Komerční banka, a.s.

UNCONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AND INDEPENDENT AUDITOR'S REPORT

AS OF 31 DECEMBER 2006

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Unconsolidated Profit and Loss Statement

Year ended 31 December 2006

	Note	**Year ended 31 December 2006 CZKm**	Year ended 31 December 2005 CZKm
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

	Note	**31 December 2006 CZKm**	31 December 2005 CZKm
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

Year ended 31 December 2006

	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
	CZKm	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**
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

Year ended 31 December 2006

	Year ended 31 December 2006 CZKm	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm	Year ended 31 December 2005 CZKm
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.

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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 operations’* in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

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

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

Securities at fair value through profit or loss

Securities designated as ‘At fair value through profit or loss’ are securities held for trading (equity and debt securities, treasury bills, 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/cashflow ratios refined to reflect the specific circumstances of the issuer.

The estimated recoverable amount of equity securities available for sale is equal to the current fair value of equity securities. The estimated recoverable amount of equity securities, for which the fair value 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 cashflow attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge); or (iii) a hedge of an investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in 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 'H*edging 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:

	Universal banking		Investment banking		Total	
	2006	2005	**2006**	2005	**2006**	2005
	CZKm	CZKm	**CZKm**	CZKm	**CZKm**	CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	Year ended 31 December 2006	Year ended 31 December 2005
	CZKm	CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	2006	2005
	CZKm	CZKm
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 2005 and 2004 comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
	CZKm	CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	2006 CZKm	2005 CZKm
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:

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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)

	Year ended 31 December 2006 CZKm	Year ended 31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 Fair value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Fair value CZKm	31 December 2005 Cost CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

Trading shares and participation certificates issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- 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:

Emission allowances	**31 December 2006 CZKm**	31 December 2005 CZKm
- Other currencies	21	0
Total emission allowances held for trading	**21**	0

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

Emission allowances held for trading issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- Foreign state institutions	21	0
Total emission allowances held for trading	**21**	0

Debt trading securities at fair value comprise:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

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

	2006 CZKm	2005 CZKm
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:

	2006 CZKm	2005 CZKm
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:

	Total client loan collateral 31 December 2006 CZKm	**Discounted client loan collateral value 31 December 2006 CZKm**	**Applied client loan collateral value 31 December 2006 CZKm**	Total client loan collateral 31 December 2005 CZKm	Discounted client loan collateral value 31 December 2005 CZKm	Applied client loan collateral value 31 December 2005 CZKm
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:

	31 December 2006 Fair value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Fair value CZKm	31 December 2005 Cost CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

Shares and participation certificates available for sale issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- 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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

Debt securities available for sale issued by:	**31 December 2006 CZKm**	31 December 2005 CZKm
- 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:

	31 December 2006 Carrying value CZKm	**31 December 2006 Cost CZKm**	31 December 2005 Carrying value CZKm	31 December 2005 Cost CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

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

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

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZKm	Provisions CZKm	Carrying value CZKm
ALL IN REAL ESTATE LEASING, a.s.	100	100	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:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment CZKm	Provisions CZKm	Carrying value CZKm
Komerční pojišťovna, a.s.	49	49	Insurance	Prague	838	458	380
CBCB, 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:

Company name	**Investment at cost at 1 January 2006 CZKm**	**Additions CZKm**	**Decreases CZKm**	**Investment at cost at 31 December 2006 CZKm**
ALL IN REAL ESTATE LEASING, a.s.	39	0	0	39
Komerční banka Bratislava, a. s.	466	0	0	466
Penzijní fond KB, 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, 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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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**	**31 December 2006 CZKm**	31 December 2005 CZKm
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 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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

Risk	**Balance 2006**	Balance 2005
	CZKm	CZKm
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:

	1 January 2006	Additions	Disposals	Accrual	Foreign exchange difference	**31 December 2006**
	CZKm	CZKm	CZKm	CZKm	CZKm	**CZKm**
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	2006	2005
	CZKm	CZKm
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 percentage
SOCIETE GENERALE 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

	31 December 2006 CZKm	31 December 2005 CZKm	**Change in the year CZKm**
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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:

	31 December 2006	31 December 2005
	CZKm	CZKm
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:

	31 December 2006	31 December 2005
Company	**CZKm**	CZKm
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:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
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:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
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:

Company	**31 December 2006 CZKm**	31 December 2005 CZKm
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:

	31 December 2006 CZKm	31 December 2005 CZKm
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.*

	31 December 2006	31 December 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.

	2006 CZKm	2005 CZKm
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		
Gains/losses from changes in fair value	471	4,000
Deferred income tax	(112)	(960)
	359	3,040
Transferred to interest income/expense	(2,188)	(2,337)
Deferred income tax	525	636
	(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

	2006 CZKm	2005 CZKm
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		
Gains/losses from changes in fair value	624	108
Deferred tax liability/income tax liability	(150)	(26)
	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
	(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-Risks 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*:*

	Notional value		Notional value		**Fair value**		Fair value	
	2006 Assets CZKm	**2006 Liabilities CZKm**	2005 Assets CZKm	2005 Liabilities CZKm	**2006 positive CZKm**	**2006 negative CZKm**	2005 positive CZKm	2005 negative CZKm
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	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*	573	572	808	808	0	0	0	0
Forwards on emission	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:

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

	Notional value		Notional value		**Fair value**		Fair value	
	2006 Assets CZKm	**2006 Liabilities CZKm**	2005 Assets CZKm	2005 Liabilities CZKm	**2006 positive CZKm**	**2006 negative CZKm**	2005 positive CZKm	2005 negative CZKm
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:

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

Assets	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Undefined CZKm	Total CZKm
Cash and current balances with the Czech National Bank	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**
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:

	Fixed interest rate 2006 CZKm	**Floating interest rate 2006 CZKm**	**No interest 2006 CZKm**	**Total 2006 CZKm**	Fixed interest rate 2005 CZKm	Floating interest rate 2005 CZKm	No interest 2005 CZKm	Total 2005 CZKm
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).

Assets	On demand CZKm	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Cash and current balances with the Czech National Bank	8,275	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.

	Czech crowns	**Euros**	**US dollars**	**Swiss francs**	**Slovak crowns**	**Other curren-cies**	**Total**
	CZKm	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**	**CZKm**
Assets							
Cash and current balances with 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, S¨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:

	2006 Carrying value CZKm	**2006 Fair value CZKm**	2005 Carrying value CZKm	2005 Fair value CZKm
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.