (CNB)

Contact **Komerční banka Bratislava, a.s.**
Medená 6, p. p. 137, 811 02 Bratislava, Slovak Republic, ID: 31395074
Tel.: +421 259 277 328, Fax: +421 252 961 959
E-mail: koba@koba.sk, Internet: www.koba.sk

Komerční banka Bratislava provides complete banking services for corporate clients.

Komerční pojišťovna

Shareholder Structure	Sogecap (51%) Komerční banka (49%)
Core Business	Life insurance
Market Position	Sixth position on life insurance market (5.5%) measured by premiums written
Main Products	Saving life insurance Risk life insurance Capital life insurance Investment life insurance Accident insurance Payment card insurance Travel insurance
Products sold as a benefit of other products	Travel payment card insurance Risk life insurance for credit cards Risk life insurance for consumer loans

Financial Summary

CAS, CZK thousand	31 December 2006	31 December 2005
Total Assets	11,629,137	9,814,516
Technical Reserves	10,516,251	8,855,089
Shareholders' Equity	855,940	732,951
Share Capital	602,768	602,768
Gross Premiums Written	2,655,736	2,633,775
Investment Income	360,497	298,745
Net Profit/Loss	193,134	-50,015

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

Komerční pojišťovna returned to profit in 2006.

Statutory Bodies and Organisation Structure

Board of Directors

Laurent Goutard	**Chairman of the Board of Directors** (since 7 October 2005), Vice-Chairman of the Board of Directors (since 1 September 2004)
Philippe Rucheton	**Vice-Chairman of the Board of Directors** (since 7 October 2005, re-elected 3 May 2006), Member of the Board of Directors (since 2 May 2002)
Didier Colin	**Member of the Board of Directors** (since 9 October 2004)
Peter Palečka	**Member of the Board of Directors** (since 5 October 2001, re-elected 6 October 2005)
Jan Juchelka	**Member of the Board of Directors** (since 1 July 2006)

Laurent Goutard

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

Philippe Rucheton

Member of the Board of Directors since 2 May 2002. Graduate of the High Military-Technical College Ecole Polytechnique, Institut Supérieur des Affaires and of the Pantheón Sorbonne University. From 1972 to 1980, he worked as an adviser and senior manager in the banking operation of the BRED Group and from 1980 to 1988 in Louis-Dreyfus Bank. Between 1988 and 1995, he was the CFO and Deputy CEO of SG Europe Computer Systemes, a SG subsidiary. From 1995 to his election as a member of the Board of Directors of Komerční banka, he worked as director of Assets and Liabilities Management in Société Générale. KB's Board of Directors elected Philippe Rucheton as the Vice-Chairman of the Board of Directors and deputy CEO of Komerční banka with effect from 7 October 2005.

Didier Colin

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

Peter Palečka

Member of the Board of Directors since 5 October 2001. Graduate of the University of Economics, Bratislava. From 1982 to 1988, he worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. Between 1992 and 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organisation. He joined Komerční banka, a.s. in 1998 as the Director for Strategy. In October 1999, he was elected a member and in April 2000 Vice-Chairman of the Komerční banka's Board of Directors. On 5 October 2001, he resigned from this position and was re-elected on 5 October 2001 as a member and Vice-Chairman of the Board of Directors. At present, he is a member of the Board of Directors and Corporate Secretary.

Jan Juchelka

Graduate of the Business Faculty of the Silesian University in Karviná. After studies he worked in the private sphere and from 1995 at the National Property Fund of the Czech Republic, first in the securities department as an officer, later as a section and department manager. From 2000, he was Vice-Chairman of the Executive Committee of the National Property Fund of the Czech Republic and from 2002 to 2005 he was its chairman. Since 1 February 2006, he joined Komerční banka. On 26 April 2006 the Supervisory Board of KB elected Mr Juchelka a member of the Board of Directors in charge of Top Corporations with effect from 1 July 2006.

Personnel changes in the Board of Directors during 2006:

Jan Juchelka, Member of the Board of Directors, since 1 July 2006
Matúš Púll, Member of the Board of Directors, passed away 23 February 2006

Directors Committee

The Directors Committee is a body directing the strategy and all relevant matters relating to everyday banking business.

The Directors Committee takes three different configurations:

- Enlarged Directors Committee
- Retail Directors Committee
- Corporate and Investment Directors Committee

The Directors Committee is in charge of the strategy and of all important matters of everyday banking business.

The Directors Committee was established by the Board of Directors; its members are appointed by the Chairman of the Board of Directors and Chief Executive Officer. As of 31 December 2006, the committee consisted of the following members:

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

Personnel changes in the Directors Committee during 2006

Matúš Púll, Member of the Board of Directors and Executive Director, Corporate Banking (until 23 February 2006)
André Léger, Executive Director, Marketing (until 16 November 2006)
Jan Kubálek, Director, Program Renaissance (until 28 February 2006)
Jan Juchelka, Member of the Board of Directors and Executive Director, Top Corporations (since 1 August 2006)
Zdeněk Mojžíšek, Executive Director, Marketing (since 7 December 2006)

Supervisory Board

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

* elected by KB's employees

Three members of Supervisory Board are elected by KB's employees.

Didier Alix

Graduate in three-year studies of economics, and graduate of the Paris Institute of Political Studies. In 1971, he started to work for Société Générale, where he has held a number of positions. From 1972 to 1979, he worked at the Group General Inspection. In 1980, he started to work at the General Directorate as head of Central Risk Control. In 1984, he was appointed director of the Levallois Branch, and in 1987 as director of the Paris Opera Branch. From 1991 to 1993, he worked as chief executive officer of the SG subsidiary Franfinance, appointed within the activities of a specialised financial division. From 1993, he worked as deputy director and later as director of the French business network within the Retail Banking Division. In 1998, he was appointed chief executive officer of Retail Banking. In 2006, he became one of the SG chief executive officers. Since 2001, he has been a member and chairman of the Supervisory Board of Komerční banka.

Jean-Louis Mattei

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

Séverin Cabannes

Graduate of the Polytechnic School and of the Paris Mining School. From 1983 to 1985, he worked in Credit National. From 1986 to 1997, he worked on various strategic positions at Elf Atochem the most important being the position of Economic and Strategic Planning Director. Between 1997 and 2001, he worked at the La Poste Group as a member of the executive committee and, subsequently, as deputy chief executive officer in charge of the strategy, development and financial audit of the Group. In 2001, he joined Société Générale as financial director and as a member of the General Management Committee in charge of the Group financial management, management control, assets and liabilities management and investor relations. In 2002, he became deputy chief executive officer and financial director of STERIA Group, and in 2003 he became the company's chief executive officer. Since 1 January 2007, he has been working in Société Générale as Chief Administrative Officer; he is also a member of the Group Executive Committee. Since 2001, he has been a member of the Supervisory Board of Komerční banka.

Pavel Krejčí

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

Jan Kučera

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

Petr Laube

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

Christian Achille Frederic Poirier

Graduate of the National School of Administration, postgraduate studies of history. Between 1980 and 1987, he served on leading positions in the national administration. Since 1987, he has worked in Société Générale: from 1987 to 1991 as head of the department of public and governmental organisations, from 1991 to 1995 as director of the Japanese corporate department. Between 1995 and 1997, he worked as director of subsidiaries specialised in consumer credit, leasing and factoring. Between 1997 and 2001, he was deputy head of the Strategy and Marketing Division. Between 2001 and 2006, he was the head of Strategy and Marketing. Since January 1, 2007, he has been Senior Advisor to the Chief Executive Officer and Chairman of the Board of Directors of Société Générale. Since 2001, he has been a member of the Supervisory Board of Komerční banka.

Nina Trlicová

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

Personnel changes in the Supervisory Board in 2006

Jan Juchelka, Member of the Supervisory Board (resigned with effect from 26 April 2006)

Supervisory Board Committees

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

Remuneration and Personnel Committee

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

Audit Committee

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

Shareholders

Shareholder Structure

Major shareholders of Komerční banka, a.s. with over 5% of the share capital as at 31 December 2006:

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
Investors Bank & Trust Company	6.98

Of the Bank's total share capital, i.e. CZK 19,004,926,000 (38,009,852 shares in a nominal value of CZK 500), Société Générale S.A. holds 60.35%.
At the end of 2006, the number of shareholders comprised 46,249 corporate entities and private individuals.

Société Générale's share on KB's registered capital is

60.35%

Shareholder Structure of Komerční banka

(According to the excerpt from the issuers' register taken from the Securities Register Prague as at 31 December 2006)

	Number of shareholders	Proportion of number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	**46,249**	**100.000**	**100.000**
of which: corporate entities	358	0.77	89.03
private individuals	45,820	99.07	3.79
unidentified shareholder accounts registered	71	0.15	7.18
Corporate entities	**358**	**100.000**	**89.034**
of which: from the Czech Republic	181	50.56	2.45
from other countries	177	49.44	86.59
Private individuals	**45,820**	**100.000**	**3.791**
of which: from the Czech Republic	41,220	89.96	3.62
from other countries	4,600	10.04	0.17

Main Decisions of the General Meeting of Komerční banka, a.s. held in 2006

The Annual General Meeting was held on 26 April 2006. The shareholders approved the financial statements of the Bank for 2005, decided upon the distribution of profit for 2005 in the amount of CZK 9,148,377,021.83, and resolved to pay out pre-tax dividends in the amount of CZK 250 per share. The Annual General Meeting also approved:

- the report of the Board of Directors on the business activities of the Bank and the state of its assets for 2005,
- the consolidated financial statements for 2005, and
- acquisition of its own ordinary shares,

The Annual General Meeting also approved changes in the Bank's Articles of Association.

Report by the Supervisory Board

Throughout 2006, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the internal control and management system and made its regular assessments.

Having checked the Bank's annual and consolidated financial statements for the period from 1 January 2006 to 31 December 2006, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks bookkeeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

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

The Supervisory Board recommends that the general meeting approve the financial statements for the year 2006 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on relations among related entities in 2006 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2006 to 31 December 2006, Komerční banka, a.s., did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 13 March 2007

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

Didier Alix, Chairman

Sworn Statement

Komerční banka, a.s., hereby declares that all information and data contained in this annual report are accurate and correct. It further confirms that this document contains all facts that may be important for decisions taken by investors.

Komerční banka, a.s., also declares that as at the date on which the annual report was compiled no negative changes had occurred in the financial situation, nor there were any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Prague, 3 April 2007

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board of Directors and CEO

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

Auditor's Report

Deloitte.

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Nile House
Karolinská 654/2
186 00 Prague 8
Czech Republic

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
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Deloitte Audit s.r.o.
Registered address:
Týn 641/4
110 00 Prague 1
Czech Republic

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

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 114 07
Identification number: 45317054
Principal activities: Retail, corporate and investment banking services

Report on the Unconsolidated Financial Statements

Based upon our audit, we issued the following audit report dated 27 February on the unconsolidated financial statements which are included in this annual report on pages 69 to 122:

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 2006, 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 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 27 February on the consolidated financial statements which are included in this annual report on pages 123 to 178:

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries ("the Group"), which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of Komerční banka, a.s. for the year ended 31 December 2006 which is included in this annual report on pages 190 to 196. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Komerční banka, a.s. for the year ended 31 December 2006 contains material factual misstatements.

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

Report on the Annual Report

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

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

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

In Prague on 13 April 2007

Deloitte

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

Diana Rogerová

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová

Diana Rogerová, certificate no. 2045

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Financial Section

Unconsolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2006

Deloitte.

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110 00 Prague 1
Czech Republic

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 114 07
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 2006, and the unconsolidated income 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 2006, 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 2007

Deloitte

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

Diana Rogerová

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová

Diana Rogerová, certificate no. 2045

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Unconsolidated Profit and Loss Statement for the year ended 31 December 2006

CZK million	Note	2006	2005
Interest income	5	24,231	20,131
Interest expense	5	(9,373)	(6,508)
Net interest income		**14,858**	**13,623**
Net fees and commissions	6	8,691	8,718
Net profit/(loss) on financial operations	7	961	780
Dividends and other income	8	121	271
Net banking income		**24,631**	**23,392**
Personnel expenses	9	(4,909)	(4,737)
General administrative expenses	10	(5,122)	(5,122)
Depreciation, impairment and disposal of fixed assets	11	(1,578)	(1,734)
Total operating expenses		**(11,609)**	**(11,593)**
Profit before provision for loan and investment losses, other risk and income taxes		**13,022**	**11,799**
Provision for loan losses		(1,315)	(675)
Provisions for impairment of securities		0	(179)
Provisions for other risk expenses		(286)	504
Cost of risk	**12**	**(1,601)**	**(350)**
Profit or loss on subsidiaries and associates	13	6	341
Profit/(loss) before income taxes		**11,427**	**11,790**
Income taxes	14	(2,680)	(2,642)
Net profit/(loss)	**15**	**8,747**	**9,148**
Earnings/(loss) per share (in CZK)	**16**	**230.32**	**240.68**

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

Unconsolidated Balance Sheet as of 31 December 2006

CZK million	Note	2006	2005
Assets			
Cash and current balances with the Czech National Bank	17	14,082	9,231
Amounts due from banks	18	199,788	245,953
Financial assets at fair value through profit or loss	19	14,697	7,593
Positive fair value of financial derivative transactions	41	11,112	11,228
Loans and advances to customers, net	20	223,171	185,225
Securities available for sale	21	23,176	14,725
Investments held to maturity	22	3,283	3,423
Prepayments, accrued income and other assets	23	2,572	2,910
Income taxes receivable	14	167	628
Assets held for sale	24	611	810
Intangible fixed assets, net	25	2,251	2,097
Tangible fixed assets, net	26	7,328	7,391
Investments in subsidiaries and associates, net	27	10,012	1,518
Total assets		**512,250**	**492,732**
Liabilities			
Amounts due to banks	28	12,839	31,526
Amounts due to customers	29	398,137	370,058
Negative fair value of financial derivative transactions	41	6,047	4,324
Securities issued	30	26,152	22,672
Accruals and other liabilities	31	11,552	9,923
Provisions	32	2,230	3,437
Deferred tax liability	33	637	478
Subordinated debt	34	6,002	0
Total liabilities		**463,596**	**442,418**
Shareholders’ equity			
Share capital	35	19,005	19,005
Share premium and reserves		29,649	31,309
Total shareholders’ equity		**48,654**	**50,314**
Total liabilities and shareholders’ equity		**512,250**	**492,732**

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 2007.

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board
of Directors and CEO

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

Unconsolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2006

CZK million	Share capital	Capital and reserve funds and undistributed profit *	Hedging instruments	Hedging of a foreign currency investments in subsidiaries	Revaluation of available-for-sale securities	Total
Closing balance at 31 December 2004	**19,005**	**21,534**	**2,803**	**0**	**236**	**43,578**
Cash flow hedging:						
– net fair value, net of tax	0	0	3,040	0	0	3,040
– transfer to net profit, net of tax	0	0	(1,701)	0	0	(1,701)
Currency translation from foreign investments	0	0	0	9	0	9
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	49	49
Other treasury shares	0	(8)	0	0	0	(8)
Dividends	0	(3,801)	0	0	0	(3,801)
Net profit for the period	0	9,148	0	0	0	9,148
Balance at 31 December 2005	**19,005**	**26,873**	**4,142**	**9**	**285**	**50,314**
Cash flow hedging:						
– net fair value, net of tax	0	0	359	0	0	359
– transfer to net profit, net of tax	0	0	(1,663)	0	0	(1,663)
Currency translation from foreign investments	0	0	0	84	0	84
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	461	461
Other treasury shares	0	(146)	0	0	0	(146)
Dividends	0	(9,502)	0	0	0	(9,502)
Net profit for the period	0	8,747	0	0	0	8,747
Balance at 31 December 2006	**19,005**	**25,972**	**2,838**	**93**	**746**	**48,654**

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

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

Unconsolidated Cash Flow Statement for the year ended 31 December 2006

CZK million	2006	2006	2005	2005
Cash flows from operating activities				
Interest receipts	22,594		20,110	
Interest payments	(8,347)		(6,277)	
Commission and fee receipts	9,531		9,620	
Commission and fee payments	(843)		(766)	
Other income receipts	82		183	
Cash payments to employees and suppliers, and other payments	(9,663)		(8,391)	
Operating cash flow before changes in operating assets and operating liabilities	13,354		14,479	
Due from banks	45,419		(13,731)	
Loans and advances to customers	(38,883)		(30,983)	
Securities held for trading	(7,196)		1,969	
Other assets	(547)		(218)	
Total (increase)/decrease in operating assets	(1,207)		(42,963)	
Amounts due to banks	(17,891)		12,374	
Amounts due to customers	28,080		10,692	
Other liabilities	2,073		1,884	
Total increase/(decrease) in operating liabilities	12,262		24,950	
Net cash flow from operating activities before taxes	24,409		(3,534)	
Income taxes paid	(1,868)		(4,087)	
Net cash flows from operating activities		22,541		(7,621)
Cash flows from investing activities				
Dividends received	145		166	
Purchase of investments held to maturity	0		(1,155)	
Maturity of investments held to maturity *	126		107	
Purchase of securities available for sale	(10,598)		(8,384)	
Sale of securities available for sale *	3,662		6,754	
Purchase of tangible and intangible fixed assets	(1,607)		(1,419)	
Sale of tangible and intangible fixed assets	139		878	
Purchase of investments in subsidiaries and associates	(8,494)		(2)	
Sale of investments in subsidiaries and associates	6		672	
Net cash flow from investing activities		(16,621)		(2,383)
Cash flows from financing activities				
Paid dividends	(9,425)		(3,788)	
Securities issued	3,601		13,778	
Securities redeemed *	(997)		(639)	
Subordinated debt	6,000			
Net cash flow from financing activities		(821)		9,351
Net increase/(decrease) in cash and cash equivalents	5,099		(653)	
Cash and cash equivalents at beginning of year	8,016		8,669	
Cash and cash equivalents at end of year (see Note 36)		13,115		8,016

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

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

Notes to the Unconsolidated Financial Statements for the year ended 31 December 2006

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 (2005: 60.35 percent) of the Bank's issued share capital.

2. Events for the year ended 31 December 2006

Dividends declared in respect of the year ended 31 December 2005

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

Changes in the Bank's Financial Group

During 2006, the Bank acquired 60 percent of the issued share capital of Modrá pyramida stavební spořitelna, a.s. and became the sole shareholder of this entity. The Bank also increased the share capital of Bastion European Investment S.A. 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 50,598 million and total consolidated profit is CZK 9,120 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 2006. As of the date of issuance of these unconsolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS, except for portfolio hedge accounting under

IAS 39 which has not been approved by the EU. The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements containing accounting policies and explanatory disclosures.

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

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

The Bank maintains its books of account and regularly prepares the required statements in accordance with 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."*

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

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

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

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

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

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

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

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

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are reported in the financial statements in CZK.

At each balance sheet date:

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

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

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

Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements at the official exchange rate prevailing as of the date of the transaction. Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *"Net profit/(loss) on financial operations."*

(e) Cash and cash equivalents

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

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

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

(f) Originated loans and provisions for loan impairment

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

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. The provision is reduced or reversed if objective reasons for loan impairment cease to exist or when the loan is sold or written off. Provisions are used when loans are sold or written off. The Bank recognises provisions against loan receivables only on an individual basis. The portfolio approach would be applied if the Bank identified impairment of loans at the portfolio level. Further details about provisioning are set out in Note 41 to these financial statements.

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

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

(g) Securities

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

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

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

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

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

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

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

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

Securities at fair value through profit or loss

Securities designated as "At fair value through profit or loss" are securities held for trading (equity and debt securities, treasury bills, 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 yield method.

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

Loans and receivables

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

Available for sale securities

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

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

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

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

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

(h) Assets held for sale

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

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

The 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:

	2006	2005
Machinery and equipment, computers and vehicles	4	4
Fixtures, fittings and equipment	6	6
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. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment by reference to the selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs.

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

(j) Leases

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

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

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

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

(k) Provisions

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

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

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

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

(l) Employment benefits

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

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

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, 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. Penalty interest is accounted for and included in interest income on a cash basis. Loan origination fees are included in the effective interest rate and are therefore reported in *"Interest income"*. Other fees and commissions are recognised in the period to which they relate on an accruals basis.

(o) Income taxation

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

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

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

(p) Repurchase agreements

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

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

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

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

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

(q) Derivative financial instruments and hedging

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

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

Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *"Net profit/(loss) on financial operations"* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models 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 conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes reported in the profit and loss statement. In such cases, the financial derivative is separated from the host contract and is accounted for separately.

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

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

(a) Compliance with the Bank's risk management strategy;

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

(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

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

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

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the *"Hedging instruments"* in shareholders' equity. Amounts deferred in equity are transferred to the profit and loss statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement. The ineffective element of the hedge is charged directly to the profit and loss statement line *"Net profit/(loss) on financial operations"*. On this basis, the 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 a foreign currency investments in subsidiaries"*.

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

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

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 swaps, options and futures.

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

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

– IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007); and

– Amendments to IAS 1 "Presentation of Financial Statements" on capital disclosures (effective 1 January 2007).

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

4. Source of income and expenses

Set out below is a business segment analysis:

CZK million	Universal banking		Investment banking		Total	
	2006	2005	2006	2005	2006	2005
External income (out-of-segment)	14,661	16,290	9,970	7,102	24,631	23,392
Income from other segments	8,654	6,136	(8,654)	(6,136)	0	0
Total income	**23,315**	**22,426**	**1,316**	**966**	**24,631**	**23,392**
External expenses	(11,111)	(11,106)	(498)	(487)	(11,609)	(11,593)
Segment result	**12,204**	**11,320**	**818**	**479**	**13,022**	**11,799**
Unallocated expenses					(1,595)	(9)
Profit/(loss) before taxation					**11,427**	**11,790**
Taxation					(2,680)	(2,642)
Profit					**8,747**	**9,148**
Assets by segment	312,655	251,628	199,428	240,476	512,083	492,104
Unallocated assets					167	628
Total assets					**512,250**	**492,732**
Liabilities by segment	262,621	200,201	200,338	241,739	462,959	441,940
Unallocated liabilities					637	478
Total liabilities					**463,596**	**442,418**
Acquisition of assets	**1,606**	**1,293**	**0**	**33**	**1,606**	**1,326**
Depreciation and amortisation	**1,595**	**1,628**	**35**	**33**	**1,630**	**1,661**

The recognition and release of provisions during the current and previous periods related only to the "Universal banking" segment for all groups of assets that suffered impairment.
The Bank's income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5. Net interest income

Net interest income comprises:

CZK million	2006	2005
Interest income		
– Loans and advances to financial institutions	12,196	9,984
– Loans and advances to customers	10,867	9,338
– Bonds and treasury bills	1,168	809
Total interest income	**24,231**	**20,131**
Interest expense		
– Amounts owed to financial institutions	(4,115)	(2,605)
– Amounts owed to customers	(4,562)	(3,509)
– Securities issued	(696)	(394)
Total interest expense	**(9,373)**	**(6,508)**
Total net interest income	**14,858**	**13,623**

Interest income on loans and advances to customers reflects interest on substandard, doubtful and loss amounts of CZK 462 million (2005: CZK 425 million) due from customers. Interest income on bonds includes income of CZK 1 million (2005: CZK 1 million) on securities that have suffered impairment.

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 6,258 million (2005: CZK 4,844 million) and accrued interest expense from hedging financial derivatives of CZK 4,099 million (2005: CZK 2,507 million). Net interest income from these derivatives amounts to CZK 2,159 million (2005: CZK 2,337 million).
The gain on the fair value of interest rate swaps to hedge against interest rate risk of CZK 95 million (2005: CZK nil) is included in *"Interest income on loans and advances to customers"*. This amount matches the amount of the revaluation loss on hedged loan receivables reported in the same line.

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2006	2005
Net fees and commission from services and transactions	7,116	7,123
Net gain from foreign exchange commissions from clean payments	1,037	990
Net gain from foreign exchange commissions from other transactions	538	605
Total net fees and commissions	**8,691**	**8,718**

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.

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2006	2005
Net realised gains/(losses) on securities	(19)	170
Net unrealised gains/(losses) on securities	157	131
Dividend income on securities available for sale	106	45
Net realised and unrealised gains/(losses) on security derivatives	198	(4)
Net realised and unrealised gains/(losses) on interest rate derivatives	127	(181)
Net realised and unrealised gains/(losses) on trading commodity derivatives	4	9
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities	388	610
Total net profit/(loss) on financial operations	**961**	**780**

"Net realised gains/(losses) on securities" include CZK 117 million in total net loss on securities held for trading (2005: a net gain of CZK 169 million).
The line *"Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities"* shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net loss of CZK 1,546 million in 2006 (2005: a net loss of CZK 112 million).
A gain of CZK nil (2005: CZK 19 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in *"Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities"*. This amount matches the loss arising from the retranslation of hedged foreign currency receivables and payables reported in the same line.

8. Dividends and other income

Dividends and other income comprises:

CZK million	2006	2005
Dividend receipts from subsidiaries and associates	40	121
Other income	81	150
Total dividends and other income	**121**	**271**

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

9. Personnel expenses

Personnel expenses comprise:

CZK million	2006	2005
Wages, salaries and bonuses	3,557	3,417
Social security costs	1,352	1,320
Total personnel expenses	**4,909**	**4,737**
Physical number of employees at the period-end	7,563	7,390
Average recalculated number of employees during the period	7,552	7,388
Average cost per employee (CZK)	**649,967**	**641,228**

"Social security costs" include costs of CZK 79 million (2005: CZK 86 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 41 million (2005: CZK 32 million) incurred in contributing to the employees' capital life insurance scheme.

10. General administrative expenses

General administrative expenses comprise:

CZK million	2006	2005
Insurance of deposits and transactions	400	393
Marketing and entertainment costs	452	485
Costs of sale and banking products	1,185	1,173
Staff costs	268	284
Property maintenance charges	1,189	1,053
IT support	795	861
Office equipment and other consumption	74	81
Telecommunications, post and other services	239	252
External advisory services	442	517
Other expenses	78	23
Total general administrative expenses	**5,122**	**5,122**

"Other expenses" for the year ended 31 December 2005 included write-offs and provisioning for receivables arising from internal transactions and supplier arrangements of CZK 18 million which are reported in *"Provisions for other risk expenses"*.
"Insurance of deposits and transactions" shown as a component of *"General administrative expenses"* includes an estimated balance of payments to the Deposit Insurance Fund of CZK 330 million (2005: CZK 298 million).

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2006	2005
Depreciation of tangible and intangible fixed assets	1,630	1,661
Provisions for assets and net gain on the sale of assets	(52)	73
Total depreciation, impairment and disposal of fixed assets	**1,578**	**1,734**

12. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2006	2005
Balance at 1 January	(7,316)	(6,572)
Net provisioning for loan losses	(1,315)	(675)
Impact of loans written off and transferred	177	145
Exchange rate differences attributable to provisions	376	(214)
Balance at 31 December	**(8,078)**	**(7,316)**

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

CZK million	2006	2005
Specific provisions for loans to customers (refer to Note 20)	(7,298)	(6,200)
Provisions for other loans to customers (refer to Note 20)	(16)	(19)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(764)	(1,097)
Total	**(8,078)**	**(7,316)**

Provisions for securities

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

Provisions for other risk expenses

The balance of *"Provisions for other risk expenses"* principally consists of the charge for provisions of CZK 153 million (2005: CZK 1,151 million) and the release of provisions of CZK 769 million (2005: CZK 1,698 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 718 million (2005: CZK 25 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 162 million (2005: CZK 18 million). The latter item was reported within *"General administrative expenses"* in 2005. Additional information about the provisions for other risk expenses is provided in Note 32.

13. Profit or loss on subsidiaries and associates

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

CZK million	2006	2005
Release of provisions	0	185 *
Gain/(loss) on the sale of investments in subsidiaries and associates	6	156
Total profit or loss on subsidiaries and associates	**6**	**341**

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

The balance of provisions is as follows:

CZK million	2006	2005
Balance at 1 January	(493)	(1,154)
Release and use of provisions	0	661
Balance at 31 December	**(493)**	**(493)**

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

14. Income taxes

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

CZK million	2006	2005
Tax payable – current year, reported in profit or loss	(2,533)	(3,089)
Tax paid – prior year	206	(18)
Deferred tax	(401)	465
Hedge of a deferred tax asset against foreign currency risk	48	0
Total income taxes	**(2,680)**	**(2,642)**
Tax payable – current year, reported in equity	(2)	13
Total tax expense	**(2,682)**	**(2,629)**

CZK million	2006	2005
Profit before tax	**11,427**	**11,790**
Theoretical tax calculated at a tax rate of 24% (26%)	2,742	3,065
Tax on pre-tax profit adjustments	11	0
Non-taxable income	(1,062)	(593)
Expenses not deductible for tax purposes	896	620
Tax allowance	(3)	(3)
Tax credit	(52)	0
Tax on a standalone tax base	1	0
Hedge of a deferred tax asset against foreign currency risk	(48)	0
Movement in deferred tax	401	(465)
Income tax expense	**2,886**	**2,624**
Prior period tax expense	(206)	18
Total income taxes	**2,680**	**2,642**
Tax payable on securities available for sale reported in equity *	2	(13)
Total income tax	**2,682**	**2,629**
Effective tax rate	23.45%	22.40%

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

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

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

The corporate tax rate for the year ended 31 December 2006 is 24 percent (2005: 26 percent). The 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 2006, the Bank generated a net profit of CZK 8,747 million.

In accordance with the resolution of the General Meeting of Shareholders held on 26 April 2006, the aggregate balance of the net profit of CZK 9,148 million for the year ended 31 December 2005 was allocated as follows: CZK 457 million to the reserve fund and the remaining balance of the net profit, together with retained earnings, was paid out as a dividend (CZK 250 per share before tax).

16. Earnings per share

Earnings per share of CZK 230.32 (2005: CZK 240.68 per share) have been calculated by dividing the net profit of CZK 8,747 million (2005: CZK 9,148 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number of treasury shares held by the Bank during the period.

17. Cash and current balances with the Czech National Bank

Cash and current balances with banks comprise:

CZK million	2006	2005
Cash and cash equivalents	7,202	5,820
Balances with the Czech National Bank	6,880	3,411
Total cash and current balances with banks	**14,082**	**9,231**

Balances with the Czech National Bank represent obligatory minimum reserves. The obligatory minimum reserves bore interest at 2.50 percent and 2 percent as of 31 December 2006 and 2005, respectively.

18. Amounts due from banks

Balances due from banks comprise:

CZK million	2006	2005
Deposits with banks (current accounts)	255	869
Loans and advances to banks	4,636	10,803
Debt securities of banks acquired under initial offerings not designated for trading	11,527	16,619
Advances due from the Czech National Bank (reverse repo transactions)	129,199	166,629
Term placements with other banks	54,172	51,034
Total	**199,789**	**245,954**
Provisions	(1)	(1)
Total amounts due from banks	**199,788**	**245,953**

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

CZK million	2006	2005
Treasury bills	126,632	163,291
Debt securities issued by state institutions	2,325	10,252
Debt securities issued by other institutions	29	110
Shares	673	346
Total	**129,659**	**173,999**

Securities acquired as loans and receivables

As of 31 December 2006, the Bank maintains in its portfolio bonds at an amortised cost of CZK 11,527 million (2005: CZK 16,619 million) and a nominal value of CZK 11,410 million (2005: CZK 16,410 million), of which CZK 10,000 million represents a bond issued by the parent company Société Générale S.A. (2005: CZK 15,000 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. During 2006, the Bank decided to sell back, under normal market conditions, the bond issued by the parent company Société Générale S.A. with a nominal value of CZK 5,000 million. This transaction had a positive impact on the Bank's profit and loss statement of CZK 34 million which is reported in *"Net profit/(loss) on financial operations"*.

19. Financial assets at fair value through profit or loss

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

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

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 5,562 million (2005: CZK 1,095 million).
As of 31 December 2006, the portfolio of trading securities includes securities at a fair value of CZK 8,994 million (2005: CZK 6,348 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 5,703 million (2005: CZK 1,245 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).
Trading shares and participation certificates at fair value comprise:

CZK million	2006	2005
Shares and participation certificates		
– Czech crowns	95	68
Total trading shares and participation certificates	**95**	**68**

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

CZK million	2006	2005
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	0	60
– Other foreign entities	95	8
Total trading shares and participation certificates	**95**	**68**

Emission allowances held for trading at fair value comprise:

CZK million	2006	2005
Emission allowances		
– Other currencies	21	0
Total emission allowances held for trading	**21**	**0**

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

CZK million	2006	2005
Emission allowances held for trading issued by:		
– Foreign state institutions	21	0
Total emission allowances held for trading	**21**	**0**

Debt trading securities at fair value comprise:

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

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

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

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

20. Loans and advances to customers

Loans and advances to customers comprise:

CZK million	2006	2005
Loans to customers	228,630	189,955
Bills of exchange	758	614
Forfaits	1,023	738
Other amounts due from customers	74	137
Total gross loans and advances to customers	**230,485**	**191,444**
Provisions for loans to customers	(7,298)	(6,200)
Provisions for other amounts due from customers	(16)	(19)
Total loans and advances to customers, net	**223,171**	**185,225**

Loans and advances to customers include interest due of CZK 1,096 million (2005: CZK 697 million), of which CZK 616 million (2005: CZK 388 million) relates to overdue interest.

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

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

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

Loans classified as loss in the above table include amounts of CZK 3,765 million (2005: CZK 3,355 million), on which interest is not being accrued.
Set out below is the breakdown of loans by sector (net of other amounts due from customers):

CZK million	2006	2005
Agriculture, forestry and mining	9,431	7,346
Processing industry	37,502	35,105
Distribution and production of energy	4,790	6,767
Construction	8,245	6,912
Trade, catering, transport and communication	41,586	40,179
Insurance, banking	20,805	13,764
Other	108,052	81,234
Total loans to clients	**230,411**	**191,307**

Set out below is an analysis by category of customers:

CZK million	2006	2005
Retail customers	71,709	55,470
Corporate customers	143,836	124,725
Public sector	14,866	11,112
Total	**230,411**	**191,307**

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

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

CZK million	Total client loan collateral 2006	Discounted client loan collateral value 2006	Applied client loan collateral value 2006	Total client loan collateral 2005	Discounted client loan collateral value 2005	Applied client loan collateral value 2005
Guarantees of state and governmental institutions	6,520	6,109	5,548	6,654	6,199	5,828
Bank guarantee	13,967	12,462	11,270	8,383	7,478	6,919
Guaranteed deposits	665	660	501	813	813	608
Issued debentures in pledge	0	0	0	266	266	0
Pledge of real estate	136,835	83,964	55,748	115,889	69,002	45,215
Pledge of movable assets	5,720	751	660	6,389	826	737
Guarantee by legal entity	13,377	5,667	4,795	6,281	4,174	3,494
Guarantee by individual (physical entity)	3,624	645	554	3,138	601	516
Pledge of receivables	36,177	17,214	12,567	32,467	13,206	10,010
Insurance of credit risk	1,164	1,101	1,087	865	813	812
Other	3,167	189	155	412	198	186
Total nominal value of collateral	**221,216**	**128,762**	**92,885**	**181,557**	**103,576**	**74,325**

Pledges on industrial real-estate represent 17 percent of total pledges on real estate (2005: 20 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 2006, on balance sheet loans to this client included an amount of CZK 1,414 million (2005: CZK 1,664 million) that was fully provided for. The year-on-year decrease in the balance arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2006 and 2005.
The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

21. Securities available for sale

Securities available for sale comprise:

CZK million	Fair value 2006	Cost 2006	Fair value 2005	Cost 2005
Shares and participation certificates	**878**	**93**	**93**	**93**
Fixed income debt securities	21,584	21,374	12,617	12,785
Variable yield debt securities	714	745	2,015	2,297
Total debt securities	**22,298**	**22,119**	**14,632**	**15,082**
Total securities available for sale	**23,176**	**22,212**	**14,725**	**15,175**

As of 31 December 2006, the available-for-sale portfolio includes securities at a fair value of CZK 21,884 million (2005: CZK 12,124 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 1,292 million (2005: CZK 2,601 million) that are not publicly traded.

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

CZK million	2006	2005
Shares and participation certificates		
– Czech Crowns	876	91
– Other currencies	2	2
Total shares and participation certificates available for sale	**878**	**93**

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

CZK million	2006	2005
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	845	60
– Non-banking entities in the Czech Republic	31	31
– Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**878**	**93**

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. Given that this shareholding is not tradable on public markets, the Bank reported it at purchase cost until 2005 which the Bank considered represented the best estimate of the fair value of the investment. In 2006, the Bank concluded that the dividends that have been paid out on this investment for a number of years represents a sufficient basis for making a reliable estimate of its fair value and revalued the investment on the basis of its estimate of probable future cash flows. As a result, the value of the investment increased by CZK 785 million.
Debt securities available for sale at fair value comprise:

CZK million	2006	2005
Variable yield debt securities		
– Czech Crowns	323	624
– Other currencies	391	1,391
Total variable yield debt securities	**714**	**2,015**
Fixed income debt securities		
– Czech Crowns	11,719	7,842
– Other currencies	9,865	4,775
Total fixed income debt securities	**21,584**	**12,617**
Total debt securities available for sale	**22,298**	**14,632**

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

CZK million	2006	2005
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	4,307	3,909
– Foreign state institutions	9,118	2,849
– Financial institutions in the Czech Republic	7,312	3,908
– Other entities in the Czech Republic	243	547
– Other foreign entities	1,318	3,419
Total debt securities available for sale	**22,298**	**14,632**

Of the debt securities issued by state institutions in the Czech Republic, CZK 3,582 million (2005: CZK 3,101 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 2006, net of remeasurement, is CZK 413 million (2005: CZK 2,508 million).

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

As of 31 December 2006, the Bank recognised a positive revaluation of ABS of CZK 21 million (2005: a positive revaluation of CZK 23 million) arising from a change in the market parameters. The 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 2006, the Bank acquired Government bonds with a nominal value of CZK 540 million, EUR 163 million and USD 59 million. In 2006, the Bank also acquired securities issued by financial institutions with an aggregate nominal value of CZK 3,160 million. During the year ended 31 December 2006, debt securities (with the exception of ABS) with an aggregate nominal value of CZK 300 million were redeemed at maturity.

22. Investments held to maturity

Investments held to maturity comprise:

	Carrying value 2006	Cost 2006	Carrying value 2005	Cost 2005
Fixed income debt securities	3,283	3,283	3,423	3,423
Total investments held to maturity	**3,283**	**3,283**	**3,423**	**3,423**

As of 31 December 2006, investments held to maturity include bonds of CZK 3,283 million (2005: CZK 3,423 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

CZK million	2006	2005
Fixed income debt securities		
– Czech Crowns	1,357	1,346
– Other currencies	1,926	2,077
Total fixed income debt securities	**3,283**	**3,423**
Total debt securities held to maturity	**3,283**	**3,423**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2006	2005
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	1,357	1,346
– Foreign state institutions	1,926	2,077
Total debt securities held to maturity	**3,283**	**3,423**

Of the debt securities issued by state institutions in the Czech Republic, CZK 1,357 million (2005: CZK 1,346 million) represents securities eligible for refinancing with the Czech National Bank.
No transactions within this portfolio took place during the year ended 31 December 2006. The year-on-year decrease in the value is attributable to the premium or discount amortisation, accruals for coupons and foreign exchange rate differences.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2006	2005
Prepayments and accrued income	383	615
Settlement balances	679	538
Receivables from securities trading	234	155
Other assets	1,276	1,602
Total prepayments, accrued income and other assets	**2,572**	**2,910**

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

24. Assets held for sale

As of 31 December 2006, the Bank reported assets held for sale at a carrying amount of CZK 611 million (2005: CZK 810 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 2006 and 2005 arises from the sale of these assets and reclassification of buildings and land of CZK 185 million that do not meet the criteria for recognition as assets held for sale back to *"Tangible fixed assets"*.

25. Intangible fixed assets

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

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2005	3,405	1,195	544	475	5,619
Additions	774	213	8	1,035	2,030
Disposals/Transfers	0	0	23	974	997
31 December 2006	**4,179**	**1,408**	**529**	**536**	**6,652**
Accumulated amortisation and provisions					
31 December 2005	2,183	899	439	1	3,522
Additions	647	169	47	0	863
Disposals	(14)	0	17	0	3
Impairment charge	0	0	0	19	19
31 December 2006	**2,844**	**1,068**	**469**	**20**	**4,401**
Net book value					
31 December 2005	1,222	296	105	474	2,097
31 December 2006	**1,335**	**340**	**60**	**516**	**2,251**

During the year ended 31 December 2006, the Bank invested CZK 125 million (2005: CZK 121 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 2006 are as follows:

CZK million	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
Cost					
31 December 2005	147	9,423	6,700	341	16,611
Reallocation from assets held for sale	8	252	0	0	260
Additions	0	239	433	571	1,243
Disposals/Transfers	1	52	678	691	1,422
31 December 2006	**154**	**9,862**	**6,455**	**221**	**16,692**
Accumulated depreciation and provisions					
31 December 2005	0	3,620	5,597	3	9,220
Reallocation of accumulated depreciation of assets held for sale	0	75	0	0	75
Additions	0	301	466	0	767
Disposals	0	29	669	0	698
Impairment charge	0	3	0	(3)	0
31 December 2006	**0**	**3,970**	**5,394**	**0**	**9,364**
Net book value					
31 December 2005	147	5,803	1,103	338	7,391
31 December 2006	**154**	**5,892**	**1,061**	**221**	**7,328**

As of 31 December 2005, the net book value of assets held by the Bank under finance lease agreements was CZK 10 million (2005: CZK 27 million).
As of 31 December 2006, the Bank recognised provisions against tangible assets of CZK 71 million (2005: CZK 70 million). In 2006, these provisions primarily included provisions charged in respect of leasehold improvements.

27. Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

CZK million	2006	2005
Investments in subsidiary undertakings	9,632	918
Investments in associated undertakings	380	600
Total investments in subsidiaries and associates	**10,012**	**1,518**

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2006:

CZK million Company name	Direct holding	Group holding	Principal activity	Registered office	Cost of investment	Provisions	Carrying value
ALL IN REAL ESTATE LEASING a.s.	100	100	Support banking services	Prague	39	35	4
Komerční banka Bratislava, a.s.	100	100	Banking services	Bratislava	466	0	466
Penzijní fond Komerční banky, a.s.	100	100	Pension insurance	Prague	230	0	230
Factoring KB, a.s.	100	100	Factoring	Prague	90	0	90
Bastion European Investment S.A.	99.98	99.98	Financial services	Brussels	3,814	0	3,814
ESSOX s.r.o.	50.9	50.9	Consumer lending, leasing	České Budějovice	705	0	705
Modrá pyramida stavební spořitelna, a.s.	100	100	Building society	Prague	4,323	0	4,323
Total					**9,667**	**35**	**9,632**

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2006:

CZK million Company name	Direct holding	Group holding	Principal activity	Registered office	Cost of investment	Provisions	Carrying value
Komerční pojišťovna, a.s.	49	49	Insurance	Prague	838	458	380
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Data collection for credit risk assessments	Prague	0 *	0	0
Total					**838**	**458**	**380**

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

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

CZK million Company name	Investment at cost 1 January 2006	Additions	Decreases	Investment at cost at 31 December 2006
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	0	0	90
Komercni Finance B.V.	1	0	1	0
Bastion European Investment S.A.	2	3,812	0	3,814
ESSOX s.r.o.	125	580	0	705
Modrá pyramida stavební spořitelna, a.s.	0	4,323	0	4,323
Total subsidiaries	**953**	**8,715**	**1**	**9,667**
Modrá pyramida stavební spořitelna, a.s.	220	0	220	0
Komerční pojišťovna, a.s.	838	0	0	838
CBCB – Czech Banking Credit Bureau, a.s.	0	0	0	0 *
Total associates	**1,058**	**0**	**220**	**838**

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

Changes in equity investments in subsidiaries and associates in 2006

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

On 7 September 2006 the Bank and BHW Holding AG ("BHW") and Česká pojišťovna, a.s. ("ČP") entered into contracts for the sale of shares of Modrá pyramida stavební spořitelna, a.s. The Bank acquired 50 percent and 10 percent of the shares from BHW and ČP, respectively, for an aggregate purchase consideration (purchase cost) of EUR 144 million (CZK 4,061 million). The cost includes the stated purchase cost, costs associated with a foreign currency hedge of the transaction of CZK 29 million and other direct costs incurred in respect of the acquisition of these investments of CZK 13 million. The transaction was completed on 13 October 2006 and the Bank became the sole shareholder of Modrá pyramida stavební spořitelna, a.s.

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

The process of liquidation of Komercni Finance B.V. (Netherlands) was completed in 2006. The liquidation share of CZK 6 million is reported in *"Profit or loss on subsidiaries and associates"*.

28. Amounts due to banks

Amounts due to banks comprise:

CZK million	2006	2005
Current accounts	1,222	2,085
Other amounts due to banks	11,617	29,441
Total amounts due to banks	**12,839**	**31,526**

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

29. Amounts due to customers

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

CZK million	2006	2005
Current accounts	250,934	237,853
Savings accounts	8,875	10,357
Term deposits	93,939	85,075
Loans from customers	42,466	34,509
Other payables to customers	1,923	2,264
Total amounts due to customers	**398,137**	**370,058**

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

CZK million	2006	2005
Private companies	168,181	130,156
Other financial institutions, non-banking entities	6,755	7,657
Insurance companies	4,120	6,723
Public administration	1,977	1,417
Individuals	129,245	117,339
Deposits – bills of exchange *	0	29,773
Private entrepreneurs	24,629	20,338
Government agencies	50,780	45,947
Other	6,932	6,314
Non-residents	5,518	4,394
Total amounts due to customers	**398,137**	**370,058**

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

30. Securities issued

Securities issued comprise mortgage bonds of CZK 26,152 million (2005: CZK 22,672 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.
Debt securities are repayable, according to remaining maturity, as follows:

CZK million	2006	2005
In less than one year	1,143	0
In one to two years	4,986	1,175
In two to three years	5,334	4,939
In three to four years	0	5,426
In five to ten years	14,689	11,132
Total debt securities	**26,152**	**22,672**

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

Name	Interest rate	Currency	Issue date	Maturity date	2006 CZK million	2005 CZK million
Mortgage bonds of Komerční banka, a.s., CZ0002000151	6M PRIBOR plus 350 basis points	CZK	15 September 2000	15 September 2007	1,143	1,175
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	CZK	21 August 2003	21 August 2009	5,334	5,426
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	CZK	5 August 2004	5 August 200 2008	4,986	4,939
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 August 2005	3 August 2015	2,789	5,049
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 October 2005	21 October 2015	10,713	6,083
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 September 2006	1 September 2016	1,187	0
Total bonds					**26,152**	**22,672**

Note: Six-month PRIBOR was 261 basis points as of 31 December 2006 (2005: 233 basis points).
Three-month PRIBID was 245 basis points as of 31 December 2006 (2005: 207 basis points).

31. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2006	2005
Settlement balances and outstanding items	1	98
Payables from securities trading and issues of securities	1,234	774
Payables from payment transactions	7,456	6,230
Other liabilities	2,700	2,682
Accruals and deferred income	161	139
Total accruals and other liabilities	**11,552**	**9,923**

"Payables from payment transactions" predominantly include payables arising from payments passed onto the Czech National Bank's clearing centre.
"Other liabilities" largely include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).
Deferred income fees from banking guarantees is reported in *"Accruals and deferred income"* in the amount of CZK 18 million (2005: CZK 14 million).

32. Provisions

Provisions comprise:

CZK million	2006	2005
Provisions for contracted commitments	1,466	2,340
Provisions for other credit commitments	764	1,097
Total provisions	**2,230**	**3,437**

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

CZK million	2006	2005
Risk		
Provision for off balance sheet commitments	632	947
Provision for undrawn loan facilities	132	150
Total	**764**	**1,097**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2006	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2006
Jubilee bonuses	74	11	5	5	0	85
Loyalty bonuses	147	0	147	0	0	0
Other provisions for contracted commitments	2,119	172	846	0	(64)	1,381
Total	**2,340**	**183**	**998**	**5**	**(64)**	**1,466**

As of 31 December 2006, the Bank held a provision of CZK 244 million (2005: CZK 277 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Bank intends to vacate. This provision is included in *"Other provisions for contracted commitments"*. The loyalty bonus was cancelled in 2006 and hence the provision for loyalty bonuses was released.

33. Deferred income taxes

Deferred income taxes are calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 24 percent from 2006 onwards. Deferred income tax assets and liabilities are attributable to the following items:

CZK million	2006	2005
Banking reserves and provisions	344	400
Provisions for non-banking receivables	42	44
Provisions for assets	182	217
Non-banking reserves	88	283
Depreciation	(253)	(114)
Leases	(2)	(6)
Revaluation of hedging derivatives – equity impact	(896)	(1,309)
Revaluation of a foreign currency equity investment – equity impact	(30)	(2)
Revaluation of available-for-sale securities – equity impact	(170)	(26)
Other temporary differences	58	35
Net deferred tax liability	**(637)**	**(478)**

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

Deferred tax recognised in the financial statements:

CZK million	2006	2005
Balance at the beginning of the period	478	591
Movement in net deferred tax liability – profit and loss impact	401	(465)
Movement in net deferred tax liability – equity impact	(242)	352
Balance at the end of the period	**637**	**478**

34. Subordinated debt

As of 31 December 2006 the Bank had subordinated debt of CZK 6,002 million (2005: CZK nil). 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 2006:

Name of the entity	Registered office	Ownership (%)
Société Générale S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	6.98
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	3.74

Société Générale S.A., 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 2006, the Bank held 54,000 treasury shares at a cost of CZK 150 million (2005: 2,000 treasury shares at a cost of CZK 7 million).

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

CZK million	2006	2005	Change in the year
Cash and balances with central banks	14,082	9,231	4,851
Amounts due from banks – current accounts	255	870	(615)
Amounts due to banks – current accounts	(1,222)	(2,085)	863
Total	**13,115**	**8,016**	**5,099**

37. Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2006. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 603 million (2005: CZK 1,344 million) for these legal disputes. The Bank has also recorded an accrual of CZK 408 million (2005: CZK 387 million) for costs associated with a potential payment of interest on the pursued claims.
As of 31 December 2006, the 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 2006, the Bank had capital commitments of CZK 69 million (2005: CZK 133 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

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

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

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

Financial commitments and contingencies comprise:

CZK million	2006	2005
Non-payment guarantees including commitments to issued non-payment guarantees	19,706	14,088
Payment guarantees including commitments to issued payment guarantees	6,465	4,644
Received bills of exchange/acceptances and endorsements of bills of exchange	77	51
Committed facilities and unutilised overdrafts	13,098	10,617
Undrawn credit commitments	33,790	24,236
Unutilised overdrafts and approved overdraft loans	42,687	38,915
Unutilised discount facilities	136	168
Unutilised limits under Framework agreements to provide financial services	50,306	38,859
Letters of credit uncovered	989	1,001
Stand by letters of credit uncovered	666	598
Confirmed letters of credit	225	17
Letters of credit covered	137	77
Total contingent revocable and irrevocable commitments	**168,282**	**133,271**

The Bank provides a variety of credit facilities to its largest clients. Of the Bank's committed facilities and guarantees, CZK 28,502 million (2005: CZK 18,828 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 2006, the Bank recorded provisions for these risks amounting to CZK 764 million (2005: CZK 1,097 million) – for further information see Note 32.

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

CZK million	2006	2005
Agriculture, forestry and mining	4,630	2,179
Processing industry	33,403	29,991
Distribution and production of energy	15,519	7,833
Construction	28,089	19,506
Trade, catering, transport and communication	31,486	29,561
Insurance, banking	20,046	19,578
Other	35,109	24,623
Total	**168,282**	**133,271**

Set out below is an analysis by category of customers:

CZK million	2006	2005
Retail customers	17,293	14,224
Corporate customers	134,191	105,962
Public sector	16,798	13,085
Total	**168,282**	**133,271**

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 2006, the Bank was controlled by Société Générale which owns 60.35 percent of its issued share capital.
A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits and other types of transactions. These transactions were carried out on commercial terms and at market rates.

Amounts due to and from the Group companies

As of 31 December 2006, the Bank had loans (including amounts due from banks) outstanding of CZK 9,274 million (2005: CZK 4,513 million) to the Group companies. The aggregate amounts of the Group companies placed with the Bank were CZK 131 million (2005: CZK 90 million).
The following table summarises loans issued to the Group companies and their deposits with the Bank:

CZK million Company	2006	2005
Komerční banka Bratislava, a.s.	721	1,632
Factoring KB, a.s.	562	447
ESSOX s.r.o.	3,651	2,189
Modrá pyramida stavební spořitelna, a.s.	553	245
Bastion European Investment S.A.	3,787	x
Total loans	**9,274**	**4,513**
Komerční banka Bratislava, a.s.	35	2
Factoring KB, a.s.	68	61
ESSOX s.r.o.	8	11
ALL IN REAL ESTATE LEASING a.s.	4	4
Modrá pyramida stavební spořitelna, a.s.	16	12
Total deposits	**131**	**90**

As of 31 December 2006 and 2005, other amounts due to and from the Group companies were immaterial.
Interest income from loans granted to Group companies:

CZK million Company	2006	2005
Komerční banka Bratislava, a.s.	79	50
Factoring KB, a.s.	15	9
ESSOX s.r.o.	81	41
Modrá pyramida stavební spořitelna, a.s.	54	38
Bastion European Investment S.A.	120	0
Total interest from loans granted by Bank	**349**	**138**

In the years ended 31 December 2006 and 2005, the Bank realised no material amounts of other income or expenses with its Group companies.
As of 31 December 2006, the Bank reported guarantees granted to the Group companies totalling CZK 1.302 million (2005: CZK 1,100 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million Company	2006	2005
ALD Automotive Czech Republic s.r.o.	849	475
Fimat London	36	45
Komerční pojišťovna, a.s.	0	28
SG Equipment Finance Czech Republic s.r.o.	4,040	2,591
SG London	69	0
SG New York	16	53
SGBT Luxemburg	1,644	15
Société Générale Paris	13,288	18,543
Total	**19,942**	**21,750**

Principal balances owed to the Société Générale Group entities include:

CZK million Company	2006	2005
ALD Automotive Czech Republic s.r.o.	1	750
Fimat London	0	90
Komerční pojišťovna, a.s.	107	350
SG Equipment Finance Czech Republic s.r.o.	2	25
SG London	1	79
SG New York	3	16
SG Private Banking Switzerland	13	8
SGBT Luxemburg	1	40
Société Générale Paris	11,674	2,196
Société Générale Warsaw	46	44
Total	**11,848**	**3,598**

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) and a subordinated debt (refer also to Note 34).

As of 31 December 2006, 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 128,142 million (2005: CZK 104,151 million) and CZK 136,901 million (2005: CZK 100,769 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives and guarantees for credit exposures.

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

During the year ended 31 December 2006, the Bank realised total revenue of CZK 2,731 million (2005: CZK 2,074 million) and total expenses and a net loss from financial transactions of CZK 1,723 million (2005: CZK 1,055 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 2006 and 2005, the Bank realised no material amounts of income or expenses with other Société Générale Group entities.

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

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

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

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

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

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

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

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

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

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

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

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

CZK million	2006	2005
Cash flow hedge fair value at 1 January	5,451	3,788
Deferred tax liability at 1 January	(1,309)	(985)
Balance at 1 January	**4,142**	**2,803**

Movements during the year:

CZK million	2006	2005
Gains/losses from changes in fair value	471	4,000
Deferred income tax	(112)	(960)
Total	**359**	**3,040**
Transferred to interest income/expense	(2,188)	(2,337)
Deferred income tax	525	636
Total	**(1,663)**	**(1,701)**
Balance at 31 December	3,734	5,451
Deferred income tax	(896)	(1,309)
Balance at 31 December	**2,838**	**4,142**

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

CZK million	2006	2005
Reserve from fair-value revaluation at 1 January	389	327
Deferred tax liability/income tax liability at 1 January	(105)	(91)
Balance at 1 January	**285**	**236**

Movements during the year:

CZK million	2006	2005
Gains/losses from changes in fair value	624	108
Deferred tax liability/income tax liability	(150)	(26)
Total	**474**	**82**
Gains and losses from the sale and recognition and use of provisions against securities	(17)	(46)
Deferred tax liability/income tax liability	4	12
Total	**(13)**	**(34)**
Balance at 31 December	996	389
Deferred tax liability/income tax liability	(250)	(105)
Balance at 31 December	**746**	**285**

41. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

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

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

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

In setting up a client rating, the Bank uses both internal and external credit registers, e.g. the Central Loan Register (information about legal entities) and the Client Information Bank Register (information about individuals). In December 2006, the Bank applied for membership in the SOLUS credit register (information about consumer finance companies and telecommunication operator clients) and is implementing its connection to SOLUS which will be functional in 2007.

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

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

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

Credit risk concentration

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

Classification of receivables

The Bank performs classification of receivables arising from its financial activities into five categories according to Regulation of the Czech National Bank No. 6/2004. The classification reflects both quantitative criteria (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 to investors.

Receivables that are not categorised

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

Provisioning for receivables

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

Loan collateral

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

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

Recovery of amounts due from borrowers

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

– Pre-Recovery activities;

– Advisory and Consulting support of recovery specialists to business units; and

– Out of court and Legal Recovery.

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

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

Credit risk hedging instruments

The 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 2006, the revocable commitments account for 20 percent (2005: 17 percent) of all the Bank's revocable and irrevocable commitments.

Credit risk of financial derivatives

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

As of 31 December 2006, the Bank posted a credit exposure of CZK 28,569 million (2005: CZK 24,288 million) on financial derivative instruments (expressed in CVaR). Note that this amount represents the gross replacement risk at market rates as of 31 December 2006 of all outstanding agreements, i.e. excluding the effect of any netting agreement.

(B) Market risk

Segmentation of the 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

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

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

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

Market risk in the Market Book

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

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

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

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

Market risk in the Structural Book

The 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.

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

(C) Financial derivatives

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

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

Financial derivative instruments designated as held for trading:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2006	2006	2005	2005	2006	2006	2005	2005
	Assets	Liabilities	Assets	Liabilities	positive	negative	positive	negative
Interest rate instruments								
Interest rate swaps	230,009	230,009	171,058	171,058	2,475	2,429	2,843	2,848
Interest rate forwards and futures *	306,979	306,979	177,105	177,105	228	225	101	111
Interest rate options	1,481	1,481	240	240	1	1	0	0
Total interest rate instruments	**538,469**	**538,469**	**348,403**	**348,403**	**2,704**	**2,655**	**2,944**	**2,959**
Foreign currency instruments								
Currency swaps	76,716	76,478	62,111	62,262	1,163	897	415	508
Cross currency swaps	20,741	20,141	10,533	10,343	807	216	310	75
Currency forwards	15,919	16,056	7,045	7,055	194	385	111	127
Purchased options	26,523	26,528	16,329	16,440	762	0	257	0
Sold options	26,528	26,523	16,440	16,329	0	762	0	257
Total currency instruments	**166,427**	**165,726**	**112,458**	**112,429**	**2,926**	**2,260**	**1,093**	**967**
Other instruments								
Forwards and futures on debt securities *	573	572	808	808	0	0	0	0
Forwards on emission allowances	213	179	0	0	84	50	0	0
Equity forwards	131	149	0	0	55	73	0	0
Commodity forwards	654	654	131	131	89	94	24	24
Commodity swaps	3,404	3,404	4,487	4,487	163	158	236	230
Purchased commodity options	0	0	93	93	0	0	9	0
Sold commodity options	0	0	93	93	0	0	0	9
Total other instruments	**4,975**	**4,958**	**5,612**	**5,612**	**391**	**375**	**269**	**263**
Total	**709,871**	**709,153**	**466,473**	**466,444**	**6,021**	**5,290**	**4,306**	**4,189**

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

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

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	74,544	104,757	50,708	230,009
Interest rate forwards and futures *	269,632	37,347	0	306,979
Interest rate options	0	1,481	0	1,481
Total interest rate instruments	**344,176**	**143,585**	**50,708**	**538,469**
Foreign currency instruments				
Currency swaps	73,261	2,762	693	76,716
Cross currency swaps	2,604	16,009	2,128	20,741
Currency forwards	10,605	4,465	849	15,919
Purchased options	20,381	6,142	0	26,523
Sold options	20,378	6,150	0	26,528
Total currency instruments	**127,229**	**35,528**	**3,670**	**166,427**
Other instruments				
Forwards and futures on debt securities	573	0	0	573
Forwards on emission allowances	213	0	0	213
Equity forwards	131	0	0	131
Commodity forwards	654	0	0	654
Commodity swaps	2,342	1,062	0	3,404
Total other instruments	**3,913**	**1,062**	**0**	**4,975**
Total	**475,318**	**180,175**	**54,378**	**709,871**

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

Financial derivative instruments designated as hedging:

CZK million	Notional value		Notional value		Fair value		Fair value	
	2006	2006	2005	2005	2006	2006	2005	2005
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	185,632	185,632	144,061	144,061	5,091	749	6,652	135
Interest rate swaps for cash flow hedging for fair value hedging	3,678	3,678	0	0	0	8	0	0
Cross currency swaps for fair value hedging	0	0	1,721	1,450	0	0	270	0
Total	**189,310**	**189,310**	**145,782**	**145,511**	**5,091**	**757**	**6,922**	**135**

Remaining maturity of derivatives designated as hedging:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	43,476	60,913	81,243	185,632
Interest rate swaps for fair value hedging	0	0	3,678	3,678
Total	**43,476**	**60,913**	**84,921**	**189,310**

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

(D) Interest rate risk

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

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

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

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with the Czech National Bank	5,293	0	0	0	8,789	14,082
Amounts due from banks	187,232	1,126	8,014	3,416	0	199,788
Financial assets at fair value through profit or loss	2,125	5,808	5,733	1,031	0	14,697
Positive fair values of financial derivative transactions	0	0	0	0	11,112	11,112
Loans and advances to customers, net	112,389	48,616	53,902	8,264	0	223,171
Securities available for sale	1,164	138	7,102	13,896	876	23,176
Investments held to maturity	62	224	1,938	1,059	0	3,283
Prepayments, accrued income and other assets	976	0	0	0	1,596	2,572
Income taxes receivable	0	160	0	0	7	167
Assets held for sale	0	0	0	0	611	611
Intangible fixed assets, net	0	0	0	0	2,251	2,251
Tangible fixed assets, net	0	0	0	0	7,328	7,328
Investments in subsidiaries and associates, net	0	0	0	0	10,012	10,012
Total assets	**309,241**	**56,072**	**76,689**	**27,666**	**42,582**	**512,250**
Liabilities						
Amounts due to banks	10,876	1,950	13	0	0	12,839
Amounts due to customers	131,804	3,717	958	74	261,584	398,137
Negative fair values of financial derivative transactions	0	0	0	0	6,047	6,047
Securities issued	4,225	0	10,130	11,797	0	26,152
Accruals and other liabilities	0	0	0	0	11,552	11,552
Provisions	0	0	0	0	2,230	2,230
Deferred tax liability	0	0	0	0	637	637
Subordinated debt	6,002	0	0	0	0	6,002
Total liabilities	**152,907**	**5,667**	**11,101**	**11,871**	**282,050**	**463,596**
On balance sheet interest rate sensitivity gap at 31 December 2006	**156,334**	**50,405**	**65,588**	**15,795**	**(239,468)**	**48,654**
Derivatives *	259,915	175,346	212,041	101,218	0	748,520
Total off balance sheet assets	**259,915**	**175,346**	**212,041**	**101,218**	**0**	**748,520**
Derivatives *	321,679	198,654	194,254	33,333	0	747,920
Undrawn portion of loans **	(3,298)	(2,108)	3,481	1,925	0	0
Undrawn portion of revolving loans **	(483)	483	0	0	0	0
Total off balance sheet liabilities	**317,898**	**197,029**	**197,735**	**35,258**	**0**	**747,920**
Net off balance sheet interest rate sensitivity gap at 31 December 2006	**(57,983)**	**(21,683)**	**14,306**	**65,960**	**0**	**600**

Continued from page 116

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Cumulative interest rate sensitivity gap at 31 December 2006	98,351	127,073	206,967	288,722	49,254	x
Total assets at 31 December 2005	326,818	44,661	63,980	23,499	33,774	492,732
Total liabilities at 31 December 2005	152,901	3,422	11,297	6,139	268,659	442,418
Net on balance sheet interest rate sensitivity gap at 31 December 2005	173,917	41,239	52,683	17,360	(234,885)	50,314
Net off balance sheet interest rate sensitivity gap at 31 December 2005	**(70,135)**	**(18,780)**	**29,564**	**59,812**	**0**	**461**
Cumulative interest rate sensitivity gap at 31 December 2005	**103,782**	**126,241**	**208,488**	**285,660**	**50,775**	**x**

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 2006 and 2005:

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

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

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

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

CZK million	Fixed interest rate 2006	Floating interest rate 2006	No interest 2006	Total 2006	Fixed interest rate 2005	Floating interest rate 2005	No interest 2005	Total 2005
Assets								
Cash and balances with the CNB	0	5,293	8,789	14,082	0	2,205	7,026	9,231
Amounts due from banks	12,404	187,177	207	199,788	16,454	228,011	1,488	245,953
Financial assets at fair value through profit or loss	14,289	271	137	14,697	7,280	85	228	7,593
Positive fair values of financial derivative transactions	0	0	11,112	11,112	0	0	11,228	11,228
Loans and advances to customers, net	113,419	109,365	387	223,171	73,931	109,187	2,107	185,225
Securities available for sale	21,014	707	1,455	23,176	11,776	2,584	365	14,725
Investments held to maturity	3,222	0	61	3,283	3,357	0	66	3,423
Liabilities								
Amounts due to banks	4,336	6,373	2,130	12,839	0	30,979	547	31,526
Amounts due to customers	6,194	385,826	6,117	398,137	1,419	363,255	5,384	370,058
Negative fair values of financial derivative transactions	0	0	6,047	6,047	0	0	4,324	4,324
Securities issued	21,933	3,909	310	26,152	16,215	6,199	258	22,672
Subordinated debt	2	6,000	0	6,002	0	0	0	0

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

(E) Liquidity risk

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

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

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

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

CZK million	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with the Czech National Bank	8,275	0	0	0	0	5,807	14,082
Amounts due from banks	131,633	54,816	708	8,456	4,065	110	199,788
Financial assets at fair value through profit or loss	105	1,702	5,776	5,930	1,068	116	14,697
Positive fair values of financial derivative transactions	0	0	0	0	0	11,112	11,112
Loans and advances to customers, net	5,745	21,635	58,781	58,917	61,507	16,586	223,171
Securities available for sale	48	227	320	7,301	14,402	878	23,176
Investments held to maturity	0	51	235	1,938	1,059	0	3,283
Prepayments, accrued income and other assets	976	0	0	0	0	1,596	2,572
Income taxes receivable	0	0	160	0	0	7	167
Assets held for sale	0	0	611	0	0	0	611
Intangible fixed assets, net	0	0	0	0	0	2,251	2,251
Tangible fixed assets, net	0	0	0	0	0	7,328	7,328
Investments in subsidiaries and associates, net	0	0	0	0	0	10,012	10,012
Total assets	146,782	78,431	66,591	82,542	82,101	55,803	512,250
Liabilities							
Amounts due to banks	6,581	4,078	1,209	971	0	0	12,839
Amounts due to customers	342,276	45,493	4,570	4,496	1,302	0	398,137
Negative fair values of financial derivative transactions	0	0	0	0	0	6,047	6,047
Securities issued	0	31	1,410	10,133	14,578	0	26,152
Accruals and other liabilities	11,215	337	0	0	0	0	11,552
Provisions	2	35	613	58	17	1,505	2,230
Deferred tax liability	0	0	0	0	0	637	637
Subordinated debt	0	2	0	0	6,000	0	6,002
Equity	0	0	0	0	0	48,654	48,654
Total liabilities	360,074	49,976	7,802	15,658	21,897	56,843	512,250
On balance sheet liquidity gap at 31 December 2006	(213,292)	28,455	58,789	66,884	60,204	(1,040)	0
Off balance sheet assets *	33,126	45,798	50,906	35,529	3,670	0	169,029
Off balance sheet liabilities *	35,713	67,221	142,476	49,621	21,520	20,056	336,607
Net off balance sheet liquidity gap at 31 December 2006	(2,587)	(21,423)	(91,570)	(14,092)	(17,850)	(20,056)	(167,578)
Total assets at 31 December 2005	113,729	142,309	53,374	66,912	69,212	47,196	492,732
Total liabilities at 31 December 2005	362,775	38,916	4,594	15,955	11,713	58,779	492,732
Net on balance sheet liquidity gap at 31 December 2005	(249,046)	103,393	48,780	50,957	57,499	(11,583)	0
Net off balance sheet liquidity gap at 31 December 2005	(1,238)	(8,390)	(41,864)	(17,828)	(6,661)	(56,859)	(132,840)

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

(F) Foreign exchange position

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

CZK million	Czech crowns	Euros	US dollars	Swiss francs	Slovak crowns	Other currencies	Total
Assets							
Cash and current balances with the Czech National Bank	12,396	1,071	237	64	105	209	14,082
Amounts due from banks	171,853	12,425	13,897	69	734	810	199,788
Financial assets at fair value through profit or loss	13,751	112	0	0	262	572	14,697
Positive fair values of financial derivative transactions	11,112	0	0	0	0	0	11,112
Loans and advances to customers, net	201,930	19,064	1,216	68	818	75	223,171
Securities available for sale	12,918	7,693	2,565	0	0	0	23,176
Investments held to maturity	1,357	1,711	215	0	0	0	3,283
Prepayments, accrued income and other assets	2,248	220	42	0	0	62	2,572
Income taxes receivable	160	1	0	0	0	6	167
Assets held for sale	611	0	0	0	0	0	611
Intangible fixed assets, net	2,251	0	0	0	0	0	2,251
Tangible fixed assets, net	7,328	0	0	0	0	0	7,328
Investments in subsidiaries and associates, net	5,732	3,814	0	0	466	0	10,012
Total assets	**443,647**	**46,111**	**18,172**	**201**	**2,385**	**1,734**	**512,250**
Liabilities							
Amounts due to banks	7,391	4,373	44	1	710	320	12,839
Amounts due to customers	357,999	30,191	8,635	191	222	899	398,137
Negative fair values of financial derivative transactions	6,039	8	0	0	0	0	6,047
Securities issued	24,965	1,187	0	0	0	0	26,152
Accruals and other liabilities	10,185	1,075	235	1	24	32	11,552
Provisions	1,042	382	804	0	0	2	2,230
Deferred tax liability	637	0	0	0	0	0	637
Subordinated debt	6,002	0	0	0	0	0	6,002
Equity	48,654	0	0	0	0	0	48,654
Total liabilities	**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 assets included in the FX position *	737,292	97,882	45,791	0	16,528	4,597	902,090
Off balance sheet liabilities included in the FX position *	717,975	105,766	54,642	7	17,912	5,067	901,369
Net off balance sheet 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**
Total assets at 31 December 2005	430,044	34,663	22,585	168	3,409	1,863	492,732
Total liabilities at 31 December 2005	444,444	31,610	13,154	339	1,055	2,130	492,732
Net FX position at 31 December 2005	(14,400)	3,053	9,431	(171)	2,354	(267)	0
Off balance sheet net FX position at 31 December 2005	14,623	(3,372)	(9,383)	162	(2,026)	347	351
Total net FX position at 31 December 2005	223	(319)	48	(9)	328	80	351

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 is targeting the Société Générale's objective of the Advanced Measurement Approaches ("AMA") method validation at group level. Therefore, all operational risks management instruments required by the AMA method are progressively being implemented in the Bank. These instruments are: data collection, risk control self assessment, scenario analysis (all implemented in 2006) and key risk indicators (to be implemented in the first quarter of 2007). The operational risks validation agenda has been agreed with the regulator. The Czech National Bank started the pre-validation process in mid-2005 which is anticipated to be completed by May 2007. The validation process is planned to take place in the latter half of 2007 after the assessment by KB's Internal Audit.

(H) Legal risk

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

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

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

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

a) Cash and balances with the central bank

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

b) Investments held to maturity

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

c) Amounts due from banks

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

d) Loans and advances to customers

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

e) Amounts owed to banks and customers

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

f) Debt securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Bank.
The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

CZK million	Carrying value 2006	Fair value 2006	Carrying value 2005	Fair value 2005
Financial assets				
Cash and current balances with the Czech National Bank	14,082	14,082	9,231	9,231
Amounts due from banks	199,788	200,121	245,953	246,765
Loans and advances to customers, net	223,171	229,831	185,225	191,337
Investments held to maturity	3,283	3,253	3,423	3,474
Financial liabilities				
Amounts due to banks	12,839	12,835	31,526	31,522
Amounts due to customers	398,137	398,100	370,058	370,027
Securities issued	26,152	26,034	22,672	22,744
Subordinated debt	6,002	6,004	0	0

42. Assets under management

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

43. Post balance sheet events

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

Consolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2006

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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 114 07
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries ("the Group"), which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, 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 2007

Deloitte

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

Diana Rogerová

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová

Diana Rogerová, certificate no. 2045

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Consolidated Profit and Loss Statement for the year ended 31 December 2006

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

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

Consolidated Balance Sheet as of 31 December 2006

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

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

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

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board
of Directors and CEO

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

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2006

CZK million	Share capital	Capital and reserve funds and undistributed profit *	Hedging instruments	Revaluation gains or losses	Revaluation of available--for-sale securities	Total	Minority interest	Total, including minority interest
Balance at 31 December 2004	**19,005**	**22,401**	**2,813**	**(31)**	**553**	**44,741**	**73**	**44,814**
Cash flow hedging								
– net fair value, net of tax	0	0	3,048	0	0	3,048	0	3,048
– transfer to net profit, net of tax	0	0	(1,705)	0	0	(1,705)	0	(1,705)
Currency translation from foreign investments	0	0	0	(7)	0	(7)	0	(7)
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	66	66	0	66
Gains or losses on available-for-sale securities – associates, net of tax	0	7	0	0	0	7	0	7
Treasury shares, other	0	(6)	0	0	0	(6)	0	(6)
Dividends	0	(3,801)	0	0	0	(3,801)	0	(3,801)
Business combinations	0	0	0	0	0	0	0	0
Net profit for the period	0	8,960	0	0	0	8,960	(49)	8,911
Balance at 31 December 2005	**19,005**	**27,561**	**4,156**	**(38)**	**619**	**51,303**	**24**	**51,327**
Cash flow hedging								
– net fair value, net of tax	0	0	362	0	0	362	0	362
– transfer to net profit, net of tax	0	0	(1,671)	0	0	(1,671)	0	(1,671)
Currency translation from foreign investments	0	0	0	(19)	0	(19)	0	(19)
Gains or losses on available-for-sale securities, net of tax	0	0	0	0	571	571	0	571
Gains or losses on available-for-sale securities – associates, net of tax	0	(3)	0	0	0	(3)	0	(3)
Treasury shares, other	0	(146)	0	0	0	(146)	0	(146)
Dividends	0	(9,502)	0	0	0	(9,502)	0	(9,502)
Business combinations	0	0	0	0	0	0	559	559
Net profit for the period	0	9,123	0	0	0	9,123	(3)	9,120
Balance at 31 December 2006	**19,005**	**27,033**	**2,847**	**(57)**	**1,190**	**50,018**	**580**	**50,598**

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

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

Consolidated Cash Flow Statement for the year ended 31 December 2006

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

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2006

1. Principal activities

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

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

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.
The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.
In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its subsidiary Komerční banka Bratislava, a.s. and in Belgium through its subsidiary Bastion European Investment, S.A.
The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2005: 60.35 percent) of the Bank's issued share capital.

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

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

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

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

2. Events for the year ended 31 December 2006

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

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

Changes in the Group

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

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

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

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

3. Principal accounting policies

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

(a) Basis of accounting

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

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

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

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

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

(b) Basis of consolidation

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

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

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

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

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

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

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

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

(d) Foreign currency translation

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

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

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

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

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

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

(e) Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

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

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

(f) Originated loans and provisions for loan impairment

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

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

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

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

(g) Securities

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

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

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

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

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

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

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

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

Securities at fair value through profit or loss

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

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

Investments held to maturity

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

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

Loans and receivables

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

Available for sale securities

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

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

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

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

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

(h) Assets held for sale

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

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

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

(i) Investment property

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

(j) Tangible and intangible fixed assets

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

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

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

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

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

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

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

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

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

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

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

(k) Leases

Assets held under finance leases when substantially all the risks and rewards of ownership are transferred, are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are depreciated over their useful lives.
Lease payments are apportioned between interest reported in finance charges (in Interest expense) and reduction of the lease obligation. Finance charges are allocated over the lease term so as to achieve a constant interest rate.
Payments made under operating leases are charged to the profit and loss statement on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable, assets are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income. Lease income is recognised over the term of the lease reflecting a constant periodic rate of return.

(l) Provisions

In accordance with IFRS, the Group recognises a provision when, and only when:
– It has a present obligation (legal or constructive) as a result of a past event;
– It is probable that the settlement of the obligation will cause an outflow of resources embodying economic benefits; and
– A reliable estimate can be made of the amount of the obligation.
In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments and approved overdraft loans.
Specific provisions are made for estimated losses on these commitments on the same basis as set out in Note 3(f).

(m) Employment benefits

The Group provides its employees with loyalty benefits, retirement benefits and disability benefits.
The employees are entitled to claim loyalty benefits in circumstances where they are employed with the Group for a defined period of time. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or are entitled to receive a disability pension and were employed with the Group for a minimum defined period.
Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, discount rate).
The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred.

(n) Securities issued

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

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

(o) Recognition of income and expense

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

(p) Income taxation

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

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

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

(q) Repurchase agreements

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

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

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

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

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

(r) Derivative financial instruments and hedging

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

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

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

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

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

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

(a) Compliance with the Group's risk management strategy;

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

(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 to 125 percent.

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

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

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

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

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

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

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

(s) Regulatory requirements

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

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

(t) Fiduciary activities

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

(u) Share capital and treasury shares

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

(v) Contingent assets and contingent liabilities

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

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

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

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

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

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

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

– IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007); and

– Amendments to IAS 1 "Presentation of Financial Statements" on capital disclosures (effective 1 January 2007).

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

4. Source of income and expenses

Set out below is a business segment analysis:

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

The recognition and release of provisions during the current and previous periods related only to the "Universal banking" segment for all groups of assets that suffered impairment.
Subsidiaries that do not meet the criteria of IAS 14 for inclusion in a standalone segment are presented within universal banking.
The Group's income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5. Net interest income

Net interest income comprises:

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

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

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 6,226 million (2005: CZK 4,832 million) and accrued interest expense from hedging financial derivatives of CZK 4,062 million (2005: CZK 2,490 million). Net interest income from these derivatives amounts to CZK 2,164 million (2005: CZK 2,342 million). The gain on the fair value of interest rate swaps to hedge against interest rate risk of CZK 95 million (2005: CZK nil) is included in *"Interest income on loans and advances to customers"*. This amount matches the amount of the revaluation loss on hedged loan receivables reported in the same line.

6. Net fees and commissions

Net fees and commissions comprise:

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

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

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

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

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

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

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

8. Other income

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

9. Personnel expenses

Personnel expenses comprise:

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

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

10. General administrative expenses

General administrative expenses comprise:

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

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

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

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

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

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

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

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

13. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

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

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

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

Provisions for securities

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

Provisions for unconsolidated investments in subsidiaries and associates

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

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

Provisions for other risk expenses

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

14. Income taxes

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

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

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

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

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

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

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

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

Further information about deferred tax is presented in Note 35.

15. Distribution of profits/Allocation of losses

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

16. Earnings per share

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

17. Cash and current balances with central banks

Cash and current balances with banks comprise:

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

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

18. Amounts due from banks

Balances due from banks comprise:

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

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

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

Securities acquired as loans and receivables

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

19. Financial assets at fair value through profit or loss

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

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

The Group's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 5,562 million (2005: CZK 1,095 million).
As of 31 December 2006, the portfolio of trading securities includes securities at a fair value of CZK 8,994 million (2005: CZK 6,348 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 5,703 million (2005: CZK 1,245 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).
Trading shares and participation certificates at fair value comprise:

CZK million	2006	2005
Shares and participation certificates		
– Czech crowns	95	68
Total trading shares and participation certificates	**95**	**68**

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

CZK million	206	2005
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	0	60
– Other foreign entities	95	8
Total trading shares and participation certificates	**95**	**68**

Emission allowances held for trading at fair value comprise:

CZK million	2006	2005
Emission allowances		
– Other currencies	21	0
Total emission allowances held for trading	**21**	**0**

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

CZK million	2006	2005
Emission allowances held for trading issued by:		
– Foreign state institutions	21	0
Total emission allowances held for trading	**21**	**0**

Debt trading securities at fair value comprise:

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

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

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

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

20. Loans and advances to customers

Loans and advances to customers comprise:

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

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

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

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

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

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

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

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

Set out below is an analysis by category of customers:

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

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

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

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

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

Loans and advances to customers – leasing

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

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

Trade finance losses

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

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

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

21. Securities available for sale

Securities available for sale comprise:

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

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

CZK million	2006	2005
Shares and participation certificates		
– Czech Crowns	1,375	418
– Other currencies	2	2
Total shares and participation certificates	**1,377**	**420**

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

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

Debt securities available for sale at fair value comprise:

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

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

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

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

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

Asset backed securities

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

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

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

Other debt securities

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

22. Investments held to maturity

Investments held to maturity comprise:

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

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

Debt securities held to maturity comprise:

CZK million	2006	2005
Fixed income debt securities		
– Czech Crowns	1,357	1,346
– Other currencies	1,943	2,092
Total fixed income debt securities	**3,300**	**3,438**
Total debt securities held to maturity	**3,300**	**3,438**

Investments held to maturity, allocated by issuer, comprise:

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

Of the debt securities issued by state institutions, CZK 1,373 million (2005: CZK 1,346 million) represents securities eligible for refinancing with central banks.
No transactions within this portfolio took place during the year ended 31 December 2006. The year-on-year decrease in the value is attributable to the premium or discount amortisation, accruals for coupons and foreign exchange rate differences.

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

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

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

24. Assets held for sale

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

25. Investment property

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

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

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

26. Goodwill

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

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

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

27. Intangible fixed assets

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

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

During the year ended 31 December 2006, the Group invested CZK 125 million (2005: CZK 121 million) in research and development through a charge to operating expenses.
The movement table is influenced by the acquisition of Modrá pyramida stavební spořitelna, a.s.

28. Tangible fixed assets

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

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

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

As of 31 December 2006, the Group recognised provisions against tangible assets of CZK 71 million (2005: CZK 70 million). In 2006, these provisions primarily included provisions charged in respect of leasehold improvements. The movement table is influenced by the acquisition of Modrá pyramida stavební spořitelna, a.s.

29. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

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

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

Note: * Bastion European Investment is fully consolidated in 2006.
** Komercni Finance B.V. was excluded from consolidation in 2006 due to liquidation.

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

Note: * Modrá pyramida is fully consolidated in 2006.
** The cost and net book value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

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

Note: * Modrá pyramida stavební spořitelna is fully consolidated in 2006.

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

30. Amounts due to banks

Amounts due to banks comprise:

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

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

31. Amounts due to customers

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

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

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

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

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

32. Securities issued

Securities issued comprise mortgage bonds of CZK 24,349 million (2005: CZK 22,672 million). Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.
Debt securities are repayable, according to remaining maturity, as follows:

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

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

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

Note: Six-month PRIBOR was 261 basis points as of 31 December 2006 (2005: 233 basis points). Three-month PRIBID was 245 basis points as of 31 December 2006 (2005: 207 basis points).

33. Accruals and other liabilities

Accruals and other liabilities comprise:

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

"Payables from payment transactions" predominantly include payables arising from payments passed onto the Czech National Bank's clearing centre.
"Other liabilities" largely include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).
Deferred income fees from banking guarantees are reported in *"Accruals and deferred income"* in the amount of CZK 18 million (2005: CZK 14 million).

34. Provisions

Provisions comprise:

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

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

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

Movements in the provisions for contracted commitments are as follows:

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

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

35. Deferred income taxes

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

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

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

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

36. Subordinated debt

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

37. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2006:

Name of the entity	Registered office	Ownership (%)
Société Générale S.A.	29 BLD Haussmann, Paris	60.35
Investors Bank & Trust Company	89 South Street, Boston	6.98
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	3.74

Société Générale S.A., only entity with a qualified majority in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.
As of 31 December 2006, the Group held 54,000 treasury shares at a cost of CZK 150 million (2005: 2,000 treasury shares at a cost of CZK 7 million).

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

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

39. Acquisition/disposal of subsidiary companies

The net assets of companies acquired/disposed of:

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

Additional information is presented in Notes 2 and 12.

40. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2006. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 628 million (2005: CZK 1,345 million) for these legal disputes (see Note 34). The Group has also recorded an accrual of CZK 408 million (2005: CZK 387 million) for costs associated with a potential payment of interest on the pursued claims.
As of 31 December 2006, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

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

Capital commitments

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

Commitments arising from the issuance of letters of credit

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

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

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

Financial commitments and contingencies comprise:

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

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

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

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

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

Set out below is an analysis by category of customers:

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

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

Finance lease commitments

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

41. Related parties

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

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

Amounts due to and from the Group companies

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

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

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

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

As of 31 December 2006 and 2005, other amounts due to and from the companies of the Bank's Group were immaterial. As of 31 December 2006, the Group recorded interest income from loans granted to associates of CZK nil (2005: CZK 38 million). In the years ended 31 December 2006 and 2005, the Group realised no material amounts of other income or expenses with its associates.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

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

Principal balances owed to the Société Générale Group entities include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CZK million	2006	2005
Cash flow hedge fair value at 1 January	5,469	3,798
Deferred tax liability at 1 January	(1,313)	(985)
Balance at 1 January	**4,156**	**2,813**

Movements during the year:

CZK million	2006	2005
Gains/losses from changes in fair value	474	4,013
Deferred income tax	(112)	(965)
	362	**3,048**
Transferred to interest income/expense	(2,198)	(2,342)
Deferred income tax	527	637
	(1,671)	**(1,705)**
Balance at 31 December	3,745	5,469
Deferred income tax	(898)	(1,313)
Balance at 31 December	**2,847**	**4,156**

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

CZK million	2006	2005
Reserve from fair-value revaluation at 1 January	741	659
Deferred tax liability/income tax liability at 1 January	(122)	(106)
Balance at 1 January	**619**	**553**

Movements during the year:

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

44. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

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

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

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

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

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

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

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

Credit risk concentration

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

Classification of receivables

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

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

Receivables that are not categorised

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

Provisioning for receivables

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

Loan collateral

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

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

Recovery of amounts due from borrowers

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

– Pre-Recovery activities;

– Advisory and Consulting support of recovery specialists to business units; and

– Out of court and Legal Recovery.

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

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

Credit risk hedging instruments

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

Revocable contractual commitments

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

Credit risk of financial derivatives

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

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

(B) Market risk

Segmentation of the Group's financial operations

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

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

Products traded by the Group

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

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

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

Market risk in the Market Book

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

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

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

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

Market risk in the Structural Book

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

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

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

(C) Financial derivatives

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

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

Financial derivative instruments designated as held for trading:

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

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

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

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

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

Financial derivative instruments designated as hedging:

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

Remaining maturity of derivatives designated as hedging:

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

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

(D) Interest rate risk

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

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

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

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

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CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Cumulative interest rate sensitivity gap at 31 December 2006	101,661	131,590	209,564	315,010	49,181	x
Total assets at 31 December 2005	334,419	47,700	68,598	28,309	34,830	513,856
Total liabilities at 31 December 2005	156,049	3,438	11,297	6,139	285,606	462,529
Net on balance sheet interest rate sensitivity gap at 31 December 2005	178,370	44,262	57,301	22,170	(250,776)	51,327
Net off balance sheet interest rate sensitivity gap at 31 December 2005	(70,594)	(17,568)	28,602	60,021	0	461
Cumulative interest rate sensitivity gap at 31 December 2005	**107,776**	**134,470**	**220,373**	**302,564**	**51,788**	**x**

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

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

Average interest rates as of 31 December 2006 and 2005:

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

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

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

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

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

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

(E) Liquidity risk

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

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

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

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

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

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

(F) Foreign exchange position

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

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

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

(G) Operational risk

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

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

(H) Legal Risk

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

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

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

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

a) Cash and balances with central banks

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

b) Investments held to maturity

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

c) Amounts due from banks

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

d) Loans and advances to customers

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

e) Amounts owed to banks and customers

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

f) Debt securities issued

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

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

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

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

45. Assets under management

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

46. Post balance sheet events

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

Survey of Financial Results 2001–2006

According to International Reporting Standards (IFRS)

CZK mil.	Unconsolidated data	2006	2005	2004	2003	2002	2001
Financial Performance	Net Interest Income	14,858	13,623	12,406	11,937	12,447	12,989
	Net Fees and Commissions	8,691	8,718	8,703	8,711	8,320	8,394
	Net Banking Income	24,631	23,392	22,717	21,844	22,597	23,809
	Total Operating Costs	(11,609)	(11,593)	(11,788)	(11,750)	(12,760)	(15,065)
	Net Profit/(Loss)	8,747	9,148	9,299	9,262	8,763	2,532
	Net Profit/(Loss) per Share (CZK)	230.32	240.68	244.66	243.68	230.55	66.62
	Total Assets	512,250	492,732	448,294	447,565	439,753	421,720
	Loans and advances to Customers, net	223,171	185,225	155,379	131,042	121,154	135,197
	Amounts Due to Customers	398,137	370,058	358,825	349,505	341,114	321,345
	Total Shareholders' Equity	48,654	50,314	43,578	40,399	33,758	23,598
	Return on Average Equity, ROAE (%)	17.68	19.49	22.15	24.98	30.56	11.56
	Return on Average Assets, ROAA (%)	1.74	1.94	2.08	2.09	2.03	0.61
	Net Interest Margin (%)	3.23	3.14	3.04	3.00	3.25	3.64
	Cost/Income Ratio (%)	47.13	49.60	51.89	53.79	56.47	63.27
Capital Adequacy	Capital Adequacy (%)	13.08	13.58	12.83	15.37	13.35	14.30
	Tier 1 Ratio (%)	11.46	13.95	13.35	14.48	11.21	10.13
	Tier 1	33,814	34,543	29,312	27,734	22,138	19,951
	Tier 2	6,000	0	0	2,272	6,091	9,607
	Total Regulatory Capital	38,589	33,637	28,235	29,437	26,332	28,170
	Risk-weighted-assets	294,950	247,662	219,825	191,487	197,525	196,988

CZK mil.	Consolidated data	2006	2005	2004	2003	2002	2001
Financial Performance	Net Interest Income	16,155	14,643	13,264	12,166	12,691	13,203
	Net Fees and Commissions	8,769	8,736	8,936	9,075	8,595	8,379
	Net Banking income	26,302	24,502	23,752	22,491	25,359	26,433
	Total Operating Costs	(12,418)	(12,135)	(12,475)	(12,529)	(15,356)	(18,302)
	Net Profit/(Loss)	9,120	8,911	8,938	8,669	9,026	2,904
	Net Profit/(Loss) per Share (CZK)	240.13	234.44	235.15	228.07	237.46	76.40
	Total Assets	597,555	513,856	473,411	456,663	446,092	431,433
	Loans and advances to Customers, net	252,505	189,212	158,085	131,130	122,978	136,681
	Amounts Due to Customers	480,107	388,431	373,371	353,569	341,708	323,018
	Total Shareholders' Equity	50,598	51,327	44,814	41,401	35,366	24,927
	Return on Average Assets, ROAA (%)	1.64	1.82	1.92	1.92	2.06	0.69
	Return on Average Equity, ROAE (%)	17.9	18.5	20.7	22.58	29.94	12.60
	Cost/Income Ratio (%)	47.2	49.6	52.5	55.7	60.6	62.2
Capital Adequacy	Capital Adequacy (%)	11.87	13.19	12.89	14.78	12.77	14.51
	Tier 1 Ratio (%)	10.35	13.71	12.96	14.08	10.71	10.64
	Tier 1	32,084	34,704	29,554	28,302	21,385	21,010
	Tier 2	6,000	0	1,389	2,388	6,129	9,719
	Total Regulatory Capital	36,809	33,381	29,398	29,707	25,494	28,640
	Risk-weighted-assets	309,994	253,078	228,009	201,030	199,585	197,407

Legal Information

Identification Details of the Company Entered in the Commercial Register as of 13 December 2006

maintained with the Metropolitan Court of Prague, Section B, File No. 1360

Date of entry:	5 March 1992
Business name:	Komerční banka, a.s.
Registered office:	Prague 1, Na Příkopě 33, building identification number 969, postcode 114 07
Identification number:	45 31 70 54
Legal form:	Public limited company
Shares:	38,009,852 dematerialised ordinary bearer shares of a nominal value of CZK 500 each
Share capital:	CZK 19,004,926,000 of which paid up 100%

Objects of business:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Sb., the Banking Act, as amended. The business activities of the Bank shall include:

a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services including:
  – main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more of investment instruments,
  – main investment services of execution of orders on behalf of investors in relation to one or more of investment instruments,
  – main investment services of dealing in investment instruments for the Bank's own account,
  – main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more of investment instruments,
  – main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
  – ancillary services of safekeeping and administration in relation to one or more of investment instruments,
  – ancillary services of safe custody,

– ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more of investment instruments, where the firm granting the credit or loan is involved in the transaction,
– ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
– ancillary services related to underwriting,
– ancillary services of investment advice concerning one or more of investment instruments,
– ancillary services of foreign-exchange service where these are connected with the provision of investment services,

k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (foreign exchange purchase),
n) provision of depository services,
o) provision of banking information,
p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a) – q)

II. The Bank shall further carry on business activities for business enterprises that provide supporting banking services and for financial institutions that are controlled by the Bank. The extent of the business activities shall cover:

a) accounting consultants activities, book-keeping, tax record keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organization of specialized courses, training, and other educational programs including teaching,
f) business, financial, organizational, and economic consultants activity,
g) data processing, database services, network (web) administration.

Statutory body – Board of Directors:

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Board of Directors from
Chairman	Laurent Goutard	610513/7379	Prague 6, Heineho 342/4, postcode 160 00	7 October 2004	1 September 2004
Vice-Chairman	Philippe Rucheton	480909/955	Prague 1, Břehová 8/208, postcode 110 00	3 May 2006	3 May 2006
Member	Didier Colin	630420/7459	Prague 1, Vlašská 5/361, postcode 110 00		9 October 2004
Member	Jan Juchelka	710919/5148	Poděbrady, Jižní 1339, Nymburk District, postcode 290 01		1 July 2006
Member	Peter Palečka	591103/6692	Černošice, Jahodová 1565, Prague-West District, postcode 252 28		6 October 2005

Acting on behalf of the Bank:

The Board of Directors as the statutory body shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.
Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two members of the Board jointly shall sign on behalf of the Bank.

Supervisory Board:

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Supervisory Board from
Chairman	Didier Alix	16 August 1946	14, bis Rue Raynouard, 75016 Paris, French Republic	29 April 2005	
Vice-Chairman	Jean-Louis Mattei	8 September 1947	24, Rue Pierre et Marie Curie, 75005 Paris, French Republic	29 April 2005	
Member	Petr Laube	490708/118	Prague 5, Košíře, Kvapilova 958/9	29 April 2005	
Member	Pavel Krejčí	631108/0644	Olomouc, Rolsberská 30, postcode 772 00		28 May 2005
Member	Nina Trlicová	495713/056	Ústí nad Labem, Jeseniova 401/30		28 May 2005
Member	Jan Kučera	511030/013	Náchod, Ovocná Str. 1576, postcode 574 01		28 May 2005
Member	Christian Achille Frederic Poirier	30 November 1948	19, Rue Mademoiselle, 78000 Versailles, French Republic	29 April 2005	
Member	Séverin Cabannes person responsible for the performance of activity of a brokerage house	21 July 1958	14, Rue de Voisins, 78430 Louveciennes, French Republic	29 April 2005	

Other facts:

Manner of the Company's establishment:

In accordance with the privatisation project of the state financial institution Komerční banka, with the registered office in Prague, Na příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a.s., based on the Founding Deed of 3 March 1992 under section 172 of the Commercial Code.

Information on Komerční banka Securities

Komerční banka Shares

Type:	ordinary share
Form:	bearer share
Representation:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value of 1 share:	CZK 500
ISIN:	CZ0008019106

Public trading

Komerční banka shares are publicly traded on public capital markets in the Czech Republic – the Prague Stock Exchange and RM-SYSTÉM (the organiser of the off-exchange market of securities). For further information about trading in shares, share prices and dividends please refer to the chapter Komerční banka Share Price.

Rights vested in the shares

Rights pertaining to ordinary shares are derived from Act No. 513/1991 Coll., the Commercial Code, as amended, and have no special rights attached.

Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of the nominal value of the share is equivalent to one vote.

Shareholders are entitled to a share of the Bank's profit (dividend) approved for distribution by the annual general meeting based upon the Bank's financial result and in accordance with the conditions stated in the generally binding legal regulations. Dividend rights belong to shareholders who own shares 30 calendar days following the date of the annual general meeting that approved the payment of the dividend. If the Board of Directors decides to register the rights for the payment of a dividend in the records of dematerialised securities, those shareholders shall have a right to a dividend whose right is registered in the records of dematerialised securities 30 calendar days after the date of the annual general meeting that approved the dividend. The dividend is payable 30 days after the decisive day on which the shareholder's right arose, in accordance with the previous sentence of this provision. The right to the payment of the dividend is time-barred from four years after its date of payment. In the event of the shareholder's death his legal inheritor shall be authorised to exercise all rights attached to the shares.

On the Bank's liquidation and dissolution the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the annual general meeting in the proportion of the nominal value of the shares held by the Bank's shareholders.

Acquisition of own shares

Komerční banka held 54,000 of its own shares as of 31 December 2006. These shares were purchased during 2006 in accordance with the decisions taken by the Bank's General Meetings of 28 April 2005 and 26 April 2006 that allows KB to purchase its own shares within defined price and volume limits for purposes of market making and managing the Bank's capital. In addition, Komerční banka acquired and sold its own stock during the first half of the year as a market maker on the basis of an agreement with the PSE on market making activities. KB temporarily discontinued this activity on 16 June 2006. It also intermediated share transactions for clients. In this case, KB acted at the client's request and immediately sold on to the client the shares that had been purchased. As a result of these activities, the Bank acquired KB shares during 2006 for prices outside of the limits set by the General Meeting's resolutions concerning the acquisition of its own shares. In that market making or trading for clients were the only reasons for acquiring its own shares, the Bank decided to fulfil its commitments arising from the agreement with the PSE and to trade with KB shares outside of these limits.

	Number/nominal value as at 1 January 2006 (pcs/CZK th.)	Proportion of share capital as at 1 January 2006 (%)	Number/ nominal value as at 31 December 2006 (pcs/CZK th.)	Proportion of share capital as at 31 December 2006 (%)
Trading portfolio (Trading book)	2,000	0.005	0	0
	1,000.0		0	
Portfolio available for sale (Banking book)	0	0	54,000	0.142
	0		27,000.0	

	Number/ nominal value of acquired shares (pcs/CZK th.)	Number/ nominal value of sold shares (pcs/CZK th.)	Sum of purchase prices of acquired shares (CZK th.)	Min. and max. acquisition price (CZK)	Sum of selling prices of sold shares (CZK th.)	Min. and max. selling price (CZK)
Trading portfolio (Trading book)	663,874	665,874	2,208,248	2,731.00	2,214,788	2,739.00
	331,937.0	332,937.5		3,690.00		3,690.00
Portfolio available for sale (Banking book)	54,000	0	150,348	2,743.00	0	0
	27,000.0	0		2,830.00		0

Komerční banka Global Depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (that are held on its proprietary account at the Securities Centre). In principle, GDRs bear the same rights as shares of the Bank and they may be re-converted into shares. One GDR represents one-third of a share of Komerční banka. The GDR programme was launched at the end of June 1995. In issuing the first block, Komerční banka entered the international capital markets. The second issue was in 1996.

From the start, the GDRs have been traded on the London Stock Exchange and in the PORTAL system (the market of the National Association of Securities Dealers, Inc.) in the US. The number of GDRs issued as at 31 December 2006 was 2,489,124.

United Kingdom tax considerations

The following comments are of a general nature and are based on current United Kingdom (UK) tax law and Her Majesty's Revenue and Customs (HMRC) practice as at the date of this document, both of which are subject to change at any time, and possibly with retrospective effect. These comments represent a summary of the principal UK tax consequences to a holder, who or which is resident or ordinarily resident in the UK or is carrying on a trade or business in the UK through a permanent establishment (collectively, "UK Holders"), of owning GDRs or shares delivered upon surrender of GDRs. It deals only with GDRs or shares held as capital assets and does not deal with certain special classes of holders, such as dealers.

Taxation of dividends and other distributions

Distributions, including cash dividends paid with respect to the underlying shares to a UK Holder, will generally be taxed as income of the UK Holder. Any Czech withholding tax paid in respect of such distributions to a UK Holder will generally be available as a credit against any UK tax liability of such UK Holder (and not recoverable from the Czech authorities) in respect of such distribution.

Where dividends are paid by or through a UK paying agent or collected by a UK collecting agent, such agent may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the UK Holder (including the UK Holder's name and address). HMRC published practice indicates that HMRC will not exercise its power to obtain information where such dividends are paid or received during the 2006/2007 tax year, which ends on 5 April 2007. It has not yet been announced whether this practice will continue for the 2007/2008 tax year, which begins on 6 April 2007. Any information obtained may, in certain circumstances, be provided by HMRC to the tax authorities of other jurisdictions.

Sale or other disposition of GDRs

A UK Holder of GDRs may, depending on individual circumstances and subject to any available exemption or relief, be subjected to UK tax on a disposition or deemed disposition of a GDR (or of shares acquired upon surrender of GDRs). Relief may be available for any Czech tax paid on such a disposal. There should be no liability for UK stamp duty or stamp duty reserve tax on a disposition of a GDR provided the disposition is undertaken by delivery.

Surrender of GDRs

Upon surrender of GDRs to the Depositary in return for shares, no liability for UK taxation should arise provided the GDR holder is the beneficial owner of the shares. Generally, the shares acquired from the Depositary will be acquired at a base cost equal to the cost to the UK Holder of acquiring the GDR surrendered.

Each prospective purchaser should consult his, her or its own tax adviser as to the specific tax consequences of an investment in the GDRs.

Bonds of Komerční banka (outstanding)

List of outstanding bonds issued by Komerční banka

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs.	Interest Rate	Pay-out of Interest
1.	HZL 2000/2007 ISIN: CZ0002000151	15 September 2000 15 September 2007	1,100,000,000 11,000	6M PRIBOR + 3.50% p.a.	Half-yearly
2.	HZL 2003/2009 ISIN: CZ0002000268	21 August 2003 21 August 2009	5,000,000,000 500,000	5.5% p.a.	Yearly
3.	HZL 2004/2008 ISIN: CZ0002000383	5 August 2004 5 August 2008	4,800,000,000 480,000	4.5% p.a.	Yearly
4.	HZL 2005/2015 ISIN: CZ0002000565	2 August 2005 2 August 2015	5,200,000,000 520,000	3M PRIBID + min. (-0.10% p.a.; [-0.1*3MPRIBID] % p.a.)	Quarterly
5.	HZL 2005/2015 ISIN: CZ0002000664	21 October 2005 21 October 2015	10,000,000,000 1,000,000	4.40% p.a.	Yearly
6.	HZL 2006/2016 ISIN: CZ0002000854	1 September 2006 1 September 2016	EUR 42,670 42,670	3.74% p.a.	Yearly

HZL = mortgage bonds

All bonds with the exception for mortgage bonds ("HZL") ISIN CZ0002000854 are denominated in CZK, are listed except for HZL ISIN CZ0002000854 and made out to the bearer in dematerialised form. Except for HZL CZ0002000151 in a nominal value CZK 100,000 and HZL ISIN CZ0002000854 in a nominal value EUR 1,000 they have a nominal value of CZK 10,000.
HZL ISIN CZ0002000268, ISIN CZ0002000383 and ISIN CZ0002000565 were issued within the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated May 6, 2003. The 10-Year Debt Issuance Programme with the maturity of any single issue of up to 10 years enables the Bank to issue mortgage bonds with a maximum amount of CZK 15 billion outstanding.
Unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Business Activities on the Capital Market, as amended. The Bonds Prospectuses, Terms and Conditions or Pricing Supplements were approved by the Czech Securities Commission or the Czech National Bank.

Public trading

All unredeemed bonds except for HZL ISIN CZ0002000854 are admitted for trading on the official free market of the Prague Stock Exchange.
The transferability of bonds is unlimited. Bonds are transferred upon registration of their ownership in the account of the new owner in the Securities Centre.

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed by and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the Terms and Conditions of each issue.
Bonds bear interest from the date of issue and payments of the coupon are made at quarterly, half-yearly or yearly intervals. The coupon of the securities is paid by the issuer – Komerční banka, a.s., registered office Na Příkopě 33, Prague 1, through its Headquarters and branches.
The bonds will be redeemed by Komerční banka, a.s., Na Příkopě 33, Prague 1, through the Bank's Headquarters and branches in a whole amount of the nominal value (except for HZL ISIN CZ0002000854) on the maturity date. HZL ISIN CZ0002000854 are Installment Bonds with the nominal value redeemed 10% annually.

Emoluments and Benefits of the Management and Statutory Bodies

Remuneration for members of the Board of Directors is closely linked with the results of the Bank. Payment for performing the duties of the Board of Directors is proposed by the Remuneration Committee of the Supervisory Board and is subject to approval by the annual general meeting. The annual general meeting approves both the fixed annual remuneration and bonus ranges for serving on the Board of Directors. After the close of the financial year, the Remuneration Committee of the Supervisory Board evaluates the performance of duties in fulfilling contracts for the members of the Board of Directors. Based on this performance evaluation, it proposes individual bonus amounts to be paid to the members of the Board of Directors within the ranges previously approved by the annual general meeting. Bonuses is subsequently approved by the Supervisory Board.

Members of the Supervisory Board are remunerated in accordance with the principles included in the resolution of the annual general meeting held on 17 June 2004. It sets both fixed monthly remuneration and remuneration for the members' attendance at Supervisory Board meetings, the number of which is limited to the maximum of six meetings per year.

In accordance with the Act No. 256/2004 Coll., on Undertaking on the Capital Market and in line with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all non-monetary income and income in-kind received by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer, specified by each director, during the financial reporting period 2006. The data are published in the structure described in Section III. – 5.3 of the Commission Recommendation:

(A) the total amount of salary paid or due for the services performed under the relevant financial year, including where appropriate the attendance fees fixed by the annual general share-holders meeting;
(B) the remuneration and advantages received from any undertaking belonging to the same group;
(C) remuneration paid in the form of profit sharing and/or bonus payments for 2005;
(D) any significant remuneration paid for special services outside the scope of the usual functions;
(E) the compensation paid to or receivable by each former member of the Board of Directors or Supervisory Board in connection with the termination of his activities during that financial year;
(F) total estimated value of non-cash benefits considered as remuneration, other than the items covered in points (A) to (E).

In following tables all the emoluments of KB directors are presented in above described structure unless they amounted to zero and were not paid to KB directors at all.

CZK	(A)	(C)	(D)	(F)	Total
Board of Directors:					
Laurent Goutard	3,600,000	1,450,000	1,815,861	2,161,219	9,027,080
Philippe Rucheton	2,460,000	2,059,000	3,399,925	1,576,982	9,495,907
Didier Colin	2,460,000	1,450,000	1,197,103	2,917,511	8,024,614
Peter Palečka	2,460,000	2,500,000	1,445,045	661,049	7,066,094
Matúš Púll [1)]	410,000	3,000,000	379,252	56,196	3,845,448
Jan Juchelka [2)]	1,351,000	0	3,435,249	211,510	4,997,759

[1)] In the position until 23 February 2006, when he passed away.

[2)] In the position since 1 July 2006. He has joined Komerční banka management since 1 February 2006. From 1 January to 30 April 2006 he was a member of the Supervisory board of Komerční banka. Column A includes also remuneration for member of the Supervisory board of KB for period from 1 January to 30 April 2006.

CZK	(A)	(D)	(F)	Total
Supervisory Board:				
Didier Alix, chairman	825,000	0	0	825,000
Jean-Louis Mattei, vice-chairman	313,500	0	0	313,500
Séverin Cabannes	297,000	0	0	297,000
Pavel Krejčí *	330,000	55,174 [1)]	1,620 [1)]	386,794
Jan Kučera *	330,000	359,577	51,458	741,035
Petr Laube	330,000	0	0	330,000
Christian Poirier	313,500	0	0	313,500
Nina Trlicová *	368,500	554,060	57,292	979,852

* Elected by KB employees, total emoluments include regular salaries
[1)] Refunded by KB Trade Unions

Information on the number of shares issued by the issuer and held by members of the Board of Directors and Supervisory Board, including individuals related to these individuals; information on option and long-term contracts and similar agreements whose underlying assets are interim certificates issued by the issuer, and whose contractual parties are the listed individuals, or which were entered into in the interest of the listed individuals:

	31 December 2006
Board of Directors:	
Laurent Goutard, chairman	None
Philippe Rucheton, vice-chairman	None
Didier Colin	None
Peter Palečka	4,700 shares
Jan Juchelka	None
Supervisory Board:	
Didier Alix, chairman	None
Jean-Louis Mattei, vice-chairman	None
Séverin Cabannes	None
Pavel Krejčí	725 shares
Jan Kučera	2,280 shares
Petr Laube	2,249 shares
Christian Poirier	None
Nina Trlicová	None

Information on Remuneration to Auditors for Services Provided in 2006

For services performed during 2006 KB and KB Group provided the remuneration to the auditors as follows:

Type of service – CZK thousand, excl. VAT	KB	KB Group *
Statutory audit	14,710	22,470
Audit related services	907	2,698
Legal and tax related services	4,489	4,680
Other	5,928	6,335
Total	**26,034**	**36,183**

* KB Group comprise Komerční banka, ESSOX, Factoring KB, Komerční banka Bratislava, Komerční pojišťovna, Modrá pyramida stavební spořitelna.

Description of Real Estate Owned by the Bank

Komerční banka owns real estate used mostly for the business activities for which it is licensed under existing legislation. Summary of the real estate owned by the Bank:

As at 31 December 2006	Number	Area in m^2
Land (area includes built-up land of the buildings)	418	223,732
Buildings (area includes all floors)	436	526,275

See also Notes to the Unconsolidated Financial Statements according to IFRS, Notes No 24 – Assets for sale and No 26 – Tangible fixed assets.

Investments

Investments made by the Bank

(balance as of the end of the year)

CZK million, IFRS	31 December 2005	31 December 2006
Bonds and treasury bills	25,580	40,162
Shares	161	973
Emissions allowances	0	21
Equity investments in subsidiary and associated undertakings	1,518	10,012
Total	**27,259**	**51,168**

Main investments – excluding financial investments *

(balance as of the end of the year)

CZK million, IFRS	31 December 2005	31 December 2006
Tangible fixed assets	7,364	7,318
Intangible fixed assets	2,097	2,251
Total tangible and intangible fixed assets	**9,461**	**9,569**
Tangible fixed assets held under finance leases	27	10

Note: * Net book value of investments
See also Notes to the Unconsolidated Financial Statements according to IFSR, Notes No 25 Intangible Fixed Assets and 26 – and Tangible Fixed Assets.

Main ongoing investments – excluding financial investments

In 2006, the Bank made non-financial investments in a total of CZK 1.6 billion. Most of that amount was invested in the area of information technologies for the purchase and upgrading of software and hardware and for consultancy services. Significant amounts were also invested into constructing KB's new points of sale and real estate owned by the Bank. All of the non-financial investments were made in the Czech Republic and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2007 will not exceed CZK 2.4 billion. The biggest portion of the total amount represents investments related to information technologies. The Bank's investment plans may change in the future depending on developments in related conditions, i.e. the actual investments may differ from the plan.

Legal Disputes

With respect to its overall financial situation, Komerční banka regards as significant all litigations involving amounts exceeding CZK 10 million and any bankruptcy proceeding in which Komerční banka is a creditor with a claim exceeding CZK 50 million. The reason for the higher claims threshold in bankruptcy proceedings is the fact that the average recovery from bankruptcies usually does not exceed 20%. Therefore, the outcomes of bankruptcy proceedings have in general less significant impact on the Bank's financial position.

As of 31 December 2006, Komerční banka was a party to legal proceedings as a plaintiff in 23 significant litigations. The total sum involved in these litigations is about CZK 1.68 billion. The Bank is a bankruptcy creditor with a claim exceeding CZK 50 million in 19 bankruptcy proceedings, the total amount of filed claims in which is about CZK 10.6 billion.

As of 31 December 2006, Komerční banka was a party to legal proceedings as the defendant in 19 significant litigations. The total sum involved in these litigations is about CZK 4.9 billion.

Information concerning the provisions created for litigations in which Komerční banka is a defendant is stated in the Notes to the Unconsolidated Financial Statements according to IFRS, Note 36 – Commitments and Contingent Liabilities.

Licences and Trademarks

If using any third party rights that are governed by the relevant statutory provisions on the protection of intellectual property (mainly copyrights) or intangible property rights, Komerční banka rigorously monitors the fulfilment of all statutory requirements. Any such rights are used in accordance with valid laws and international conventions or under a relevant licence, as appropriate.

Komerční banka also owns (has registered) approximately 80 trademarks entered in the public register of trademarks maintained by the Industrial Property Office of the Czech Republic, and another 15 trademarks have been entered into the registration process. The Bank uses these trademarks for the protection and diversification of its products. Komerční banka has also registered (applied for registration of) trademarks in the Slovak Republic.

Expenses on Research and Development

In 2006, Komerční banka spent over one hundred million Czech crowns on research and development. These expenses comprise mainly expenses related to development studies and realisation of individual projects, particularly in the area of information technologies and systems including development of internet applications.

Organisational Chart of Komerční banka

Board of Directors

Marketing	Distribution	Strategy and Finance	Corporate Secretariat
Operations	Corporate Banking	Risk Management	Communication
Support Services	Investment Banking	Information Technologies	Human Resources
			Internal Audit

All organisational units are based in the Czech Republic.

Report on Relations Among Related Parties

(hereinafter the “Report on Relations”)

Komerční banka, a.s., having its registered office address at Na Příkopě 33/969, Prague 1, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies, Section B, File 1360, maintained at the Municipal Court in Prague (hereinafter referred to as “KB” or the “Bank”), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter referred to as “related entities”) exist.
This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2006, that is, from 1 January 2006 to 31 December 2006 (hereinafter referred to as the “reporting period”).

I. Introduction

In the period from 1 January 2006 to 31 December 2006, KB was a member of the Société Générale S.A. Group, having its registered office address at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter referred to as “SG” or “SG Paris”).
During the course of the reporting period, the Bank entered into arrangements with the following related entities:

a) SG’s Head Office and branch Office

Company	Registered office
SG Paris	29, BLD Haussmann, Paris, France
SG London	Exchange House, Primrose Street, London, Great Britain
SG New York	1221 Avenue of the Americans, 10020, New York, USA
SG Tokyo	Ark Mori Building, 12-32 Akasaka 1 Chrome, Minato-ku, 107-6015 Tokyo, Japan
SG Zurich	Sighlguai 253, 8031 Zurich, Switzerland
SG Warsaw	Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Postfach 101935, Mainzer Landstrasse 36, D60325, Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Amsterdam	Rembrandt Tower A, Amstelplein 1, 1096 HA Amsterdam, Netherlands

b) SG’s subsidiaries

Company	Registered office	SG’s share of voting power
Barep	3, Rue Lafayette 75009 Paris, France	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SG Asset Management	2 Place de la Coupole, 92078 Paris La Défense, France	100.00
SG Equipment Finance Czech Republic s.r.o	Antala Staška 2027/79, 140 00 Prague 4 – Krč, Czech Republic	100.00
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneva 11, Switzerland	77.62
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.58
SG Canada	1501 Avenue McGill College, Montreal, Quebec, Canada	100.00
SG Cyprus Ltd.	7/9 Grivas Dighenis, Avenue Nikosie, Cyprus	51.00

Company	Registered office	SG's share of voting power
Sogecap	50 Avenue du Général de Gaulle 92093 Paris, France	100.00
N.S.G.B.	5 Champollion Street, Cairo, Egypt	77.17
Banca Romana Pentru Devzvoltare	Boulevard Ion Mihalache no. 1-7, sector 1, Bucharest, Romania	58.32
FIMAT International banque SA (UK branch)	SG House, 41 Tower Hill, London, Great Britain	100.00
FIMAT International banque SA, Germany	Neue Mainzer Strase 52, 60311 Frankfurt am Main, Germany	100.00
FRANFINANCE SA	59 Avenue de Chatou, 92853 Rueil Malmaison, France	99.99
Inter Europe Conseil	Tour Société Générale 17 Cours Valmy 92987 Paris La Defénse, France	100.00
ALD Automotive s.r.o.	U Stavoservisu 527/1, 100 40 Prague 10, Czech Republic	100.00
Investiční kapitálová společnost KB, a.s.	Dlouhá 34/713, 110 15 Prague 1, Czech Republic	100.00
Komerční pojišťovna, a.s.	Karolinská 1/650, 186 00 Prague 8, Czech Republic	100.00
SG Maroccaine de Banques	55, Boulevard Abdelmoume, Casablanca, Marocco	53.02
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao, De Ruyterjade 58A, Netherlands Antilles	100.00
SG Vostok	5 Nikitsky Pereulok, 103009 Moscow, Russia	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	99.76
General bank of Greece	109 Messogion Avenue, 11510 Athens, Greece	52.32
SG Express Bank	Vladislav Varnenchik Blvd.92, 9000 Varna, Bulgaria	97.95
SG Securities London	Exchange Hause, Primrose Street, London, Great Britain	100.00
EURO-VL Luxemburg SA	11-13 Avenue Emile Reuter, L-2420 Luxembourg, Luxembourg	100.00

II. Arrangements with Related Entities

A. Contracts and Agreements with the Controlling Entity and Other Related Entities

Banking Transactions

During the reporting period, KB entered into the following contractual agreements with related entities that were subject to banking secrecy restrictions:

Deposit Arrangements

In the deposit segment, KB entered into arrangements with 28 branches and subsidiaries of the SG Group. As of 31 December 2006, KB maintained a total of 53 open accounts, of which 25 were loro accounts for branches and subsidiaries of the SG Group, 25 were current accounts and three overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance on loro accounts (borrowing) was CZK 121.4 million, the average monthly credit balance (deposit) was CZK 334.9 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 29.5 million; the average overdraft balance on those accounts was CZK 163.1 million. During the reporting period, the debit interest on overdraft accounts and overdrafts on current accounts was CZK 3.1 million; fees associated with the maintenance of accounts and related transactions amounted to CZK 6.5 million.
KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, SG Tokyo, SG New York, SG Frankfurt, SG Zurich, SG Warsaw, SG Vostok, SG Express Bank and Banca Romana Pentru Devzvoltare. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 15.1 million; the average overdraft balance on nostro accounts was CZK 12.3 million. Interest income on nostro account for the reporting period was CZK 0.4 million, interest expenses amounted to CZK 0.2 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 5.4 million; income fees (i.e. provided discounts from credit operations on nostro accounts) were CZK 4.3 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 0.6 million. Interest expenses paid by KB on loro accounts amounted to CZK 3.0 million and interest income amounted to CZK 3.4 million in the reporting period.
Three SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average balance of these deposits was CZK 785.1 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 16.4 million for the reporting period.
Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements

In the loan segment, KB provided 160 loans in the aggregate amount of CZK 4,733.4 million at the reporting period-end. The average balance of the loans during the reporting period was CZK 4,177.5 million. The aggregate amount of interest income was CZK 120.5 million. As of 31 December 2006, the aggregate number of payment guarantees issued for the benefit of related entities was eleven in the amount of CZK 6.6 million, and the number of non-payment guarantees was 38 in the amount of CZK 134.8 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.3 million in the reporting period. In the reporting period, KB received two guarantees from the SG Group as collateral for the loans provided to clients.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with twelve related parties and subsidiaries from within the SG Group. The total number of transactions was 10,530. The amount of on-balance sheet transactions was CZK 326,188.6 million and off-balance sheet transactions was CZK 934,308.2 million, of which:

a) 2,470 transactions in the aggregate amount of CZK 195,590.6 million were foreign currency transactions (spots, forwards, swaps);
b) 1,407 transactions in the aggregate amount of CZK 686,070.8 million were interest rate derivatives (swaps and futures);
c) Option contracts with foreign currency instruments, a total of 4.418 contracts in the aggregate amount of CZK 52,646.8 million;
d) Depository transactions – KB implemented 1,642 transactions in the amount of CZK 247,576.3 million; and
e) Securities held for trading – a total of 593 transactions in the amount of CZK 78,612.3 million.

Transactions with commodity instruments were conducted with SG Paris, the amounts receivable and payable under these transactions were CZK 2,137.7 million at the reporting period-end.

All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

I. Contracts and Agreements Entered into during the Reporting Period

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Purchase contract	ALD Automotive s.r.o.	Sale of cars for an agreed purchase price	Purchase price	None
Framework contract	ALD Automotive s.r.o.	Lease instalments	Financial lease and lease of movable assets (full-service leasing)	None
Contract	Banca Romana Pentru Devzvoltare	Contractual fee	Mediation of the purchase or sale of securities traded on the Romanian market	None
Agency contract	FIMAT International banque SA, Germany	Processing and mediation of purchase and sale of securities and their transfer in the sale of securities and their transfer in the Securities Centre	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for MAX 6 mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for MAX 7 mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for MAX 8 mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for MAX 9 mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for KB Akciový mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for KB Dluhopisový mutual fund	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for KB Realitních společností mutual fund	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for KB Peněžní trh mutual fund	Contractual fee	None
Amendment no. 3 to Custodian Service Agreement MAX 7 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Framework contract for a temporary assignment of employees	Investiční kapitálová společnost KB, a.s.	Assignment of employees	Contractual fee	None
Amendment no. 1 to Custodian Service Agreement Fénix dynamický	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment no. 2 to Custodian Service Agreement EuroMax	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Agreement	Investiční kapitálová společnost KB, a.s. and EURO-VL Luxemburg SA	Contractual fee	Opening of accounts on behalf of KB as a depository of IKS KB, a.s. funds	None
Amendment no. 3 to the Framework contract for payment for services	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository and further services for MAX 6 mutual fund	Contractual fee	None
Amendment no. 2 to the Custodian service agreement MAX 6 – světový garantovaný fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment no. 4 to the Framework contract for payment for services	Investiční kapitálová společnost KB, a.s.	Contract for the exercise of the activities of a depository for MAX 7 mutual fund	Contractual fee	None
Confidentiality agreement	Investiční kapitálová s polečnost KB, a.s.	Confidentiality regarding the administration of investment tools	Provision confidential information	None
Amendment no. 1 to the contract for the settlement of the transfer of securities	Investiční kapitálová společnost KB, a.s.	Provision of settlement of securities transactions for IKS mutual funds on the Czech market	Contractual fee	None
Contract for cooperation in the competition to support Vital and Vital Grant for bank advisors I	Komerční pojišťovna, a.s.	Organisation and provision of the competition	Provision of prizes for the competition	None
Amendment no. 4 to the insurance contract on collective insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment no. 5 to the insurance contract on collective insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment no. 1 to the Framework contract for the Spektrum insurance program	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Framework contract for the processing of personal data	Komerční pojišťovna, a.s.	Personal data processing	Provision of information	None
Contract for collective insurance – "PATRON" as amended by amendment no. 1	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of "PATRON" A "PROFI PATRON"	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of "RISK LIFE FOR MORTGAGE LOANS"	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of "MERLIN" and "PROFI MERLIN"	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of "VITAL", "VITAL GRANT" and "VITAL PLUS"	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of "TRAVEL INSURANCE"	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the purchase or sale of securities	SG Equipment Finance Czech Republic s.r.o.	Mediation of purchase and sale of securities	Contractual fee	None

Type of agreement	Contractual party	Performance	Counter-performance	Damage incurred by KB
Amendment to Process Agent for Appointment Letter	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Amendment to Sub-custodian service Agreement Fénix dynamický podílový fond	SG Paris	Contractual fee	Provision of custody	None
Amendment to Sub-custodian service Agreement EuroMax světový garantovaný fond	SG Paris	Contractual fee	Provision of custody	None
Amendment to Sub-custodian service Agreement MAX 6 světový garantovaný fond	SG Paris	Contractual fee	Provision of custody	None
Amendment to Sub-custodian service Agreement MAX 7 světový garantovaný fond	SG Paris	Contractual fee	Provision of custody	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivatives for SG Paris	Contractual fee	None
6x Agreement relating to the Structured Product	SG Paris	Mediation of sale or subscription of an investment, structured product	Commission	None
SG Paris – PayAway	SG Paris	Free of charge	Mediation of foreign payments from the payer's order to African countries	None
Insurance contract – bank risk insurance	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – professional liability insurance	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – interruption of work insurance	SG Paris	Insurance premium	Provision of insurance	None
Insurance contract – Board of Directors liability insurance	SG Paris	Insurance premium	Provision of insurance	None
SG Paris – SurePay	SG Paris	Free of charge	Mediation of foreign payments from the payer's order to selected EU countries	None
Subordinated loan agreement	SG Paris	Interest	Provision of subordinate debt	None
Agency contract	SG Securities London	Processing and mediation of purchase and sale of securities and their transfer in Securities Centre	Contractual fee	None
Agency contract	SG Asset Management	Processing and mediation of purchase and sale of securities and their transfer in Securities Centre	Contractual fee	None
Bank guarantee	SGBT Luxembourg	Fees	Provision of guarantee	None

II. Performance Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or subject matter of the agreement if not clear from the name of the agreement)	Contractual party	Performance	Counter-performance	Damage incurred by KB
Cooperation contract	ALD Automotive s.r.o.	Mediation of financial lease as part of KB FleetLease product	Contractual fee	None
Clearing agreement	FIMAT International banque SA	Fees according to the price list	Settlement of transactions (futures, options) concluded by KB in EUREX or OTC through FIMAT	None
General Agreement on Securities	FIMAT International banque SA	Fees according to the price list	Securities lending	None
Master Netting Agreement	FIMAT International banque SA	Fees according to the price list	Trading with commodity futures	None
Full Service Agreement	FIMAT International banque SA	Fees according to the price list	Transactions with securities and forward operations	None
Contract for the procurement of the purchase or sale of securities (incl. amendments nos. 1, 2 and 3)	Investiční kapitálová společnost KB, a.s.	Procurement of securities trading for IKS mutual funds on the Czech market	Contractual fee	None
Contract for the services on the short-term bonds market	Investiční kapitálová společnost KB, a.s.	Services on the market of short-term bonds for IKS mutual funds	Contractual fee	None

Type of agreement (or subject matter of the agreement if not clear from the name of the agreement)	Contractual party	Performance	Counter-performance	Damage incurred by KB
Licence agreement	Investiční kapitálová společnost KB, a.s.	Provision of KB trademark	Contractual fee	None
Custody contract	Investiční kapitálová společnost KB, a.s.	Provision of custody for IKS mutual funds	Contractual fee	None
Framework contract for the payment for the provided services	Investiční kapitálová společnost KB, a.s.	Provision of depository services and other services for IKS mutual funds	Contractual fee	None
General Agreement	Investiční kapitálová společnost KB, a.s.	Cooperation in distribution, marketing, communication and processing of data	Contractual fee	None
Contract for the provision of custody, administration and settlement of investment transactions	Investiční kapitálová společnost KB, a.s.	Provision of custody, administration and settlement of investment transactions	Contractual fee	None
Contract for the exercise of the activities of a depository	Investiční kapitálová společnost KB, a.s.	Depository services for individual funds	Contractual fee	None
Distribution agreement, including amendments	Investiční kapitálová společnost KB, a.s.	Mediation of the sale of participation certificates	Contractual fee	None
Two guarantees for KB's exposure to clients which are part of the SG Group	Inter Europe Conseil	Fees	Provision of guarantee	None
Cooperation agreement	Komerční pojišťovna, a.s.	Cooperation in development of products and other business activities	Cooperation in development of products and other business activities	None
Framework agreement on distribution	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Agreement on a trade agency in the sale of products within the Vital Programme and Vital Plus Programme	Komerční pojišťovna, a.s.	Activities leading to conclusion of insurance contracts	Commission	None
Contract for the lease of non-residential premises (Brno, Jihlava)	Komerční pojišťovna, a.s.	Provision of premises	Rent	None
Licence agreement	Komerční pojišťovna, a.s.	Provision of KB trademark	Contractual fee	None
Agreement on payroll administration	Komerční pojišťovna, a.s	Payroll maintenance	Contractual fee	None
Insurance agreement – insurance of risk resulting from the misuse of payments cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance and insurance benefit	None
Agreement on cooperation in the provision of insurance to American Express payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Agreement on cooperation in the provision of insurance to EC/MC and VISA payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Insurance contract for collective insurance of persons (including amendments nos. 1, 2 and 3)	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Framework contract for the Spektrum insurance programme	Komerční pojišťovna, a.s.	Mediation of conclusion of insurance contracts	Commission	None
Cooperation contract	SG Equipment Finance Czech Republic s.r.o.	Mediation of finance leases within the "KB leasing" product	Fees for mediation	None
Master guarantee agreement	SG Equipment Finance Czech Republic s.r.o	Provision of guarantee under conditions set in the contract	Contractual fee	None
Service level agreement	SG Frankfurt	Fees	Payments of clients	None
Appointment of process Agent for KB For ISDA Masters Agreement	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of payments	None
Appointment of process Agent for KB For ISDA Masters Agreement	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the USA	None
Brokerage Conformity Agreement	SG Asset Management	Mediation of the sale of SGAM's	Contractual fees	None
Custody contract	SG Paris	Administration of securities traded on the stock exchange market	Fees according to the price list	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Administration of securities traded in France	None

Type of agreement (or subject matter of the agreement if not clear from the name of the agreement)	Contractual party	Performance	Counter-performance	Damage incurred by KB
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody activities for mutual funds	None
Contract for the provision of communication services	SG Paris	Fees	Provision of communication services	None
ISDA Master agreement	SG Paris	Fees for mediation	Mediation of trading of all types of derivatives on the interbank market	None
Service agreement – SNAP services	SG Paris	Fees	Transfer of Swift reports	None
ACPI – subscribing product of SG on KB points of sale	SG Paris	Mediation of sale of selected SG products	Contractual fee	None
Service Level Agreement including amendment thereto	SG Paris	Fees according to the price list	Mediation of payments	None
Hosting Contract	SG Paris	Contractual fee	Data processing	None
Agreements and contracts related to the provision of management and advisory services – "Management support agreement", including amendments nos. 1 and 2	SG Paris	Contractual fee	Provision of management and advisory services	None
Agency contract	SG Paris	Processing and mediation of purchase and sale of securities and their transfer in the Securities Centre	Contractual fee	None
SG Paris – Word Pay (Contract for the processing of payments for the transfer of clients' low amounts, e.g. pensions, dividends).	SG Paris	Fees	Processing and transfer of payments	None
Contract for assignment of expatriates	SG Paris	Contractual fee	Assignment of employees from SG to KB	None
SG – LABO agreement	SG Paris	Fees according to the price list	Review of swift reporting terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Clearing agreement	SG Zürich	Fees	Maintenance of nostro account	None

B. Other Legal Acts Implemented by the Bank in the Interest of the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 26 April 2006, the shareholder, SG Paris, received dividends of CZK 5,735,056,750 in respect of KB's shares for the year ended 31 December 2005.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 433.1 million, for the year ended 31 December 2006.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 3.9773 percent p.a., that is, CZK 180.6 million, for the year ended 31 December 2006.

C. Measures Taken or Implemented by the Bank in the Interest of or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Management Board of the Bank has reviewed all arrangements put in place between the Bank and the related entities during the reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 6 March 2007

Laurent Goutard
Chairman of the Board of Directors and CEO

Philippe Rucheton
Vice-Chairman of the Board of Directors and CFO

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page 25: performance of Titus
page 41: performance of Raymonda
page 67: performance of Raymonda
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page 11: performance of Sladké ptáče mládí