annual report 2005

Československá obchodní banka, a. s.

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ČSOB'S BASIC INFORMATION

Business name:	Československá obchodní banka, a. s.
Registered office:	Praha 1-Nové Město, Na Příkopě 854/14, Postal Code: 115 20
Legal status:	joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21.12.1964
ID No.:	00001350
Bank code:	0300
SWIFT:	CEKOCZPP
Telex:	12 22 01, 12 22 65
Telephone:	+420 261 351 111, +420 222 041 111
Fax:	+420 224 225 049, +420 224 210 030
E-mail:	info@csob.cz
Internet adress:	http://www.csob.cz

ČSOB's Organisational Unit in the Slovak Republic

Business name:	Československá obchodní banka, a.s., branch of a foreign bank in the Slovak Republic
Registered office:	Bratislava, Michalská 18, Postal Code: 815 63
Legal status:	Organisational unit of a foreign entity
Registration:	Registered in the Commercial Registry of the District Court in Bratislava 1, Section Po, Entry 168/B
Date of registration:	8.4.1993
ID No.:	30 805 066
Bank code:	7500
SWIFT:	CEKOSKBX
Telex:	–
Telephone:	+421 259 661 111
Fax:	+421 254 414 795
E-mail:	info@csob.sk
Internet adress:	http://www.csob.sk

welcome

annual report 2005

Československá obchodní banka, a. s.

ČSOB

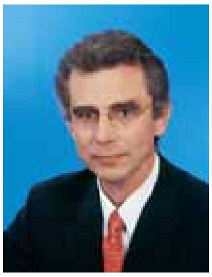
I still have a lot to do
but I am not afraid of the future

student account

table of contents

Note:
The Czech version of the ČSOB's Annual Report is the full version; it contains some additional information required by the local Czech and Slovak regulators.

letter of the chairman of the board of directors and chief executive officer



Ladies and gentlemen

The financial year 2005 was a very successful one for ČSOB Group, as this Annual Report well documents. Our market position in the Czech Republic and Slovakia further strengthened and the historically fastest profit growth shows that there is a strong and ever growing demand for our products and services.

Gross income of CZK 41 bn brought large benefits to all of the ČSOB stakeholders, not only to our shareholders. Five million of our customers obtained interests in volume of more than CZK 10 bn; in addition, management of our mutual funds portfolio brought them investment returns of another CZK 3 bn. Ten thousand families of our employees enjoyed compensations and other benefits amounting to almost CZK 5 bn. Our suppliers and economic partners profited from doing business with us receiving CZK 7 bn. The state and communities in general collected taxes, deposit insurance and health and social security payments, all of which amounted to almost CZK 5 bn. These are the effects of our activity on society, one should not forget. Yet there are plenty of other ways the community benefits from ČSOB Group's business.

We care about the social and environmental effects of what we do. We do our best to avoid behavior that could harm communities and society. A ban on financing arms trade and production, active environmental impact monitoring of our customers' production, or not-for-profit sector support are just a few examples of our corporate social responsibility. We are well aware of the responsibility we bear towards those we serve and the community we are part of.

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

selected economic highlights

Consolidated, EU IFRS [1]	2005	(excl. SI [2]) 2005	(Restated) 2004	(Restated) 2003
Results for the year (CZKm)				
Profit before income tax	13,399	10,377	9,723	7,445
Operating income	30,313	27,291	25,838	23,361
Operating expenses	16,374	16,374	15,474	15,334
Income tax expense	2,896	2,110	2,746	946
Profit for the year [3]	10,328	8,092	6,901	6,431
At year-end (CZKm)				
Shareholders' equity	52,950	52,950	45,708	46,743
Due to customers	472,631	472,631	426,058	441,596
Due to banks	22,947	22,947	24,722	20,254
Debt securities in issue	38,848	38,848	24,854	16,731
Loans and leases – gross	245,707	245,707	220,414	201,059
Due from banks	81,678	81,678	111,737	127,448
Total assets	737,003	737,003	614,159	607,225

1) International Financial Reporting Standards as adopted by the European Union.
2) Slovenská inkasná
3) Profit for the year attributable to equity holders of the bank.

Ratios (%)	2005	(excl. SI) 2005	(Restated) 2004	(Restated) 2003
Return on average shareholder's equity (ROAE)	20.94 %	16.40 %	14.93 %	14.30 %
Return on average assets (ROAA)	1.53 %	1.20 %	1.13 %	1.04 %
Bank capital adequacy ratio	10.55 %	n/a	12.11 %	15.36 %
Total shareholders' equity to total assets	7.18 %	7.18 %	7.44 %	7.58 %
Cost-Income Ratio	54.02 %	60.00 %	59.89 %	67.24 %

	2005	2004	2003
CZK / EUR (average)	29.78	31.9	31.84
Pribor 3M	2.01	2.36	2.28

Rating

ČSOB's long-term ratings by Moody's, S&P and CI are at the same level as the country ceiling, i.e., the highest possible. Long-term rating from Fitch is one notch below the sovereign level. The short-term ratings by Moody's, S&P and CI are also at the highest achievable level in the Czech Republic.

(valid as at 23 March 2005)	Long-term	Short-term	Financial Strength	Individual	Support
Moody's [1]	A1	Prime-1	C-		
Fitch [2]	A+	F1		C	1
Standard & Poor's [3]	A-	A-2			
Capital Intelligence [4]	BBB+	A2	BBB+		2

1) Last update in November 2005.
2) Last update in April 2004.
3) Last update in August 2005. On 30 November 2005 the S&P ratings were withdrawn at the request of ČSOB (CEE subsidiaries are rated by Moody's and Fitch according to KBC'rating policy). ČSOB will no longer be subject to Standard & Poor's review.
4) Last update in January 2005.

company profile

profile of ČSOB

Československá obchodní banka, a. s. operates on two national markets, the Czech Republic and Slovakia. It is the largest bank in Central Europe, measured by total value of assets, and the leading advisory bank focused on wealth management in the Czech Republic. ČSOB provides both banking and insurance services "under one roof" with the bancassurance model playing an ever increasing role. On top of this, ČSOB is becoming the "1st choice" bank for even more SME and Corporate clients. Postal Savings Bank, ČSOB's second retail banking brand, is the key player in the lower mass retail market. It uses a wide distribution network of around 3,350 post offices and serves over 2 million clients out of 3.2 million clients of ČSOB Bank in the Czech and Slovak Republics. The clients were further served through 218 branches in the Czech Republic, through 99 branches in Slovakia, and through various direct-banking channels.

ČSOB was established by the State in 1964 as the sole bank providing foreign trade financing and convertible currency operations in what was then Czechoslovakia. After 1989, ČSOB expanded its activities by including services for new entrepreneurial entities and for individuals. A significant milestone in ČSOB's history was its privatisation in June 1999, when the Belgian KBC Bank, a member of the KBC Group, became the majority owner of ČSOB. Another milestone in the history of ČSOB was the take-over of Investiční a Poštovní Banka, a.s. in June 2000.

As at 31 December 2005, ČSOB's long-term **ratings** from Moody's and Capital Intelligence are at the same levels as the country ceiling, i.e. the highest possible. The long-term rating from Fitch is one notch below the sovereign level. The short-term ratings awarded by Moody's and Capital Intelligence are also at the highest possible level achievable in the Czech Republic. In November 2005, Moody's changed the outlook for ČSOB's C- financial strength rating from stable to positive, reflecting the business improvements leading to client acquisition especially in the SME and retail segments. The ratings reflect ČSOB's traditional sound risk management which translates into one of the best asset quality profiles in the Czech Republic. ČSOB's ratings benefit from KBC's transfer of know-how and expertise, ČSOB's leading position in the Czech Republic, and its good financial fundamentals.

ČSOB Group with its total of CZK 603 bn assets under management is the largest financial group in the Czech Republic. ČSOB Group provides its clients financial services in the following areas: building savings and mortgages, life and non-life insurance, asset management, collective investment, private banking, pension insurance, leasing and factoring. Group companies are in significant market share positions in their respective businesses, both in the Czech Republic and Slovakia. ČSOB Group is the No.1 player in financing the housing needs of individuals, offering both mortgages and building loans.

KBC Group is a well capitalised (EUR 29 bn) bancassurance group with a strong market share position in Belgium. KBC has successfully expanded its geographic reach over the last nine years to include

Central Europe and now has a presence in the Czech Republic, Slovakia, Poland, Hungary and Slovenia. Recently, private banking has become more of a key focus. KBC is also active in commercial banking and capital markets.

ČSOB Annual Reports, financial calendars, general presentations and actual ratings are available at www.csob.cz.

profile of KBC Group

ČSOB Group is a member of the KBC Group which was formed in early 2005 as a result of the merger of KBC Bank and Insurance Holding Company (which was created in 1998 through the merger, in Belgium, of ABB Insurance Group, the Almanij-Kredietbank Group and CERA Bank Group) and its parent company, Almanij. The group has 5 direct subsidiaries: KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank Luxembourgeoise and Gevaert. KBC Group is a multichannel bancassurance group which focuses on retail, SME and private banking clientele. Geographically, KBC focuses on Belgium and Central Europe, where it belongs to the largest financial groups via its network of subsidiaries and participations. The main Central-European group companies and participations are given in the table below.

main central european KBC Group companies and participations
(31 December 2005)

Country	Banks and Insurance companies	Interest percentage (direct and indirect)
Czech Republic	ČSOB (bank)	90
	ČSOB Pojišťovna (insurance company)	97
Hungary	K&H Bank (bank)	59*
	K&H Life (insurance company)	80
	K&H General Insurance (insurance company)	99
Poland	Kredyt Bank (bank)	86
	Warta and Warta Life (insurance company)	75
Slovakia	ČSOB (bank)	See Czech Republic
	ČSOB Poisťovňa (insurance company)	87
Slovenia	NLB (bank)	34
	NLB Life (insurance company)	67

* Agreement to move to virtually 100 % was signed at the end of 2005.

Some key figures for the KBC Group as at 31 December 2005 are given below.
More information can be found on KBC's corporate website www.kbc.com.

key data KBC Group
(31 December 2005)

Total assets (EURbn)	326
Market capitalisation (EURbn)	29
Net profit (EURbn)	2.25
CAD-ratio, banking activities (%)	12.5
Solvency ratio, insurance activities (%)	385
Number of staff (FTEs)	50,000

Long-term ratings	Fitch	Moody's	S&P
KBC Bank	AA-	Aa3	A+
KBC Insurance	AA	-	A+

managing and supervisory bodies of ČSOB

ČSOB's board of directors

as at 31 December 2005

First name, and surname	Position	Member since	Date of the beginning of the member's current term of office
Pavel Kavánek	chairman /* and chief executive officer	17.10.1990	19.5.2004
Petr Knapp	member and senior executive officer	20.5.1996	19.5.2004
Jan Lamser	member and senior executive officer	26.5.1997	19.5.2004
Philippe Moreels	member and senior executive officer	1.3.2002 /**	17.4.2002
Patrick Daems	member and senior executive officer	1.4.2002 /**	17.4.2002

/* chairman since 26 May 2004

/** co-opted

introduction of the members of the board of directors

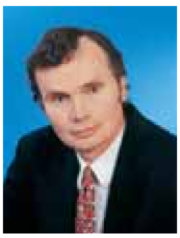
Pavel Kavánek

(born on 8 December 1948)

chairman of the board of directors and chief executive officer

Education: Prague School of Economics and The Pew Economic Freedom Fellowship at Georgetown University. He has been working for ČSOB since 1972. He has been a member of the Board of Directors of ČSOB since 1991 and its Chairman and CEO since 1993.

Membership in other company bodies: Vice-Chairman of the Supervisory Board of ČMSS, member of the Supervisory Board of ČSOB Asset Management, President of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation, member of the supervisory board of ČSOB Investiční společnost.



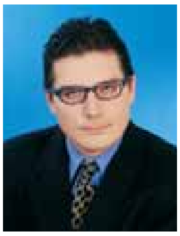
Petr Knapp

(born on 7 May 1956)

member of the board of directors and senior executive officer

Education: Prague School of Economics. He came to ČSOB in 1979. From 1984, he worked in Teplotechna Praha, a.s., first as Deputy Director and later as Director of Foreign Operations. In November 1991, he came back to ČSOB and was appointed Director of ČSOB Corporate Finance Department, later Director of the Credits Section. Since 1996, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in other company bodies: Chairman of the Supervisory Board of O.B.HELLER.



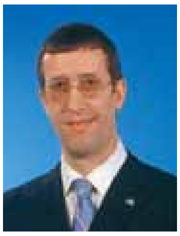
Jan Lamser

(born on 8 December 1966)

member of the board of directors and senior executive officer

Education: Mathematics-Physics Department of Charles University, Prague School of Economics and Ecole des Hautes Etudes Commerciales in Paris. He has been working for ČSOB since 1995 and has been a member of the Board of Directors since 1997. In 1998, he was appointed Director of Strategic Development and, since 1999, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in other company bodies: member of the Supervisory Board of ČMSS and member of the Supervisory Board of the ČSOB Asset Management.



Philippe Moreels

(born on 25 February 1959)

member of the board of directors and senior executive officer

Education: University education focused on computer and social sciences in Belgium, business management studies at Solvay Business School, holder of a Handelsingenieur Solvay diploma. He started his employment career as a pension fund analyst with the Unilever Group, where he also worked as an internal auditor. Afterwards, he worked for seven years as manager of Back Office of the Standard Chartered Bank / Westdeutsche Landesbank group. From 1993 until joining ČSOB, he worked at Tatra Banka Bratislava in Slovakia, first as Operations Manager and, from 1998, as a member of the Board of Directors. Since 1 March 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in other company bodies: Chairman of the Supervisory board of ČSOB Leasing, member of the Supervisory Board of ČSOB Asset Management, member of the Supervisory Board of ČSOB Asset Management (SR), Chairman of the Supervisory Board of Hypoteční banka, Chairman of the Supervisory Board of ČSOB stavebná sporiteľňa, member of the Supervisory Board of ČSOB Poisťovňa, Chairman of the Supervisory Board of ČSOB distribution, Chairman of the Supervisory Board of ČSOB d.s.s., member of the supervisory board of ČSOB Investiční společnost.

Patrick Daems

(born on 21 April 1948)

member of the board of directors and senior executive officer

Education: University studies focused on economic sciences at U.F.S.I.A. (University Antwerp), Belgium; M.B.A. from a University in the U.S. First, he worked for the U.N., then at the Belgium-based branch of First Interstate Bank. From 1980, he worked as its Representative Officer in Frankfurt. In the following years, he worked as Manager of the bank's Corporate Banking in Los Angeles. From 1987 to 1992, he worked at Swiss Bank Corporation in the U.S.A. as a Manager in the South-Western Corporate Banking Division. Since 1992, he has been employed at Kredietbank (which later became part of KBC Bank), first as the leading representative in Los Angeles, then in Brussels as the Head of the Head Office Corporate Division. From 1997, he was the General Manager of International Banking at the Brussels Head Office. Since 1 April 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

In 2005, the Board of directors of ČSOB **did not change.**

ČSOB's supervisory board

as at 31 December 2005

First name, and surname	Position	Member since	Date of the beginning of the member's current term of office
Jan Švejnar	chairman /*	9.10.2003 /**	19.5.2004
Francois Florquin	member	10.8.1999	20.4.2005
André Bergen	member	20.2.2004 /**	19.5.2004
Marko Voljč	member	19.5.2004	19.5.2004
Anne Fossemalle	member	22.9.2004 /**	20.4.2005
Riet Docx	member	1.12.2004 /**	20.4.2005
František Hupka	member (elected by employees)	23.6.2005	23.6.2005
Libuše Gregorová	member (elected by employees)	23.6.2005	23.6.2005
Martina Kopecká	member (elected by employees)	23.6.2005	23.6.2005

/* chairman since 9 June 2004
/** co-opted

introduction of the members of the supervisory board

Jan Švejnar *(born on 2 October 1952)*

chairman of the supervisory board

Education: Industrial and Work Relations – Cornell University; Ph.D. in Economics – Princeton University. An independent economist living abroad since 1970. Since 1992, he has evenly divided his work capacity between activities in Prague and the U.S.A. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He is Professor at the University of Michigan Business School.

Membership in other company bodies: William Davidson Institute (Executive Director), Center for Economic Research and Graduate Education – CERGE of Charles University (Chairman of the Board), Faculty of Social Sciences of Charles University (member of the Academic Council), member of the Board of the BOHEMIAE Foundation in liquidation.

Francois L. Florquin *(born on 4 May 1947)*

member of the supervisory board

Education: University degree in economics. From 1972, he worked in CERA Bank in the positions: Inspector, Head Inspector, Manager, Secretary General, Member of the Board of Directors and Member of the Executive Committee. Currently, he is Managing Director of KBC Bank and Member of the Executive Committee.

Membership in other company bodies: K&H Bank, Kredyt Bank, CBC Banque (Vice-Chairman), Centea (Chairman), Belgische Raiffeisenstiftung VZW, KBC Asset Management, NLB.

André Bergen *(born on 22 September 1950)*

member of the supervisory board

Education: Catholic University in Leuven, Economics Department, in 1974. Since 1977, he has been working in the banking sector, first in Kredietbank in Brussels, afterwards in the Chemical Bank (FX operations advisory). From 1982, he worked for Generale Bank and then in the Fortis Bank in Brussels (from 1999 to 2000, as a member of the Board of Directors). In the years 2000–2003, he worked as Vice-President and Chief

On June 23 ČSOB employees elected their representatives for the ČSOB Supervisory Board

Financial and Administration Officer in Agfa-Gevaert NV Since May 2004, he has been the President of KBC Bank.

Marko Voljč *(born on 5 December 1949)*
member of the supervisory board
Education: University economic studies at Lyublana and Beograd (1973) and post-doctorate studies at the IMF in Washington (1997) and at HIID in Boston, U.S.A. (specialisation: economic development, 1981). He started his banking career in 1973 in the Bank of Slovenia as director of the analytical department. Between 1979 and 1987, he managed various projects of the World Bank for Latin America and China. Afterwards, he managed the World Bank's office in Mexico for three years. From 1990, he managed the department for Central America and Panama at the Head Office of the World Bank in Washington. From 1992, he worked as General Manager of Ljubljanska banka. In 2004, he was appointed General Manager of the KBC Directorate for Central Europe in Brussels.
Membership in other company bodies: Kredyt Bank, K&H Bank, LHB Bank, Gorenje (Slovenia).

Anne Fossemalle *(born on 16 March 1964)*
member of the supervisory board
Education: Institut National Agronomique in Paris, "Masters Degree in Engineering" from Ecole Nationale du Genie Rural des Eaux et des Forets and "Masters Degree in Economics" from Stanford University, U.S.A. From 1989 to 1993, she worked for Credit National, the third largest French bank. Since 1993, she has been working for EBRD. From 1993 to 1994, she was a member of a team processing agricultural projects, from 1994 to 1997 she worked as Principal Banker in a team focused on Hungary. Currently, she has been working in a team for financial institutions with EBRD (London) as Senior Banker responsible for major investment projects.
Membership in other company bodies: NLB, BRD (Romania), FUIB (Ukraine), Ukraine Fund (Ukraine).

Riet Docx *(born on 15 September 1950)*
member of the supervisory board
Education: Economic studies at Antwerp University. Between 1976 and 1994, she worked in institutions operating in the banking and insurance sector. She held managerial positions in Benelux Bank and in insurance companies Omniver NV and Omniver Leven NV. Since 1994, Mrs. Riet Docx has been working for KBC. In January 2005, she was appointed Executive Manager responsible for the coordination of banking activities in Central European countries at the KBC Directorate for Central Europe.

František Hupka *(born on 13 April 1971)*
member of the supervisory board elected by employees
In 1991, he joined ČSOB as an IT support specialist. At the present time, he is Director of the Working Committee of Trade Unions.

Libuše Gregorová *(born on 25 July 1959)*
member of the supervisory board elected by employees
She graduated from the University of Economics Prague. She entered ČSOB in 1989 and in the period from 1996 to 1998 she was IT manager. Since 1989, she has been an analyst and application developer. Membership in other company bodies: Bytové družstvo Vojáčkova 612 (member of the Board).

Martina Kopecká *(born on 19 September 1969)*
member of the supervisory board elected by employees
She graduated from the University of Economics Prague. She has been working at ČSOB Pardubice branch since 1994, of which in the position of a corporate banker for Retail / SME clients since 2002.

changes in the supervisory board during 2005

With regards to the expiry of his term of office, Mr. Francoise Florquin, a member of the Supervisory Board, was re-elected at the ČSOB General Shareholders' Meeting which was held on April 20, 2005. At the same General Shareholders' Meeting, substitute members of the Supervisory Board, Ms. Anne Fossemalle and Ms. Riet Docx, were elected ordinary members. On June 23, ČSOB employees elected their representatives for the ČSOB Supervisory Board. New members of the Supervisory Board are Mr. František Hupka, Ms. Libuše Gregorová and Ms. Martina Kopecká, while the membership of the existing members of the ČSOB Supervisory Board elected by ČSOB employees, Mr. Roman Glasberger and Mr. Petr Korous, expired on June 23, 2005.

organisation chart of ČSOB

as at 1st january 2006

- **Pavel Kavánek** Chief Executive Officer
  - Risk Management
  - Internal Audit
  - Compliance
  - Legal
  - **Petr Hutla** Senior Executive Director
    - Strategy and Organisation
    - Human Resources Management
    - Corporate Office
    - Internal Communication
    - External Communication and Investor Relations
    - Corporate Culture
  - **Daniel Kollár** Senior Executive Officer of ČSOB SR
    - Human Resources SR
    - Group Marketing SR
    - Credit Risk and Bad Debts SR
    - Retail SR /*
    - Financial Markets and Treasury SR
    - Corporate and SME SR /*
    - Operations SR
  - **Patrick Daems** Senior Executive Officer
    - Credits and Bad Debts
    - Finance
    - Operations
    - Central Procurement and Logistics
    - Central Services
  - **Jan Lamser** Senior Executive Officer
    - Postal Savings Bank /*
    - Direct banking
    - Information Systems
  - **Petr Knapp** Senior Executive Officer
    - Corporate banking /*
    - Specialised and Institutional Banking
    - Financial Markets
    - Assets and Liabilities Management
  - **Philippe Moreels** Senior Executive Officer
    - Retail / SME Segment Marketing
    - Retail / SME Branch Network Management /*
    - Private Banking /*

/* these units manage respective branch network

the macroeconomic framework of ČSOB's business

the Czech economy in 2005

The rate of Czech economic growth in 2005 exceeded the growth rate of the year before. Besides a solid growth rate, another partial success was achieved: for the first time since 1993, the Czech Republic recorded a surplus trade balance in aggregate over the whole year. In a sense, this meant the accomplishment of a successful reorientation of foreign trade, started by liberalisation of exports and imports in the early 90s' and later boosted by a massive inflow of foreign direct investment. The achieved economic growth and the improved foreign trade results are closely interrelated: with a closer look at the structure of utilisation of GDP in 2005, we can see that the main driver of the accelerated growth was not domestic demand (which stagnated year-on-year), but net exports.

Unlike GDP, the growth rate of industrial production and construction output slowed down: the industrial sector experienced a decrease in growth from +9.6 % in 2004 to +6.7 % in 2005. In the building sector, the fallout was even more significant (from +9.7 % to +4.2 %). The growth rate of industrial sales lost, unlike production, nearly two percentage points year-on-year: from 9.9 % in 2004 to 8.1 % in 2005.

As far as the development of inflation of consumer prices is concerned, we can see two distinct periods in 2005: from January to May, the tendency of decreasing inflation prevailed, while the growth trend dominated from May to December. From the point of view of the Czech National Bank's inflation target, another distinction is also relevant: from the beginning of last year until August, consumer inflation moved below the bottom of the target range of the central bank. The inflation rate moved back to the target range in September; this happened so briskly that it could not but affect the decision of the central bank to increase the key short-term interest rate by 25 basis points to 2.00 %. The previous three changes in the two-week repo rate in 2005 were directed by the CNB in the opposite direction.

The strong crown was one of the most important factors that kept consumer prices deep below the middle of the target range of the CNB. The decrease in the price of the euro by more than two crowns in the course of the year increased competitive pressures on Czech exporters and it may be held responsible for part of the decrease of the growth performance of the industrial sector. Neither inflation (it was nearly the same as that in the eurozone) nor interest rates of newly provided loans (they decreased too slowly) managed to provide domestic producers with compensating relief against the strengthening crown.

From the general public's point of view, it may be a disappointment that not even one more year of solid economic growth did entail a breakthrough in the fight against relatively high unemployment. The average rate of unemployment registered in 2005 decreased against 2004 by a quarter percentage point only. However, a decrease in the average number of registered job seekers – from 11.6 job seekers per vacancy in 2004 to 9.3 in 2005 – indicates a certain amount of relief in the labour market.

The improved balance of foreign trade showed itself in the decreasing ratio of the current account deficit to GDP. Against 2004, this ratio was reduced to less than half, and, if we adjust it for the 'technical' item of profit reinvested by foreign investors, the current account of the balance of payments will even appear as balanced.

The assessment of last year's development of public finance is ambiguous. The state budget again closed its books with a deficit that was significantly lower than planned. The amount of the planned deficit of the state budget is decreasing in year-on-year terms and, thanks to a higher-than-expected strong growth of GDP, the chance is adequately improving that Maastricht criteria, requiring a maximum 3 % deficit of public budgets in relation to GDP, will be met in time. It is true, however, that the continuation of the fast growth, driven by exports, cannot be guaranteed in the future, and without deep reform of the public budgets' spending, so far always postponed, the Czech Republic will be threatened by massive growth of public debt in the coming decades.

For the banking sector, the year 2005 was another successful year. The sharp fight for the expansion of market shares was accompanied by efforts to reduce the growth of costs. The year-on-year average growth of the volume of loans provided to households reached 32.6 % and was not significantly higher against 2004. Also, non-financial enterprises registered dynamic growth of the volume of loans-granted (in this case, the year-on-year increase climbed from +3.3 % in 2004 to +10.3 % in 2005). Under the pressure of higher yielding instruments offered by the financial sector, the rate of growth of the volume of deposits decreased in 2005 year-on-year (to +2.0 % compared to +2.7 % in the year before). The profit of the Czech banking sector grew in 2005 year-on-year by 20.0 % and reached CZK 39.4 billion.

macroeconomic indicators of the Czech Republic 2005 – 2001

Indicator	Measurement Unit	2005	2004	2003	2002	2001
GDP	%, y/y	6.0	4.7	3.2	1.5	2.6
Industrial output	%, y/y	6.7	9.6	5.5	1.9	6.7
Construction output	%, y/y	4.2	9.7	8.9	2.5	9.6
Inflation rate (CPI)	average, %	1.9	2.8	0.1	1.8	4.7
Unemployment rate (ILO)	average, %	7.9	8.3	7.8	7.3	8.1
Current account	% of GDP	-2.1	-6.0	-6.3	-5.6	-5.4
Foreign direct investment	% of GDP	9.0	4.6	2.3	11.5	9.3
Official FX reserves	months of imports	4.2	3.8	5.0	5.6	3.9
Gross foreign indebtedness	% of GDP	38.4	36.6	35.0	33.7	35.0
Public budgets balance	% of GDP	-2.6	-2.9	-6.6	-6.8	-5.9
Money supply (M2)	at year-end, %, y/y	8.0	4.4	6.9	3.5	13.0
PRIBOR 3M	average, %	2.01	2.36	2.28	3.55	5.18
CZK / EUR	average	29.78	31.90	31.84	30.81	34.08
CZK / USD	average	23.95	25.70	28.23	32.74	38.04

Source: Czech National Bank (ČNB), Czech Statistical Office, Ministry of Finance of the Czech Republic, Eurostat

the Slovak economy in 2005

The year 2005 was another successful year for the Slovak economy. Economic growth again accelerated moderately, thus supporting the favourable development of the labour market without the higher risk of inflation pressures. However, the acceleration of investment activity and consumption along with high prices of raw materials resulted in the growth of imports, leading to a worsening of results of the current account of the balance of payments. The economy of public budgets was stabilised thanks to fundamental reforms primarily based on a single tax and sharp budget cuts. The deficit only slightly exceeds the Maastricht level for budget deficits. Slovakia successfully managed to roll-out pension reform, while more than one million participants in the plan subscribed to the new fund-based system in the course of the year.

In 2005, the growth rate of the Slovak economy reached 6 %, mainly due to a significant acceleration of household consumption, boosted by fast growth of real wages (+6.3 %), which was the highest over the last eight years. Also investment, stimulated by a long-term inflow of foreign capital, contributed to the GDP growth to a greater degree. Last year, construction of two new car plants significantly advanced. Their overall yearly capacity of 600 thousand cars will soon favourably affect exports and the whole economic output of the Slovak Republic.

2005 was also a successful year from the point of view of inflation, which at the end of the year dropped to as little as 2.7 % on average. The lower inflation was helped, on the one hand, by the repercussions of the tax amendments implemented in 2004 (unification of VAT at 19 % and increase in excise taxes before joining the EU) and, on the other hand, by the stronger Slovak crown. The favourable development of inflation at the beginning of 2005 created room for lowering interest rates of by the National Bank of Slovakia. The limit rate for a two-week repo tender dropped by one percentage point to 3 %, and the rate for one-day refinance and sterilisation transactions dropped to 4 % and 2 %, respectively, with validity from 1 March 2005.

The interest of foreign investors in Slovak assets resulted in favourable development of the Slovak currency, which last year strengthened against the euro by 3.8 %. Foreign investment was not directed to the real economy only; non-residents' positions in state bonds and bank deposits also continued to grow. Overall, the volume of deposits and state securities owned by non-residents increased by SKK 55.8 bn to SKK 169 bn.

The recovery of the credit market gathered momentum last year and loans provided to the private sector grew at a double-digit rate. Loans to non-financial enterprises and households grew quickly. The rapid growth of mortgage loans continued thanks to relatively low interest rates and tougher competition in the banking sector. Only the slow growth of client deposits also continued last year as in 2004. While deposits of enterprises grew last year by more than 12 %, households redirected their savings to alternative forms of investment due to relatively low interest rates.

On 28 November 2005, the Slovak crown entered ERM-II. Slovakia thus took another step on its way to the adoption of the euro, planned for 2009. The rating agency Standard & Poor's appreciated the favourable economic development of the Slovak Republic and the progress of reforms by increasing the rating of long-term foreign exchange commitments of Slovakia from A- to A. The Slovak Republic has thus achieved the highest rating within the so-called Visegrád four.

macroeconomic indicators of the Slovak Republic 2005 – 2001

Indicator	Measurement Unit	2005	2004	2003	2002	2001
GDP	%, y/y	6.0	5.5	4.5	4.6	3.8
Industrial output	%, y/y	3.6	4.2	5.0	6.4	7.0
Construction output	%, y/y	14.7	5.7	6.0	4.1	0.8
Inflation rate	average, %	2.7	7.5	8.5	3.3	7.3
Unemployment rate (ILO)	average, %	16.2	18.1	17.4	18.5	19.2
Current account	% of GDP	-8.8	-3.5	-0.8	-7.9	-8.4
Foreign direct investment	% of GDP	4.1	3.1	2.3	17.1	7.6
Official FX reserves	months of imports	4.9	5.0	5.0	5.0	3.0
Gross foreign indebtedness	% of GDP	59.7	51.1	49.6	48.1	53.0
Public budgets balance	% of GDP	-2.9	-3.1	-3.8	-7.8	-6.6
Money supply (M2)	at year-end, %, y/y	7.1	5.8	5.6	3.4	11.8
BRIBOR 3M	average, %	2.93	4.67	6.18	7.79	7.77
SKK / EUR	average	38.59	40.05	41.49	42.70	43.31
SKK / USD	average	31.02	32.27	36.77	45.34	48.35

Source: National Bank of Slovakia (NBS), Statistical Office of the Slovak Republic, Ministry of Finance of the Slovak Republic, Eurostat

thanks to making the right decisions,
I have more time for my business affairs

business

report of the board of directors

ČSOB Group closed the year 2005 with a profit of CZK 10.3 bn. Net profit grew by 50 % compared to the same period last year. Excluding the impact of non-recurrent item repayment from Slovenská inkasná (SI), the net profit grew by 17 % year-on-year to CZK 8.1 bn. The main earning drivers were further acquisitions of Retail, Corporate, and SME clients, growth of the mortgage business and growing volumes of assets under management.

ČSOB Group is active in the fields of banking, wealth management and insurance. ČSOB Group employs almost 10,000 people and serves more than 5 million customers. Our primary goal is to build a firm long-term relationship with each of our clients and provide our clients with advisory for personal and family finance. Group companies are in significant market positions in their respective businesses both in the Czech Republic and Slovakia. ČSOB Group is the no.1 player in financing the housing needs of individuals, offering both mortgages and building loans. On top of that, ČSOB Bank is becoming the "1st choice" bank for even more SME and Corporate clients. Postal Savings Bank, ČSOB's second retail banking brand, with its "maximum value for money" approach, is the key player on the lower mass retail market, serving over 2 million clients. Our presence in all customer segments provides us with a well-diversified revenue stream.

ČSOB Group market shares in the Czech Republic

	2005	2004	Rank
AUM	30 %	30 %	1
Mutual Funds	25 %	23 %	2
Pension Funds	11 %	10 %	5
Mortgages and Building Loans	33 %	32 %	1
Building Savings	36 %	36 %	1
Leasing	18 %	16 %	1
Insurance (life+property)	9 %	8 %	4

ČSOB Group strategic agenda

Grow above the Market ČSOB Group will concentrate on increasing earnings over the long-term at a rate which will place it favorably when compared with its peer group. Our strategy builds on ČSOB's strengths and it addresses the areas where further improvement is considered both desirable and attainable (mid-sized businesses & bancassurance).

Bring High Performance Culture to the Bank Improving operational and cost efficiency is our primary goal for the coming period. In 2004, ČSOB started up the transformation project called *Blue Effect* aimed at further strengthening the entrepreneurial behavior across all employees, thus enhancing company culture and individual performance.

Turn Customer Value into Real Competitive Advantage Many banks today remain locked in measuring success by product lines rather than by customer value. In order to reap the competitive advantage, we refocus our strategies on customers rather than on products. Therefore, we strive to serve all customer segments with a tailored strategic approach for each.

Having these goals in mind, we face 6 major challenges:

Simplification We aim at simplifying our current product portfolio and simplifying the procedures that our clients have to undergo. Simplicity should help us to achieve a more favorable cost-income ratio. We apply the same principles to communications with our clients. In our multi-channel approach, we accent simplicity and accessibility. A large distribution network and user-friendly direct channels together with comprehensive product offers will contribute to strengthening our position on the market.

Advisory We will continue to further develop the advisory concept. We put emphasis on Loan and Investment Advisory, the latter represented by ČSOB Key Plan (offered free of charge) and Financial Planning concept. We keep boosting the capacities of our Personal and SME bankers and installing Investment, Retail Loans and SME specialists in all branches. In line with our long-term relationship approach, the bank advisory services help us to promote regular investments of our clients into ČSOB Pension Funds *(Progres & Stabilita)*, life insurance products *(Maximal Invest & Optimal Profit)* and ČSOB / KBC Mutual Funds, thus maximising clients lifetime wealth. Massive growth of assets in our mutual and pension funds confirms the preference of retail customers for more sophisticated financial instruments. Towards our corporate customers, we strive to apply personal relationship management, in order to build still more strategic partnerships.

Pricing Our goal is to become recognised among our current and potential clients as a Bank with the best price-quality-ratios in the market, which means that our services meet a high standard and, at the same time, they are delivered at a reasonable cost. The scale of our clients is extremely broad from large-cap companies, small- and mid-sized enterprises and affluent clients to students, children and seniors. This client variety is being reflected in our wide spectrum of financial services. Beside the traditional corporate and retail banking products, ČSOB Group makes every effort to offer the best price-quality-ratios in asset & wealth management, leasing, life and property insurance, pension funds and securities trading.

Bancassurance & Cross-Selling We see bancassurance as a strong concept with high future potential. Our vision is to deliver standardised bancassurance products via multi-channel distribution that is jointly managed for both the bank and insurance company. The corporate governance of the whole KBC Group is being adjusted as well to match the aim of becoming the leading bancassurer in the region. This change will see both banking and insurance businesses being managed together. Cross-selling activities, in general, may take advantage of our large distribution network. For instance, Postal Savings Bank *(Poštovní spořitelna)* has implemented recently the sale of mortgages through its network. To name another example of how we strive to support cross-sales within the Group: ČSOB Bank offers special credit cards for customers of the Mortgage Bank *(Hypoteční banka)*.

Multi-Branding Multi-branding helps us to increase our market coverage. The retail segment is well covered by two main brands, ČSOB Bank and Postal Savings Bank *(Poštovní spořitelna*). The latter brand targets the lower end of the retail mass market with a simple product offer and stable pricing policy through a wide distribution network of around 3,350 post offices and eleven branches. In contrast, the ČSOB brand targets mass affluent clients, enjoying more sophisticated services and advisory. In addition, ČSOB is the only financial group in the region that offers two pension funds with different investment profiles. *ČSOB PF Progres* attracts the younger population by a dynamic profile, whereas conservative *ČSOB PF Stabilita* concentrates on older and more prudent customers. The two brands enable us to use our distribution channels effectively.

Synergies with KBC ČSOB Group benefits from KBC's know-how and expertise, especially in retail banking, bancassurance and risk management. This approach has already brought us enormous sales of *KBC Capital Guaranteed Funds* through the ČSOB Group network. To name another example, we have been successfully using the broad KBC international network for our internationally active corporate clients. Human resources, payments, or information and communication technologies are other areas where significant synergies and economies of scale might be further developed. On the KBC Group level, shared services and product factories will be established to serve all CEE affiliates, thus enhancing the effectiveness and cross-border synergies of the whole Group.

financial results

Improving Profitability ČSOB Group closed the year 2005 with a profit of CZK 10.3 bn. Net profit grew by 50 % compared to the same period last year. Excluding the impact of one large, non-recurrent item being the payment from SI, the net profit grew by 17 % y-o-y to CZK 8.1 bn. Net interest income, the main source of the Bank's income, kept its high level (CZK 15.8 bn) despite the generally low interest rate environment. Besides, in the face of severe competition, we succeeded keeping the net interest margin reasonably high (2.4 %). Good development in business volumes is the key driver for the growth of net interest income across all business segments. The improvement in operational profitability was also aided by better cost control and a 5 % increase in net fee and commission income stemming from increased volumes of assets under management, the growing loan portfolio and rising number of transactions. Cost initiatives enhance efficiency and ČSOB Group has gradually improved the cost-income ratio. From 2003, this ratio improved by more than 7 percentage points to 60 %.

ČSOB Group profit up 50 % (17 % excl. SI)

(CZKbn)	2005	2005 w/o SI	2004
Profit After Tax	10.3	8.1	6.9

High Quality of Growing Loan Portfolio ČSOB Group's loan portfolio reached CZK 245.6 bn by the end of 2005. Growth across all business segments was driven mainly by further expansion of corporate & SME loans and newly approved mortgages. Excluding extraordinary items (CKA loans, SI loan), the portfolio increased by 28 %. Conservative asset-quality measures together with excellent risk management resulted in even lowering the percentage of classified loans in this strongly growing portfolio. Moody's Report from December 2005 says: *"ČSOB displays one of the best levels of asset quality in the Czech Republic."* Non-performing loans (over 90 days overdue) account for only 1.7 % of gross loans at the end of 2005. In addition, ČSOB's funding is sound and it meets all capital solvency requirements.

loan portfolio up 28 %

(CZKbn)	2005	2004
Loan Portfolio	244.2	190.6

Note: excluding SI, ČKA and MF CR.

Positive Outlook In November 2005, Moody's changed the outlook on the bank's C- financial strength rating (FSR) to positive from stable. This was done *"... in recognition of the business improvements that ČSOB has achieved, resulting in significant client acquisition, especially in the SME and retail segment... The rating action also reflected ČSOB ongoing sound risk management, which translates into one of the best asset quality profiles in the Czech Republic,"* wrote Moody's in its Report. There is a wide market consensus that the financial outlook for the year ahead is highly promising.

Acquiring of Treasury Shares During 2005 the Bank did not hold any treasury shares.

retail financial services

Rising Market Share The market share of ČSOB Group on total retail loans in the Czech Republic exceeded 25 % by the end of 2005. The retail segment has been performing extremely well and reported operating earnings of CZK 7.5 bn. ČSOB Group has been successfully focusing on further penetrating the retail and SME segments, which still have a good deal of growth potential. ČSOB Group further expanded its retail lending portfolio to CZK 145.6 bn, while maintaining its high profitability and low risk profile.

No.1 Financier of Individuals' Housing Needs ČSOB Group's total exposure to retail mortgages and building loans almost doubled to CZK 89.9 bn in 2005 from CZK 45.8 bn in 2003. Demand of individuals for housing financing became the major accelerator of the Czech loan market. ČSOB Group further improved its market position, remaining the No.1 financier of individual housing needs, thus combining the success of our ČMSS Building Society *(Českomoravská stavební spořitelna)* and the Mortgage Bank *(Hypoteční banka)* that successfully serves as a "product factory" for ČSOB Group. The Mortgage Bank whose products are sold through both its own distribution and through ČSOB Bank network confirmed its no.3 position on the Czech market of mortgage loans with a 22 % market share. ČSOB Group originated 14,727 mortgages worth CZK 19 bn and icreased mortgage servicing portfolio by 52 % y-o-y. In 2005, the ČMSS Building Society granted its clients building loans amounting to nearly CZK 27 bn. This performance makes our Building Society the largest and the fastest growing provider of building loans in the Czech Republic – its market share recorded a huge increase from 43 % in the end of 2004 to 51 % in the end of 2005.

mortgages & building loans up 37 %

(CZKbn)	2005	2004
Mortgages & Building Loans	89.9	65.5

Segment of Mid-Sized Businesses Better Advisory by SME specialists in our branches and a simplified credit process led to a y-o-y increase of newly approved credits and overdrafts to SME by 38 %. Process simplification led to a 70 % decrease in the number of documents and operations required from the client and the average length of the whole process was reduced from 4 days to 40 minutes during 2005. The volume of loans granted within the EU Programme sharply increased and amounted to CZK 0.3 bn, which represents a y-o-y increase of 216 %.

SME loans up 38 %

(CZKbn)	2005	2004
SME Loans	29.3	21.2

Concentrating on Youth ČSOB Bank further improved its product offer for youth. We have introduced the *Baby Elephant Account* for children above 10 years of age and *Student's Account Plus* with an overdraft up to CZK 20,000. The successful sales campaign carried out during the Fall 2005 brought a 40 % increase of acquired young clients.

Postal Savings Bank (PSB) For the PSB brand, the year 2005 was a very important one. In September 2005, ČSOB renewed the distribution agreement with Czech Post. This agreement has confirmed the postal network of some 3,350 post offices to be available for PSB's product distribution for a further period of ten years ending 2017. Having the new contract with Czech Post, PSB brand created its new strategy. Its main objectives are to become the No. 1 bank for mass retail in the next ten years and build PSB as a modern multi-channel bank. Another goal is to attract new clients in cities, among youth and SMEs. PSB completed its product portfolio and focused on the quality of service provided via employees of the Czech Post. In 2005, PSB already started with the focus on youth – the number of Mini Accounts and Junior Accounts grew by 129 % and 49 % respectively. The increase in number of clients using direct channels is a big success as well. The share of e-active clients grew by 40 % in total, and by more than 400 % in the case of *Max Internetbanking PS*. Newly approved consumer loans and overdrafts in PSB grew by 13 % y-o-y and reached to date the highest levels during 2005 and so did the deposits in PSB (+15 %).

PSB account for youth up 59 %

	2005	2004
Accounts for Youth	57,430	36,030

Bancassurance Sales of insurance products through the Group network play an ever increasing role. 70 % of the volume of all life insurance policies booked in ČSOB insurance company were sold through the ČSOB Bank network. 19 % of all non-life insurance businesses were sold in the ČSOB Group network (mainly ČSOB Bank and ČSOB Leasing). Every second mortgage sold through the bank network was accompanied by a life insurance policy and/or property insurance policy. 20 % of *Children's Accounts* were sold together with Accident Insurance. Moreover, the shift from individual travel insurance to travel insurance linked to cards continued in 2005.

bancassurance – increasing importance

	2005
Life Insurance/Mortgage	51 %
Property Insurance/Mortgage	47 %

Note: mortgages sold in the bank network

Leasing To mention shortly another of our successful activities, ČSOB Leasing financed vehicles and machinery in total volume of more than CZK 18 bn and strengthened its leading position on the stagnating leasing market with an 18 % share of all new leasing policies.

asset & wealth management

30 % of AUM ČSOB Group closed the year 2005 with a 30 % market share in assets under management for individuals in the Czech Republic. This strong position is largely attributable to investments in mutual and pension funds.

Mutual Funds – Advisory & Cross-Selling Volume of assets managed in two hundred ČSOB/KBC Mutual funds climbed to CZK 52.1 bn in 2005, with an increase to 25 % market share in the Czech Republic. The sale of mutual funds successfully continued in 2005 and reached CZK 26.4 bn, which represents a y-o-y growth of more than 56 %. ČSOB Group thus kept the second position on the overall mutual fund market and first position in sales of guaranteed funds, with 24 new issues in 2005. We have successfully implemented distribution through agents of our Building Society *(ČMSS)* and further developed sales through Postal Savings Bank, i.e., through the nation-wide network of its post offices. ČSOB further enhanced the concept of investment advisory represented by *ČSOB Key Plan* by including credit products and savings for retirement in this advisory product, making our individual financial advisory more complex.

new sales of ČSOB mutual funds up 56 %

(CZKbn)	2005	2004
ČSOB Mutual Funds	26.4	16.9

Pension Funds – Cross-Selling & Multi-Branding ČSOB Group offers two pension funds with different investment profiles. ČSOB Pension Funds have reached the highest market share growth in terms of number of clients in their history. The boost in the client base has been made by the sales agents of the Building Society *(ČMSS)* who cross-sell pension schemes with building savings and loans. The Building Society mediated the sale of more than 91 thousand pension funds and mutual funds contracts. In terms of contracts, it has become the biggest provider of pension funds both within the ČSOB Group and in the whole Czech market. Excellent portfolio returns strongly support our sales – *ČSOB PF Progres* is the best performing pension fund on the market in the long run. The total number of new policy holders exceeded 120 thousand (*ČSOB PF Stabilita* acquired 54 thousand new clients and *ČSOB PF Progres* 68 thousand) which is by 100 % higher sales compared to the previous year, 2004. Total assets in ČSOB Pension Funds grew by more than CZK 2.1 bn, which means a 22 % year-to-date growth. In the end of 2005, ČSOB acquired *Hornický penzijní fond Ostrava, a.s.*, a pension fund including almost 20 thousand clients and over CZK 1 bn in assets. This transaction strengthened our position on the Czech market with pension funds, shifting us up to fourth place in terms of clients.

pension funds AUM inflow up 55 % y-o-y

(CZKbn)	2005	2004
ČSOB Pension Funds	2.1	1.4

Leading Asset Manager ČSOB AM is one of the leading companies in the market of asset management with a 24 % market share in the Czech Republic. In the segment of private individuals, the market share is more than 50 %. Volume of assets managed (both private individuals and institutional clients) reached CZK 59 bn at the end of 2005, which represents a y-o-y increase of more than 30 %. Clients are offered a wide range of investment strategies including tailor – made solutions.

Historically Best Trading Revenues The year 2005 was a very successful one for securities trading and we confirmed our position as a leading Bank providing FX and hedging products in the Czech Republic. The total income from financial markets reached CZK 2.4 bn. In spite of the fact that plain vanilla FX transactions still generate the vast majority of this income, the revenues from derivative FX and interest rate hedging products grew by 79 % on a y-o-y basis and were one of the main drivers of this successful year. On the trading side, our most thriving area was FX part where we were able to increase our leading position on the local market. The main reason for such a positive result was a proper trading strategy and a good execution system for placing orders. Our leading position on local market was, as well, confirmed by Global Finance magazine, which announced ČSOB as the *Best Foreign Exchange Bank in the Czech Republic for 2006*.

corporate

Traditionally Strong Position The year 2005 was a very successful business year for ČSOB corporate and institutional banking. We confirmed our traditionally strong position as a market leader and grew even faster than the market in assets and liabilities. Hence the corporate and institutional banking division remains one of the key contributors to the overall bank and group profits. Eleven regional corporate branches offer highly personalised services thus striving to build a long-term relationship with our customers. This effort is supported by heavy investments in staff selection and training.

Large Structured Finance Deals Much like in previous years, ČSOB Bank concluded many reference deals such as *Veolia Environnement, Mostecká uhelná* (Czech mining company), *Nowaco Czech Republic,* residential project *Košík Development / Sluneční vršek,* or *Národná dialničná spoločnosť* (highways building company in Slovakia). Despite the rapid growth in asset volumes, credit risk remains well under control and our risk monitoring models fully comply with the KBC methodology.

Corporate Lending In the corporate lending market, growth has been strongly driven by structured finance and other specialised lending products like acquisition finance, real estate finance and syndicated lending.

corporate loans up 36 %

(CZKbn)	2005	2004
Corporate Loans	87.0	63.8

bricks and clicks

Multi-Channel Bank ČSOB Group manages, with its 317 branches and 3,350 post offices, one of the best "brick" networks in the Czech Republic. On the top of that, the increasing number of agents is reaching our clients. Finally, as a modern, customer-centric bank, we make each and every effort to promote direct channels.

Innovations Based on client surveys, we introduced a new version of *ČSOB Internetbanking 24*. We extended the number of non-transactional requests that can be handled via call center instead of visiting the branch. In 2005, recharging and regular recharging of pre-paid SIM cards of mobile operators via ATMs and internet banking was introduced. This is a unique service that is offered by ČSOB and PSB only. It allows clients using the electronic banking of ČSOB or PSB to recharge credit of any mobile operator at a specific date. This brings the comfort of pre-paid sets near to that of phone flat fees to users. Immediately after introduction, the number of payments to mobile operators increased rapidly. A completely new internet-based product called *W1SE* has been launched recently for our corporate clients.

Boom of e-Transactions Compared to 2004, the share of transactions entered through direct channels increased in ČSOB Bank from 69 % to 77 %, and in PSB from 55 % to 64 %. In the corporate segment, this share climbed to 95 %. Compared to 2004 the share of current accounts with activated services of direct banking increased in ČSOB Bank from 45 % to 55 %. Whereas, at the end of 2004, the total number of current accounts managed through direct channels in ČSOB Bank (including PSB and SR) was 574 thousand, at the end of 2005, the number rose to 707 thousand. In 2005, our clients entered almost 47 million transactions through direct channels in the total volume of CZK 2 210 bn.

transactions via ČSOB Internetbanking 24 & Max Internetbanking PS up 90 %

(million)	2005	2004
Number of Transactions	9.3	4.9

Being User Friendly ČSOB Bank strives to increase user comfort of all our direct channels. For instance, *ČSOB BusinessBanking 24* channel designed for small- and mid-sized businesses recorded a 30 % increase in terms of new users, as a result of simpler management and faster entering of payment orders.

Growing Card Business At the end of 2005, ČSOB Bank registered some 1,620 thousand active payment cards. This represents an increase of 5 % compared to the end of 2004. The number of credit cards increased by 59 % and this growth is likely to continue in coming years. More than 600 thousand clients use their payment cards regularly every month to make payments at merchants. In 2005, the clients made 41,602 thousand card transactions at merchants, worth more than CZK 44 bn, which is a 51 % increase in the number of transactions year-on-year.

card transactions up 51 %

(million)	2005	2004
Number of Transactions	41.6	27.5

ATM Network ATM Network was further widened and the number of ATMs in the Czech Republic reached 534. We concentrated in particular on regions where either ČSOB Bank or PSB succeeded in acquiring a significant number of new clients.

number of ATMs in Czech Republic (ČSOB + PSB) up 10 %

	2005	2004
Number of ATMs	534	487

Slovakia

Promising Market ČSOB is the fourth largest player in Slovakia with a retail market share of 5.5 % in deposits and 4.6 % in lending. ČSOB's Organisational Unit in the Slovak Republic (ČSOB Bank SR) has opened 13 new retail / SME branches over the past 2 years and continues to offer new products and services to its clients. In 2005, the volume of loans to SME's grew by about 56 %, whilst mortgage lending grew by 121 %. While these results are not yet what we want them to be, we expect them to grow in the medium term.

Growing AUM ČSOB improved its position in the asset management market in Slovakia. In 2005, the pension investment company, ČSOB d.s.s. (established in 3Q 2004) acquired almost 75 thousand new clients. The asset management company, ČSOB AM SR, improved its market share and secured fourth place in the mutual funds market. During 2005, ČSOB AM SR experienced an increase of 90 % in the volume of managed assets. ČSOB AM SR reached a 7 % market share in assets under management in Slovakia. The dynamically growing number of capital guaranteed funds (CGF) was a significant success factor, as their number reached 18. ČSOB Bank SR has the best knowledge in the CGF segment and continues to dominate the Slovak market.

Slovakia: assets under management up 147 %

(SKKbn)	2005	2004
AUM	11.7	4.7

Mortgages & Credit Products During 2005, ČSOB Bank SR recorded a significant mortgage growth and provided SKK 2.6 bn worth of mortgage loans. Regarding other credit products, ČSOB Bank SR prepared for its clients a special offer allowing them to get the ČSOB credit card for free twice within the year 2005. The company ČSOB Leasing SR strengthened its no.2 position on the leasing market with a 16 % share (measured by volume of new leasing business).

Slovakia: originated mortgages up 121 %

(SKKbn)	2005	2004
Mortgages	3.7	1.7

Insurance Business ČSOB Bank SR enlarged its product portfolio with bancassurance products as well. In 2005, ČSOB Bank SR introduced the first two life insurance products to the Slovak market as a part of a new line of saving programmes – *ČSOB Optimum* and *ČSOB Optimum Profit*. In addition, the bank's subsidiaries recorded the greatest growth of sales of individual travel insurance and life insurance with mortgage loans in their history.

Widening the Branch Network In 2005, ČSOB Bank SR increased the total number of its branches to 99. At the same time, ČSOB Bank SR extended its business hours.

Advantages for the Members of Our Financial Group Alongside further development of the bancassurance concept, ČSOB Bank SR expanded the advantages its clients can enjoy due to the company's membership in the KBC / ČSOB Group. Its clients can withdraw money from cash machines of ČSOB in the Czech Republic at the "local" fee. The same service is being provided to Czech clients in Slovakia. Furthermore, ČSOB clients in both the Czech and Slovak Republics are able to make express payment orders from one country to another.

Euro Ahead As Slovakia intends to adopt the common European currency in 2009 (Czech Republic official strategy aims at the year 2010), the ČSOB Group will have a unique opportunity to experience the change-over from national currency to euro some time ahead of its peers in the Czech Republic.

comments on ČSOB's financial performance in 2005

In 2005, ČSOB Group maintained its high profitability and achieved very good financial results showing a profit for the year attributable to equity holders of the Bank of CZK 10.3 bn and ROAE of 20.9 %.

After the exclusion of the effect of non-recurring income resulting from the settlement with SI in the amount of CZK 2.24 bn after tax, the total net profit reached CZK 8.09 bn, which means a year-on-year growth of 17.25 % and ROAE of 16.4 %.

Positive financial results have been primarily achieved thanks to good business growth across all client segments: 11.3 % growth in client deposits, 32.2 % growth of assets under management and 30.2 % growth in client credits. In addition to the business growth in the bank's segments and subsidiaries and thereto related increase in interest income and fee income, income from trading on financial markets also grew year-on-year.

All of the financial figures set out below were drawn from ČSOB's 2005 audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

consolidated profit and loss account

Net profit of the ČSOB Group **for 2005 (after tax)** attributable to equity holders of the Bank was CZK 10.3 bn, or CZK 8.09 bn after the exclusion of the effect of SI, which is 17.25 % above the 2004 reported profit of CZK 6.9 bn. Details regarding individual items are explained below.

Net Interest Income decreased moderately year-on-year by 0.5 % to CZK 15.77 bn. Thanks to good results of sales of credit products within the entire ČSOB Group and growth of deposits, the net interest income in these segments increased by 6 %. The moderate decrease in net interest income resulted from a revaluation of assets, during which matured interest-bearing assets are replaced with assets yielding lower interest income (which is a common process in an environment of low interest rates).

Average Net Interest Margin for the ČSOB Group decreased by 0.24 percentage points to 2.4 %.

Net Fee and Commission Income increased by CZK 347 m (5 %) to CZK 7 bn, mainly driven by fast growing income from payment cards (increased number of transactions), by income from the sale of mutual funds and credit products as well as by the growing number of active clients of the bank.

Net Trading Income amounting to CZK 6.5 bn grew by CZK 1.8 m year-on-year (+37 %) compared to the year 2004. The growth in income consists of the increased income in the category of recognised trading income (+35 %) and in the category of interest income (+39 %). The growth was mainly due to a good business policy and good results of FX transactions (+13 %), due to the growth in income from fixed-yield instruments (+31 %), and due to transactions with interest rate contracts.

Operating Expenses increased by CZK 553 m to CZK 16.4 bn. Operating expenses showed a 5.8 % increase compared to 2004 as a result of support for increasing sales in the bank's segments and also as a result of cost-reduction initiatives.

Cost / Income Ratio (defined as operating costs to operating income) showed a mild increase from 59.9 % to 60.0 % due to increased operating income accompanied by growth of expenses.

Impairment losses on loans and advances in 2005, the releases of provisions exceeded the creation of provisions in the amount of CZK 346 m (in 2004, net releases amounted to CZK 16 m). The net release was mainly due to the improved quality of the credit portfolio and also due to successful recovery of loans from historical portfolios and their sales.

Income Tax Expense increased by CZK 150 m to CZK 2.9 bn, all due to an increase of the net profit before taxation by 38 %.

consolidated balance sheet

At the end of 2005, consolidated **assets** totaled CZK 737 bn, which represents an increase by CZK 123 bn compared to the end of 2004.

Cash and Balances with Central Banks of CZK 15 bn slightly decreased from the end of 2004 due to good cash management.

Amounts Due from Banks decreased by 27 % to CZK 81.7 bn due to the allocation of funds to trading assets and due to a decrease in credits to banks and term deposits at banks.

Financial Assets at Fair Value through Profit or Loss increased by CZK 109.6 bn to CZK 190.6 bn mainly due to increased trading and a good business policy.

The volume of **Investment Securities** increased by CZK 19 bn to CZK 174.6 bn, which is due to the continuing trend of reinvesting clients' deposits into higher-yield financial instruments with the aim of maximising net interest income in the currently existing environment of low interest rates.

Loans and Leases (net) increased to CZK 239 bn (by 11.5 %). Business lending in core business segments of the Bank showed a 33.2 % increase and, in subsidiaries, the overall increase was 27 % (mainly in Hypoteční banka, ČMSS and ČSOB Leasing).

Goodwill of CZK 3.55 bn is mainly related to the acquisition of IPB.

Financial Liabilities at Fair Value through Profit or Loss increased by CZK 55.8 bn thanks to increased business activity benefiting from short-term deposits in monetary markets and reached CZK 122.68 bn.

Amounts Due to Customers of CZK 472.6 bn showed an increase, year-on-year, by 11 % compared to 2004. The growth trend was also seen in the growth of the volume of **assets under management** (including a mandate for management of mutual funds) where the ČSOB Group saw a growth of 32 % in 2005.

The volume of **Debt Securities in Issue** increased to 38.8 bn (by 56 %).

Return on Average Equity (ROAE) for 2005 was 16.4 % (excluding SI), compared to 14.9 % in 2004.

Capital Adequacy Ratio of the Bank (as defined by the Czech National Bank's regulation no. 2 on capital adequacy dated 3 July 2002) decreased from 12.11 % as at 31 December 2004 to 10.55 % as at 31 December 2005. The capital adequacy ratio of the ČSOB Group as at 31 December 2005 was at 10.53 % compared to 11.21 % as at 31 December 2004.

ČSOB Group

ČSOB Group operates not only in the Czech Republic, but also in Slovakia.

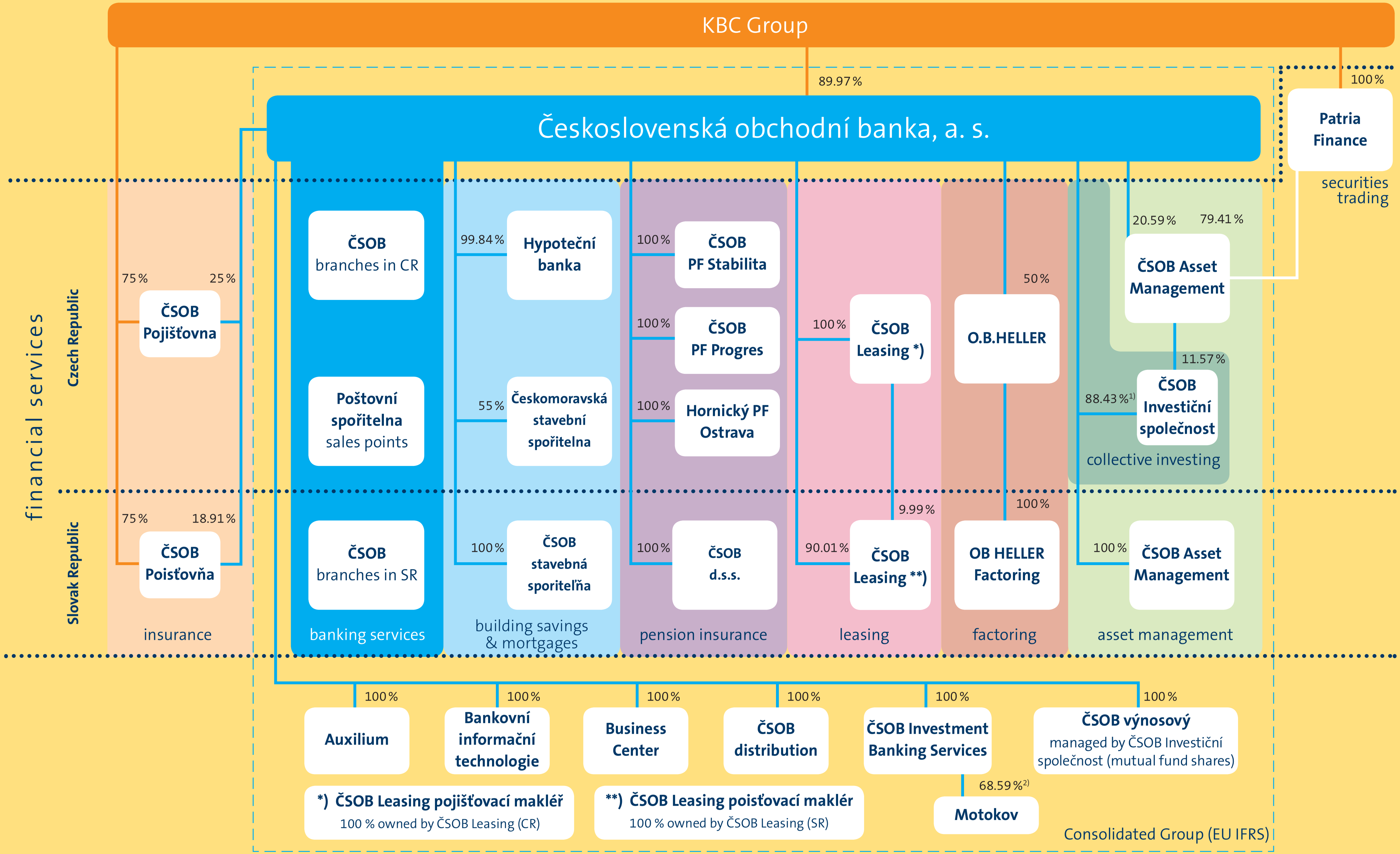
As of 31 December 2005, ČSOB Group of consolidated companies according to EU IFRS * included 23 companies, of which 14 subsidiaries are offering financial services. The offer of financial services in ČSOB is completed by 3 affiliated companies – ČSOB Pojišťovna, ČSOB Poisťovňa and Patria Finance.

In 2005, two additional companies were added to ČSOB Group of consolidated companies – Motokov (subsidiary of ČSOB IBS) and Hornický penzijní fond (pension fund). Through the acquisition of Hornický penzijní fond Ostrava, ČSOB Group has strenghtened its position on the pension insurance market.

* International Financial Reporting Standards as adopted by the European Union

ČSOB Group offers to clients wide range of services in these areas:

- Banking services
- Building savings and mortgages
- Pension insurance
- Leasing
- Factoring
- Asset management
- Collective investing
- Securities trading
- Insurance



Note: [1] Direct (73.15 %) and indirect (15.28 % via Auxilium) share of ČSOB on company's equity.
[2] Another 0.5 % owned directly by ČSOB.

Hypoteční banka, a.s.

Date of establishment:
January 10, 1991
Business activities:
Provision of mortgage loans and issuance of mortgage bonds

Share capital as of December 31, 2005 (CZKths):
2,634,739
Shareholders as of December 31, 2005 (% share and name):
99.84 % Československá obchodní banka, a. s.
0.16 % other shareholders

	2005	2004
Volume of receivables from clients (CZKm)	46,202	33,964
Number of newly approved mortgage loans (pcs)	14,715	11,164
Volume of newly approved mortgage loans (CZKm)	18,763	12,354
Market share (%) in the Czech Republic [by volume of newly approved mortgage loans for citizens according to MMR's methodology]	23	22

Note: MMR = Ministry for Regional Development

In 2005, Hypoteční banka continued the implementation of its strategy based on its mortgage-loan specialisation and its so-named multi-brand policy. The company has not only deepened the cooperation with ČSOB but also developed new business activities with Citibank, through which it has started offering mortgage loans.

In 2005, the bank maintained its 2nd place on the mortgage market, which represents a market share of 23 % (measured by the volume of newly provided purpose mortgage loans for citizens). The sale of ČSOB Hypoteka (ČSOB Mortgage) saw a significant year-on-year increase in the volume of new loans (117 %).

Hypoteční banka has strengthened its role as an innovator by launching a number of product innovations, for example, Mortgage without Proving Income, Mortgage Loans for Foreigners, No-specific Purpose Part of Mortgage Loan, etc.

On 1 January 2005, Hypoteční banka started rebranding the company in connection with the introduction of a new brand name supported by a strong advertising campaign. This process was accomplished on 1 January 2006 by changing its business name Českomoravská hypoteční banka, a.s., to Hypoteční banka, a.s.

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Českomoravská
stavební spořitelna
Na těchto základech můžete stavět

Českomoravská stavební spořitelna, a.s.

Date of establishment:
June 26, 1993 *
Business activities:
Construction savings

* Note: Date of certificate of incorporation August 27, 1993.

Share capital as of December 31, 2005 (CZKths):
1,500,000
Shareholders as of December 31, 2005
(% share and name):
55 % Československá obchodní banka, a. s.
45 % Bausparkasse Schwäbisch Hall A/G

	2005	2004
Loans and bridging loans (CZKm)	48,754	35,792
Volume of client deposits (CZKm)	117,035	102,110
Number of valid contracts (pcs)	2,286,445	2,361,442
Volume of target amounts of newly concluded contracts (CZKm)	69,448	54,617
Market share (%) [by volume of target amounts of newly concluded contracts]	41.9	44.5
Market share (%) [by volume of newly granted loans]	48.0	48.8

Note: 2005 market shares are not known – the indicated figures are expert estimates.

In 2005, ČMSS provided the largest volume of construction savings loans and bridging loans from the date of its foundation (CZK 20.6 bn) and concluded construction savings contracts in the target amount of CZK 69.4 bn. Thanks to this development, ČMSS has remained the largest construction savings bank in the market and has strengthened its leading position in the area of construction savings.

In 2005, ČMSS was successful not only in the offer of its traditional products, but also in the area of pension insurance and mutual funds offered within the ČSOB Group and in co-operation with the German company Union Investment.

In 2006, ČMSS's business policy will be primarily focused on strengthening its market share in the area of construction loans and savings. Sales of additional products of the ČSOB Group will be also further expanded.

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ČSOB stavebná sporiteľňa, a.s.

Date of establishment:
November 8, 2000
Business activities:
Construction savings

Share capital as of December 31, 2005 (SKKths):
720,000
Shareholders as of December 31, 2005
(% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004
Loans and bridging loans (SKKm)	3,389	2,817
Volume of client deposits (SKKm)	5,245	4,395
Number of valid contracts (pcs)	120,617	128,643
Volume of target amounts of newly concluded contracts (SKKm)	2,468	2,726

Despite lower state bonuses and strong competition on the housing market, ČSOB SP has maintained its stable market position.

For ČSOB SP, the year 2005 was a year of innovations of products, especially of credit products. A new product "Komfort" was launched on the market, which will enable clients to draw an interim loan without prior deposit and saving, with an optional length of savings. The possibility to obtain a loan without having to prove income when real estate is used as collateral or a construction loan up to SKK 500,000 without security also contributed to the increased interest in housing loans. In 2005, ČSOB SP also started offering the construction savings product to legal entities.

In 2006, ČSOB SP will continue in product innovations, with the intention to prepare a wider offer of loan products for its clients.

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ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB Group

Date of establishment:
October 26, 1994
Business activities:
Supplementary pension insurance with state contribution

Share capital as of December 31, 2005 (CZKths):
97,167
Shareholders as of December 31, 2005 (% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004
Number of contracts (pcs)	54,059	47,687
Funds registered in favour of participants (CZKm)	10,289	8,735
of which contributions of participants (CZKm)	7,923	6,770
Appreciation of participants' funds (%)	3.8	4.3
Market share in the Czech Republic by the number of participants (%)	10.1	10.5

In 2004, ČSOB PF Stabilita achieved the third-highest appreciation in the supplementary pension insurance market (4.3 %). The excellent appreciation of the clients' funds resulted in the growth of the number of newly concluded contracts in 2005, when ČSOB PF Stabilita acquired approx. 54 thousand new clients and the total number of new participants grew year-on-year by 7 %. More than 40 % of new contracts were concluded through the distribution network of ČSOB and ČMSS.

In 2005, ČSOB PF Stabilita got a rating grade A- / czAa- / stable outlook from CRA RATING AGENCY, a.s.

At the end of 2005, the ČSOB Group was enlarged through the acquisition of Hornický penzijní fond Ostrava, which is now a 'sister company' of ČSOB PF Stabilita.

ČSOB PF Stabilita maintains its conservative investment strategy, based mainly on investing in fixed-yield securities.

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ČSOB Penzijní fond Progres, a. s., a member of the ČSOB Group

Date of establishment:
February 14, 1995
Business activities:
Supplementary pension insurance
with state contribution

Share capital as of December 31, 2005 (CZKths):
50,000
Shareholders as of December 31, 2005
(% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004
Number of contracts (pcs)	67,807	10,631
Funds registered in favour of participants (CZKm)	1,070	477
of which contributions of participants (CZKm)	913	394
Appreciation of participants' funds (%)	4.9	5.3
Market share in the Czech Republic by the number of participants (%)	2.5	0.8

In 2004, ČSOB PF Progres achieved the highest appreciation in the supplementary pension insurance market (5.3 %). The excellent appreciation of the clients' funds resulted in the fast growth of the number of newly concluded contracts. In 2005, ČSOB PF Progres acquired approx. 68 thousand new clients (thanks to the development of co-operation with ČMSS, in particular) and increased its market share by 1.7 % measured by the number of participants.

ČSOB PF Progres took very good places in public competitions focused on financial products – 2nd place in the Zlatá koruna contest and 3rd place in Master Card's "Bank of the Year" contest in the category of pension funds. In 2005, ČSOB PF Progres got a rating grade A- / czAa- / stable outlook from CRA RATING AGENCY, a.s.

ČSOB PF Progres applies a dynamic investment strategy with a focus on young clients, where the length of savings is supposed to be longer.

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ČSOB d.s.s., a.s.

Date of establishment:
October 20, 2004
Business activities:
Pension insurance

Share capital as of December 31, 2005 (SKKths):
360,000
Shareholders as of December 31, 2005
(% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004
Assets under management (SKKm)	530	n/a

ČSOB d.s.s. was established in the autumn of 2004 in connection with pension reform in Slovakia. In 2005, the company started its business activities, i.e. conclusion of retirement pension savings contracts. In April 2005, the company met a condition requiring it to acquire at least 50,000 clients according to the Act 43/2004 of the Collection on Retirement Pension Savings.

In compliance with the Act, ČSOB d.s.s. offers three pension funds: a conservative fund, a balanced fund and a dynamic fund. To sell its products, it is primarily using the distribution network of the ČSOB Group – companies ČSOB distribution, ČSOB stavebná sporiteľňa, ČSOB Poisťovňa and ČSOB Bank in Slovakia.

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ČSOB Leasing, a.s.

Date of establishment:
October 31, 1995
Business activities:
Financial services (financial and operational leasing, customer credits, hire-purchase)

Share capital as of December 31, 2005 (CZKths):
2,900,000
Shareholders as of December 31, 2005 (% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004
Volume of new leasing turnover in the Czech Republic (CZKbn)	18.24	14.67
Number of contracts in the Czech Republic (pcs)	25,655	21,129
Relevant market share in the Czech Republic by volume of transactions (%) *	15.23	13.58

*The overall market includes the leasing market of movables and the relevant market of hire-purchase and consumer loans.

ČSOB Leasing is the largest leasing company in the Czech Republic with a nationwide network of 14 branches. In 2005, the company celebrated the 10th anniversary of its foundation. Since 2001, ČSOB Leasing has been the leasing market leader with the largest market share.

ČSOB Leasing provides finance for all kinds of new and used means of transport (passenger cars, utility cars, lorries and motorcycles) and machinery, equipment, capital equipment and computer technology.

ČSOB Leasing offers its clients a complete range of products: financial leasing, customer credits, hire-purchase and operational leasing (including full-service leasing and fleet management). In 2005, the company started offering customer credit HitKredit, through which it is possible to finance all commodities, in particular new and used cars.

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ČSOB Leasing, a.s. (Slovak Republic)

Date of establishment:
December 10, 1996
Business activities:
Financial services (leasing, hire-purchase)

Share capital as of December 31, 2005 (SKKths):
1,500,000
Shareholders as of December 31, 2005
(% share and name):
90 % Československá obchodní banka, a. s.
10 % ČSOB Leasing, a.s.

	2005	2004
Volume of leasing turnover in the Slovak Republic (SKKbn)	9.3	7.4
Number of contracts in the Slovak Republic (pcs)	11,326	8,728
Market share in the Slovak Republic by volume of transactions (%)	16.3	15.9

ČSOB Leasing SR is, in the long-term, one of the leading companies operating on the Slovak leasing market with a market share of 16,3 %. On the leasing market of movables, ČSOB Leasing has taken first place.

In 2005, the company achieved 25 % year-on-year growth of the volume of leasing turnover. The results achieved were significantly influenced by the introduction of a new product – consumer loan, which is primarily intended for used cars, but it is also used to finance commodities such as lorries, machinery and equipment. The main product is still financial leasing with a share of about 80 % of the whole product portfolio.

In 2006, the company is going to launch real estate leasing and float leasing, which will complete the range of products offered to clients.

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O.B.HELLER a.s.

Date of establishment:
July 16, 1992
Business activities:
Factoring

Share capital as of December 31, 2005 (CZKths):
35,400
Shareholders as of December 31, 2005
(% share and name):
50 % Československá obchodní banka, a. s.
50 % Heller Netherlands Holding BV

	2005	2004
Turnover of receivables (CZKbn)	16.6	16.2
Market share in the Czech Republic (%) [by turnover of factoring receivables]	19.1	20.5

O.B.HELLER belongs to the leading factoring companies in the Czech Republic. It provides its clients with alternative financial resources in the form of financing receivables arisen from the delivery of goods or provision of services, usually with a 90-day or shorter maturity. Factoring is very flexible and can be provided on the basis of the assignment of both domestic and export receivables, with recourse or without recourse. The services also include management of assigned receivables, including collection.

In 2005, O.B.HELLER achieved a CZK 16.6 billion turnover of receivables from factoring transactions and, with a 19.1 % market share, it succeeded in defending third place on the Czech factoring market.

Note: On 25 November 2005, the Bank exercised a call option issued by Heller Netherlands Holding BV for the purchase of 50 shares of O.B.HELLER representing 50 % of the Company voting rights. Based on this transaction, on 16 January 2006 the purchase contract was signed. The acquisition was approved by the Czech Antimonopoly Office on 31 March 2006.

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OB HELLER Factoring a.s.

Date of establishment:
February 24, 1997
Business activities:
Factoring

Share capital as of December 31, 2005 (SKKths):
30,000
Shareholders as of December 31, 2005
(% share and name):
100 % O.B.HELLER a.s.

	2005	2004
Turnover of receivables (SKKbn)	5.40	4.48
Market share in the Slovak Republic (%) [by turnover of receivables]	17	18

OB HELLER Factoring provides its clients with modern financial services relating to financing and comprehensive management of receivables. The main product is still domestic recourse factoring. The standard services also include export factoring, services connected with taking over risk of customer insolvency and solutions “tailored” to clients’ needs.

In 2005, the company achieved an increase in the turnover of assigned receivables from factoring transactions to SKK 5.4 bn and maintained its second place on the Slovak factoring market with a 17.2 % share thanks to the quality of the services provided and individual, client-oriented approach.

At present, a new information system FACTORLINK is being implemented and, from 1 April 2006, clients will have on-line access to open receivables, surveys of payments, etc. The advantage of the new system is the substantially improved quality and efficiency of communication with clients.

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Asset Management

ČSOB Asset Management, a.s., a member of the ČSOB Group

Date of establishment:
December 31, 1995
Business activities:
Client asset management

Share capital as of December 31, 2005 (CZKths):
34,000
Shareholders as of December 31, 2005
(% property share / % share in voting rights and name):
79.41 % / 20.59 % Patria Finance, a.s.
20.59 % / 52.94 % Československá obchodní banka, a. s.
0 % / 26.47 % KBC Asset Management NV

	2005	2004
Assets under management (CZKbn) *	78.0	43.1

* Volume of assets under active management according to AKAT methodology

ČSOB Asset Management provides its clients with investment services in the field of securities management. It is one of the prominent companies operating in this market with a 25.6 % market share. In the market segment of asset management for private individuals, the company has taken 1st place with a 53.3 % market share.

The company's clients are insurance companies, pension funds, municipalities, commercial, manufacturing and energy companies, trade unions, foundations and other non-profit organisations, as well as private individuals. The company also manages assets of selected foreign funds of the KBC Group.

In both acquiring and servicing its clients, the company works in co-operation with branches and customer departments of ČSOB (group clients are, besides ČSOB Bank, ČSOB pension funds, ČMSS, ČSOB Pojišťovna, etc.).

In 2005, the volume of assets under management grew by approx. 81 %. This growth was mainly driven by the interest in sophisticated asset management services of the ČSOB Group clients, especially in the segment of state administration and small and medium-size enterprises. ČSOB AM is able to offer these clients tailor-made services. At the same time, the volume of assets of the group clients and foreign funds of the KBC Group grew as well.

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ČSOB Asset Management, správ. spol., a.s.

Date of establishment:
June 10, 2004
Business activities:
Client asset management

Share capital as of December 31, 2005 (SKKths):
60,000
Shareholders as of December 31, 2005
(% share and name):
100 % Československá obchodní banka, a. s.

	2005	2004*
Individual asset management (SKKm)	3,420	2,698
Mutual funds (SKKm)	9,030	4,764

* As at December 31, 2004 clients' funds were managed by ČSOB and, on January 1, 2005, they were moved under management of ČSOB AM.

ČSOB Asset Management SR provides its clients with services in the area of individual asset management and collective investing. In 2005, the company got a licence for distribution of KBC mutual funds sold in the Slovak Republic. The company took over management of the portfolio of ČSOB Poisťovňa, and at the end of the year it also started managing portfolios of clients of the private bank in Slovakia.

In 2005, the sales of mutual funds were successful. ČSOB Asset Management SR achieved a 90 % year-on-year increase in assets under management and strengthened its fourth place on the Slovak market of mutual funds. In March 2005, the company started offering its first local fund – ČSOB peňažno-dlhopisový korunový o.p.f.

In 2006, the company plans to take over management of assets of other institutional clients of the ČSOB Group in Slovakia.

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ČSOB Investiční společnost, a.s., a member of the ČSOB Group (ČSOB IS)

Date of establishment:
July 3, 1998 (transformed from O.B. INVEST, investiční společnost, spol. s r.o.)
Business activities:
Collective investment

Share capital as of December 31, 2005 (CZKths):
216,000
Shareholders as of December 31, 2005 (% share and name):
73.15 % Československá obchodní banka, a. s.
15.28 % Auxilium, a.s.
11.57 % ČSOB Asset Management, a.s., a member of the ČSOB Group

	2005	2004
Assets under management (CZKbn)	11.3	13.1

ČSOB IS is a prominent company managing mutual funds. In 2005, the transformation of so-called ex-privatisation funds was completed: significant unit-holders gradually capitalised on their investment, which resulted in a decrease of assets placed in these funds by approx. CZK 4 bn. In parallel, preparation for the merger of ex-privatisation funds into one open-ended fund, ČSOB bohatství, continued. The merger took place in the middle of 2005.

The volume of assets placed in the other funds increased. The company created a new open-ended mutual fund ČSOB dluhopisových příležitostí.

In 2006, the company plans another expansion of its product offer. In particular, funds ČSOB realitní mix and ČSOB bytových družstev are being prepared.

Funds managed by ČSOB Investiční společnost, a.s., a member of the ČSOB Group as of December 31, 2005: ČSOB akciový mix, ČSOB bond mix, ČSOB středoevropský, ČSOB bohatství, ČSOB nadační, ČSOB výnosový, ČSOB dluhopisových příležitostí

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Address: Perlová 371/5, 110 00 Praha 1
Telephone: 222 045 445
Fax: 222 045 665
E-mail: investice@csob.cz
Internet: www.csobinvest.cz

Patria Finance, a.s.

Date of establishment:
May 23, 1994
Business activities:
Securities trading and consultancy services in the field of corporate finance

Share capital as of December 31, 2005 (CZKths):
100,000
Shareholders as of December 31, 2005 (% share and name):
100 % KBC Securities NV

Patria Finance, a.s., offers investment banking services – securities trading, consultancy in the field of management and financing of companies and financial research. The company owns the following subsidiary companies:

Patria Online, a.s., which develops a platform for providing information in the area of financial and capital markets via internet portal www.patria.cz.

Patria Direct, a.s., which offers trading on the Prague Stock Exchange and on foreign stock exchanges in Europe, America, Asia and Australia.

Patria Finance CF, a.s., which provides consultancy services in the field of corporate finance.

Securities transactions were made exclusively on stock markets. Measured by the volume of shares trading carried out on the Prague Stock Exchange, Patria Finance took first place in 2005. The company also significantly increased the volume of trading in foreign securities.

In 2006, the company is intends to maintain its no.1 position measured by the volume of shares trading on the Prague Stock Exchange and expand in foreign markets, for example in Hungary. The company will also utilise the potential of co-operation among companies within the KBC Group.

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Internet: www.patria.cz

ČSOB Pojišťovna

ČSOB Pojišťovna, a. s., a member of the ČSOB Holding

Date of establishment:
April 17, 1992
Business activities:
Insurance of citizens and entrepreneurs in the area of life and non-life insurance

Share capital as of December 31, 2005 (CZKths):
1,536,400
Shareholders as of December 31, 2005 (% share and name):
75 % KBC Verzekeringen NV
25 % Československá obchodní banka, a. s.

	2005	2004
Number of insurance contracts (pcs)	472,881	345,860
Volume of written premium (CZKths)	6,875,382	6,056,908
Number of claims settled (pcs)	132,053	136,582
Market share in the non-life insurance market (%)	4.1	4.0
Market share in the life insurance market (%)	8.8	7.7

ČSOB Pojišťovna is an important universal insurance company offering products in the area of life and non-life insurance for private individuals and legal entities alike, which allows its clients to tend to their financial needs comprehensively and under advantageous conditions.

On the Czech insurance market, ČSOB Pojišťovna holds 4th place in terms of total premiums written, 4th place in life insurance and 6th place in non-life insurance.

Rating agency Standard & Poor's made an assessment of the financial strength and credibility of ČSOB Pojišťovna. A long-term rating of its financial strength and credibility at a level of BBB- was confirmed with a stable outlook.

In the business area, restructuring of the internal sales network continued and co-operation in the area of bankassurance was deepened. In particular, clients appreciated new modern savings products of investment life insurance.

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Internet: www.csobpoj.cz

ČSOB Poisťovňa, a.s.

Date of establishment:
January 1, 1992 *
Business activities:
Insurance of citizens and entrepreneurs in the area of life and non-life insurance

* Note: Date of certificate of incorporation June 9, 1992.

Share capital as of December 31, 2005 (SKKths):
838,000
Shareholders as of December 31, 2005 (% share and name):
75 % KBC Insurance NV
18.91 % Československá obchodní banka, a. s.
6.09 % Prvá slovenská investičná skupina, a.s.

	2005	2004
Number of new insurance contracts (pcs)	88,724	174,145
Volume of written premium (SKKm)	1,833,908	1,234,371
Number of claims settled (pcs)	15,253	15,067
Market share of the non-life insurance market (%)	3.37	1.72
Market share of the life insurance market (%)	3.63	3.82

ČSOB Poisťovňa is a universal insurance company providing a wide range of life and non-life insurance products and insurance of citizens' property. Further, it offers insurance of entrepreneurs and their property, insurance covering risks connected with business activities and liability insurance. It also provides quality insurance services to large industrial enterprises and business organisations.

ČSOB Poisťovňa is using the services of major world reinsurers with the highest rating awarded by Standard & Poor's – AAA to A, which safely cover the writing capacity of the company. ČSOB Poisťovňa itself was awarded a rating by company CRA RATING Agency (second highest possible degree of international rating awarded to companies in Slovakia, expressing the solvency grade and quality of the insurance company and its ability to fulfil its commitments to clients). Besides its own sales network, ČSOB Poisťovňa is also using branches of ČSOB in Slovakia and services of exclusive financial advisors and insurance brokerage companies.

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whenever my firm is concerned,
security is my priority

value and risk management

Risk is an basic ingredient of any kind of business. The most important risks typical for the banking business are credit risk, market risk, liquidity risk and operational risk. Extensive attention is also paid to other types of risks like strategy risk, reputation risk, and regulatory risk. The crucial task for ČSOB Group management is to control all these types of risk.

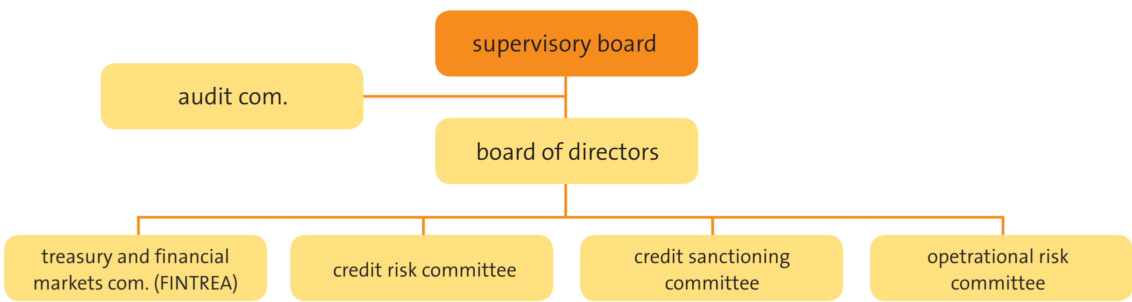
All units within ČSOB Group coordinate preparation for changes in the regulation of the banking sector according to the recommendations of the Basel Committee on Banking Supervision. Activities undertaken in this area are connected with our participation in a joint project with the Czech National Bank ("ČNB") and the Czech Banking Association.

organisation of value and risk management

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group, based on the risk governance model that seeks to define the responsibility and tasks of various bodies and persons within the organisation to guarantee the sound management of value creation and all the associated risks which include the:

- Involvement of companies' top bodies in the process of value and risk management;
- Activities of specialised committees and independent departments involved in risk management at the level of ČSOB with group-wide powers; and the
- Primary risk management within departments and organisational units of individual companies.

Besides the undermentioned bodies of the Bank Group and Committees with decision-making or advisory powers, risk management is mainly covered by the Value and Risk Management and Credits and Bad Debts departments. Both coordinate the activities of the risk management committees and cover risk management within the ČSOB Group.



credits and bad debts

general overview

The Credits and Bad Debts department performs several functions. First, the department exercises risk management authority: identification, measurement, mitigation and reporting of credit risks on a Group level. Second, Credits and Bad Debts acts as a product factory that co-develops products and services for Group's retail, SME and corporate clients. Third, the department plays the role of a support unit that manages the lifecycle of credit exposure (rating, approval, monitoring, recovery).

The Credits and Bad Debts unit is split into a retail- and a corporate part. SME credit risk is covered either in the retail or the corporate part depending on the profile of the SME client. Each of the two parts consists of sub-units responsible for the following tasks:

- Credit risk modelling and reporting;
- Acceptance process (decision making and loan approval);
- Credit administration (loan documentation and booking); and
- Bad Debts (restructuring, recovery and collection)

corporate credits

credit risk modelling and Basel 2

In 2005, ČSOB completed the development of key internal rating models covering corporate and SME clients, municipalities, housing cooperatives and others. The models were built in compliance with Basel 2 rules, which allow using their output (probability of default) for capital adequacy calculations. ČSOB is using models developed by KBC for assessing quality of sovereign and banking counterparts. All rating models are implemented gradually with the aim of achieving full coverage by March 2006, including the two key banking subsidiaries of ČSOB – Hypoteční Banka (HB) and Českomoravská Stavební Spořitelna (ČMSS). From 2006, ČSOB will roll out risk measurement based on PD models further into the Group.

During the past year, ČSOB primarily focused on completion of technical infrastructure required for Basel 2 reporting. Implementation of Fermat, the software tool for capital adequacy calculation and reporting, progressed significantly but required more time than expected. As a result, ČSOB will be able to produce the first Basel 2 calculations by end of 1Q 2006.

acceptance process

The acceptance process for Corporate and SME clients is organised in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In a second step, an advisor independent on the business line (i.e. reporting to Credits) screens the proposal and prepares an advice. Finally, a decision is made at the appropriate decision-making level (committee). The "four eyes" principle is always respected. The decision always includes an approved counterparty rating.

The acceptance process for Corporate and SME clients is supported by a newly developed rating model, which assigns each client a specific probability of default (PD). This allows for quantifying the level of potential risk and designing the follow-up process according to the true risk. Hence, the Bank focuses in detail on cases with high risk, while low risk cases can follow a simpler framework. The implementation of the risk-reward approach based on PD ratings and expected loss as well as a fundamental redesign of the credit risk process will be carried out during 2006.

group dimension

An important element of the acceptance process is the consolidation of credit exposures within the Group and coordination of the approval process. Since 2004, ČSOB determines the total exposure using a Group Risk Database that consolidates exposure across the entire ČSOB Group. The decision is made, again, at the appropriate decision-making

A "cost-out" project allowed for the improvement of Credit Administration Unit's efficiency by 30 – 50 %

level (up to a pre-defined level subsidiaries can decide on the deal within their delegated authority). Exposures exceeding the threshold have to be approved by ČSOB Bank. Nevertheless, coordination of all entities is obligatory.

credit administration

In order to improve its process efficiency, the Credit Administration unit launched a "cost-out" project in 2005 whose goal was to identify potential efficiency reserves in key back office activities (preparation of credit application, credit approval, preparation of loan documentation, loan drawing, collateral registration, loan maintenance and review). The project indeed brought significant benefits in terms of simplification and streamlining of the credit administration process, allowed for a decrease in the unit headcount and for the improvement of efficiency by 30 – 50 %. The projected growth of the number of new SME clients in 2006 means that further process optimisations are foreseen also for the future.

bad debts

The core activity of the Bad Debts unit remains monitoring, advice and management of problematic cases in Corporate and the (large) SME credit portfolio. The department monitors all substandard credit files (PD rating 8 and worse) and is directly responsible for management of all exposures with PD 10 or worse. In selected cases, Bad Debts manage even exposures with a better rating. The intention of the Bank is to restructure as much distressed exposure as possible and return the client to the business segment or achieve repayment without litigation. As a result, credit files rated as 8 or 9 are typically restructured, whereas, exposures with a PD rating of 10 – 12 enter a recovery process and their repayment is based mainly on lawsuits or bankruptcy. To improve its efficiency, the Bad Debts unit went through a major downsizing exercise in 2005, achieving a 20 % headcount reduction.

historical cases, ex-IPB transaction and state asset administration

Bad debts are still responsible for the collection process related to the historical portfolio (selected credit files granted before 1993). During 2005, Bad Debts succeeded in collecting more than CZK 1 billion, thus influencing significantly the total profit of the Group. Bad Debts also administrated and completed operations related to acquisition of the ex-IPB Bank, such as the "0 – 10" loan portfolio sold to the Czech Consolidation Agency. Finally, Bad Debts also administrate special state assets for the Czech and Slovak Ministries of Finance.

retail and standard SME credits

The unit is responsible for design and realisation of credit processes (acceptance, maintenance, collection) and for risk management (methodology, implementation, reporting) in the area of retail credits (physical persons and micro-businesses).

acceptance process

The retail acceptance process is based on a number of internally developed scorecards and uses access to external data sources which add additional information about a client's risk profile (Credit Bureaus). Each application process runs on an in-house developed scorecard. These decision support tools allow complex control over the newly accepted risks. Scorecards are typically based on both socio-demographic and behavioural data. Acceptance process also covers pre-approved limits for existing clients.

Implementation of a new application processing system (CRIF) continued throughout 2005 and was concluded by a go-live of the first part, focused on retail acceptance. The tool supports a scoring engine, decision process and is plugged into the main transactional system, leading client officers through the entire process. All this contributes to a substantially faster application process, higher flexibility in setting up products and a reduction of operational risk.

portfolio risk management

Several loss-predicting models are used for risk management of the major retail credit portfolios. A regular back testing of those models shows a high precision of the predicted development. The use of these modelling techniques and the implemented scorecards together with management techniques significantly reduces credit risk taken within retail portfolios, although the acceptance rate has been kept almost the same.

annex: volumes and ratios

loan portfolio structure

Loans to non-banking customers, EU IFRS consolidated, gross amounts (CZK bn)

	31.12.2005	31.12.2004
Historical exposure	**1.4**	**22.7**
Of which MF CR + SR	0.0	21.3
Write-offs (during the year)	0.1	1.4
Current exposure	**244.2**	**232.1**
Write-offs (during the year)	0.9	1.8
Total	**245.6**	**254.8**
Total Write-offs (during the year)	1.0	3.2

Note: The decrease of Historical exposure is related to the repayment of exposure towards Slovenská inkasná

loan portfolio quality

EU IFRS consolidated, gross amounts (CZK bn)

	31.12.2005	31.12.2004
Total loans	245.6	254.8
of which non-performing loans (NPLs)	4.1	3.8
Total provisions	6.4	5.8
NPLs to total loans ratio (%)	**1.7 %**	**1.5 %**
NPL coverage ratio (Total provisions to NPL)	**155.2 %**	**152.6 %**

Note: ČSOB applies a conservative approach to classification of non-performing loans. If at least one installment of principal or interest is more than 90 days overdue, all loans granted to the particular client are classified as non-performing.

loans classification

ČSOB internal classification, EU IFRS consolidated, gross amounts

	31.12.2005		31.12.2004	
	Loans CZK bn	Share on total (%)	Loans CZK bn	Share on total (%)
Standard (A–C)	201.7	82.1	197.9	77.7
Classified	44.0	17.9	35.6	14.0
Watch (D)	31.2	12.7	24.5	9.6
Sub-standard (E)	5.9	2.4	5.9	2.3
Doubtful (F)	2.9	1.2	2.0	0.8
Loss (G)	4.0	1.6	3.2	1.3
MF SR	0.0	0.0	21.3	8.3
Total	**245.6**	**100.0**	**254.8**	**100.0**

Note: ČSOB's internal classification is in compliance with the ČNB's methodology. However, besides the timely repayment criteria, we also consider current situation and estimated prospects of the customer. Thus, compared to the ČNB's classification, our internal classification is more conservative.

market risk

Market risk is the risk of potential losses resulting from the adverse development of trading conditions on financial markets. The value of positions held in banking or trading portfolios can drop due to a change of interest rate, foreign exchange rate, market spreads of bonds, share prices, commodity prices, ... ČSOB is mainly exposed to market risk originating from interest rate and foreign exchange instruments.

The Bank's risk is managed by a system of limits, separate for the trading book and the banking book of the Bank. The limits are discussed by the FINTREA Committee and approved by the Bank's Board of Directors. Market risk of the trading book is evaluated on a daily basis, and market risk of the banking book is evaluated on either a weekly or monthly basis. Reports on the utilisation of limits are regularly included in risk reports submitted to the FINTREA Committee, to the Board of Directors, the Audit Committee and to the Supervisory Board of the Group.

trading book

Within ČSOB Group, only ČSOB Bank has trading activities. The ČSOB Front Office (dealing room) is primarily focused on providing customer services in foreign exchange markets, money markets, capital markets and commodities markets inclusive of derivatives instruments. ČSOB Front Office supports all financial activities of the Bank and to a limited extent trades for its own account (trading with interest rate and foreign exchange instruments). The front Office does not trade for its own account on the equities or commodities markets. The proprietary trading with options was transferred to KBC Bank in the middle of 2005, and now ČSOB is focused on trading options for clients only.

methodology

To measure and monitor interest rates and foreign exchange risks in the trading book, the Bank uses the Historical Value-at-Risk (VAR) method. This method is used to measure the potential loss of the Bank during a 10-day holding period at a 99 % one-sided confidence level, using a 250-day market data history in accordance with international standards. The accuracy of estimated results is verified through back-testing.

Standard VAR calculations are supplemented with a sophisticated system of stress tests. They consist of examples of excessive events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analyses scenarios dependent and independent of the Bank's position. Also, real historical scenarios are evaluated on a regular basis.

To supplement the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity (BPV–Basis Point Value), concentration limits and stop-loss limits.

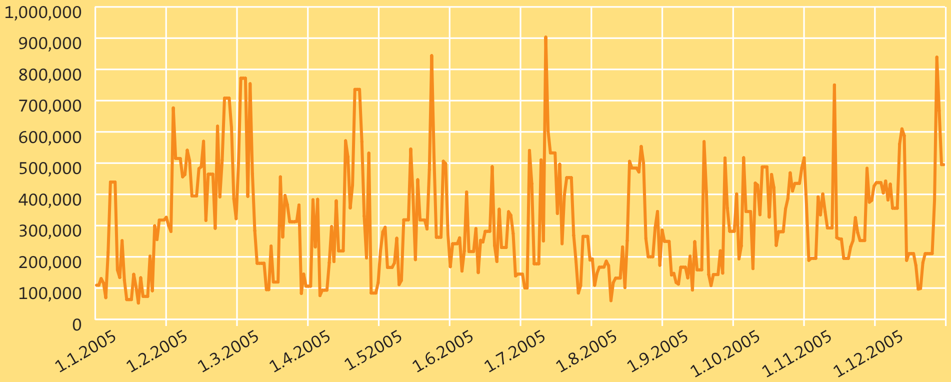
risk in 2005

The risk of ČSOB Bank's trading book is managed by a system of limits with a uniform basic structure within the whole KBC Group, supplemented by a local limits structure.

Foreign exchange risk was concentrated mainly on currency pairs based on combinations of EUR, USD, CZK and SKK currencies. The table on the next page shows utilisation of the foreign exchange Historical Value-at-Risk limit during the year 2005. The limit was used up to 90 % in extreme cases.

Within ČSOB Group, only ČSOB Bank has trading activities

VaR – Foreign exchange risk
(EUR)

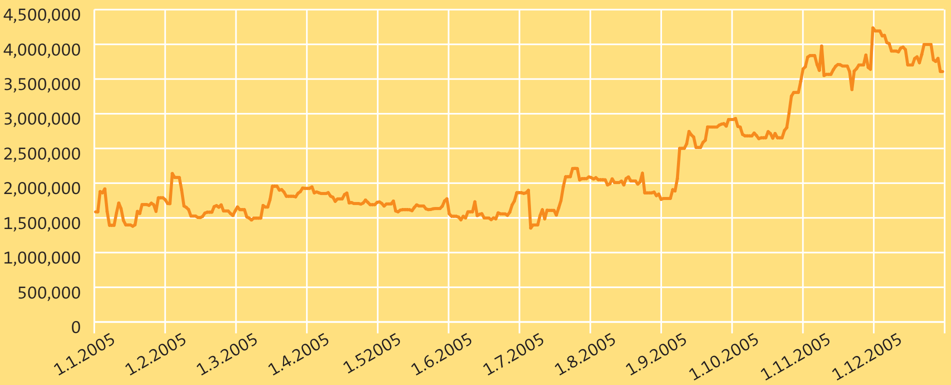


Utilisation of the Bank's limits for foreign exchange risk from trading operations (EURths)

	Average	Maximum	31.12.2005
Currency options – Scenario analysis	178	353	-
VAR – Foreign exchange risk	309	903	495

Interest rate risk. Utilisation of the limit was influenced by events on financial markets and also reflected opportunities offered by trend changes.

VaR – Intereste rate risk
(EUR)



The Bank's interest rate risk from trading operations (EUR ths)

	Average	Maximum	31.12.2005
VAR – Interest rate risk	2,229	4,238	3,608

Throughout the year, both foreign exchange risk and interest rate risk moved within the approved limits (EUR 1 m for FX VAR and EUR 4.5 m for IRR VAR).

banking book

Asset / Liability Management entails the management of the balance sheet and off-balance sheet positions that are not part of the trading book. As all positions of ČSOB subsidiaries are part of ČSOB Group banking book, risks are managed and monitored on both an individual and ČSOB Group level. Uniform risk governance and measurement principles are applied for the whole ČSOB Group.

There are two significant types of market risk in banking book:

- Foreign exchange risk – is connected with activities of clients causing differences between assets and liabilities of the Bank in foreign currencies as well as with the Bank participating interests abroad (investments in Slovak subsidiaries).
- Interest rate risk – arises from the branch network financial services to ČSOB Group clients as well as from holding an investment portfolio for the purpose of reinvesting shareholder equity.

Foreign exchange risk of the banking book is managed with the aim to minimise positions held in individual currencies. Tradable positions are transferred to the trading book. Nominal limits are used for the follow-up of the currency risk.

Interest rate risk of the banking book is managed through a system of market-oriented internal prices for products with fixed maturities.

For products with non-specified maturities (current accounts, notice deposits) a benchmark maturity mix is established with regard to the actual behavior of the products.

The bank manages all banking book positions in an interest rate risk-neutral way by using all types of deals, including derivative deals. The only exemption to the risk-neutral rule is the segregated 'Treasury position' that can hold a limited interest rate position based on the interest rate outlook and the short- and longterm interest rate spread. This position is managed directly by the FINTREA committee.

methodology

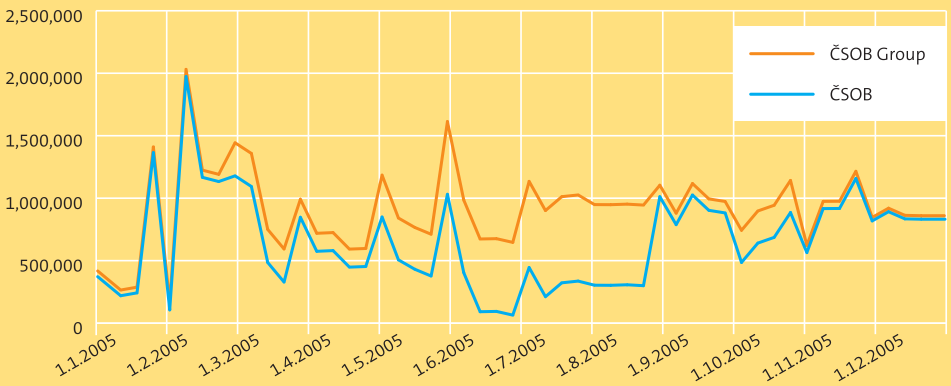
Interest rate risk of the banking book is measured by means of a system of sensitivity limits, duration and interest rate mismatch limits (interest rate gaps). Stress tests based on historical volatility of interest rates are applied as an additional measurement tool.

Uniform risk governance and measurement principles are applied for the whole ČSOB Group

The Bank's interest rate risk from banking book (10 BPV sensitivity in EUR thousands)

	Average	Maximum	31.12.2005
ČSOB Group	916	2,031	860
ČSOB	653	1,973	832
Treasury position	69	104	41

BPV – Interest rate risk
(EUR)



Throughout the year, interest rate risk moved within the approved limit of EUR 8.7 m.

liquidity risk

It is the risk of possible losses which a company may suffer if it is not able to cover its financial obligations efficiently.

Medium- and short-term liquidity is measured using liquidity ratios. These liquidity ratios are monitored for CZK and total of main currencies (CZK, SKK, EUR, and USD).

Short-term liquidity is managed on a daily basis and includes monitoring account balances with the Czech and Slovak central banks in both local currencies (CZK, SKK), management of nostro account balances in foreign currencies and, finally, management of cash balance within the Bank.

Medium- and long-term liquidity is monitored on a monthly basis in currencies in which the Bank holds a significant position. The monitoring is based on the creation of liquidity scenarios based on real cash flows reflecting the probable behaviour of individual assets and liabilities classes.

The Bank as well as the group show a balanced and sufficient liquidity by proper allocation of its sources, especially by a stable broad client base.

During 2005, the liquidity of the Bank and of the ČSOB Group was sufficient.

Stock Liquidity Ratio in 2005

	Minimum Limit	Average	31.12.2005
ČSOB Group	110 %	775 %	742 %
ČSOB	110 %	567 %	457 %

operational risk

Operational risk management in ČSOB Group is carried out in compliance with ČNB's decree No. 2/2004 Internal Management and Control System of the Bank, with the methodology applied within the KBC Group and in accordance with new capital adequacy requirements and rules of the Basel Committee on Banking Supervision (Basel 2).

Operational risk management within the ČSOB Group is conducted under the umbrella of the Operational Risk Committee. The coordination of activities and collection of data is carried out by the Risk Management unit which cooperates with local operational risk managers appointed within individual business lines and supporting units of Bank and its Subsidiaries.

Since 2004, the systematic collection of data on operational risk events is being provided in compliance with the uniform classification applied in the KBC Group. Collected data are evaluated and analysed on a regular basis. Lessons are drawn from past losses, so that they can be avoided in the future. Significant events and losses which arise due to operational risk are regularly reported to the Bank's management.

In the area of processes, the implementation of steps for risk identification, assessment, monitoring and reporting in key areas of the Bank's activities started in 2005 in compliance with experience gained within the KBC Group and according to the best international practice. Steps for operational risk mitigation are implemented continuously.

During 2005, Group standards for KBC Group entities were issued and implemented, e.g., outsourcing rules in ČSOB, Business Continuity Management. The first Scenario case study was executed, with the assessment of Financial Markets of the National Australian Bank case where the FX Options activity caused a huge operational loss.

In the area of prevention and procedures leading to reducing potential losses, business continuity plans in individual departments of the Bank with a special focus on defining crucial activities of individual departments are being developed. These procedures will be implemented in the whole ČSOB Group in 2006.

value and capital management

To be in line with new capital adequacy requirements and rules of the Basel Committee on Banking Supervision (Basel 2), and more specifically to address Pillar II, ČSOB is involved in a number of initiatives coordinated by the KBC Group, which should lead to the set-up of an economic capital framework.

compliance risk

The Compliance unit, reporting directly to the CEO, forms a part of the Bank's internal control system. In the second half of 2005, management approved a transformation plan of the Compliance unit. The objective of the plan is to increase the effectiveness of existing activities through the consistent application of a risk-based approach towards individual compliance risks. The plan envisages substantial participation of senior employees from business and supporting units in compliance risk management. In addition, the project for implementation of a more effective customer monitoring system was confirmed and Compliance completed an electronic training tool that will ensure awareness of employees in the area of money laundering prevention. It is the objective to increase the awareness of employees in compliance risks.

corporate governance

Corporate governance and administration of ČSOB is based on the principles determined and used in OECD countries. Extensive international experience of the most significant shareholders is playing an important role in this process.

The members of the Board of Directors are elected by the General Meeting of the Bank and they underwent a review by the Czech National Bank, which verifies their specialised qualifications. The Board of Directors of the company has, in conformity with the requirements of the Banking Act, a fully executive structure. The unification of the positions of Chairman of the Board of Directors and of Chief Executive Officer corresponds with this requirements too. The shareholders of the Bank and also its clients are regularly informed about the composition of the Board and about professional and personal prerequisites of its members for due performance of their positions in regular reports containing all data required by law.

The Bank's Board of Directors fulfils its tasks as a statutory body in accordance with the Statutes and applicable basic governing documents of the Bank. The Board of Directors fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code.

The Board of Directors meets regularly, once a week, and follows a fixed agenda, arranged on the basis of a strategic calendar of main topics and other documents of a more operational nature submitted by individual members of the Board of Directors for discussion. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. The director of the Bank's office is present at the sessions of this top body and fulfils the role of its secretary and is responsible for the preparation of the sessions and the taking of minutes.

The Supervisory Board of Československá obchodní banka, a. s., consists as required by the company Statutes, of nine members, of which six members are elected by the General Meeting and three members are elected by the Bank employees. During 2005, Messrs. Petr Korous and Roman Glasberger ended their term on the Supervisory Board and the employees of the company elected Mrs. Libuše Gregorová, Mrs. Martina Kopecká and Mr. František Hupka to the vacant positions.

Pursuing its work agenda, the Supervisory Board held five sessions in 2005, where it discussed topics pertaining to it. The urgent topics requiring the standpoint of the Supervisory Board in the short-term (mainly proposals for transfers of company shares) have been put on per – rollam voting, as is made possible by the company's Statutes.

The basic documents for discussions by the Supervisory Board were prepared and sent out in advance of each meeting so that the members of the Supervisory Board had enough time to study them. The members of the Board of Directors also take part in the Supervisory Board's sessions on a regular basis to present the discussed documents in person. During the discussions, the Supervisory Board specified requests for presentation of additional documents and such requests were always fulfiled at the next session.

Both working bodies of the Supervisory Board, the Committee for Audit and the Committee for Remuneration, held regular meetings and informed the Supervisory Board of their activities. The Supervisory Board approved the recommendations of both Committees regarding some specific topics discussed.

Within the framework of its empowerment, the Supervisory Board selected the external auditor of the Bank. This auditor regularly participates in discussions held by the Audit Committee and thus provides independent, comprehensive and professional supervision of the accuracy, in all material respects, of the financial statements expressing the financial condition and performance of the Bank. The corporate office provides administrative and organisational support for the Supervisory Board based on the procedural rules and the director of the office is responsible for taking minutes of the sessions.

corporate social responsibility

Being socially responsible means caring about today's inequalities among the current generations, both domestically and internationally. It also means that a company consciously takes into account, besides income and profitability, the **economic, social, environmental, and cultural effects** of the business process the company develops in the short- and long-term horizon, and includes discussing the above with all **relevant stakeholders**. ČSOB as a Czech market leader is well aware of its responsibility towards society, and has already been developing Corporate social responsibility (CSR) activities.

ČSOB is well aware of its responsibility towards society

CSR policy components

professional business ethics

ČSOB as a corporation, its employees and vendors observe moral values that do not allow concluding and implementing any deal that violates the law, sector practices, free competition rules, and a fair attitude. A top value for ČSOB is fiduciary responsibility for the entrusted funds of clients. We place customers first and foremost in all our activities. Openness, honesty, a professional and positive approach, and other principles are contained in the ČSOB Code of Employee Professional Ethics and Behaviour.

ČSOB behaves as a responsible lender. Advisory services provided to the customers are always based upon impartial, correct, complete and true information on products, services, contracts, transactions and pricing, and the possible advantages and disadvantages arising from them.

ČSOB actively prevents the legitimisation of proceeds arising from criminal activities, money laundering and the financing of terrorism by observing all necessary measures. Each and every relationship officer is informed about and trained in recognising the suspicious deals and transactions; based on the “Know Your Customer” programme, he / she is able to recognise any fundamental deviation of his / her customer from common business practice.

The Bank has also declared its internal ban on financing arms production and the arms trade; and the production of military technologies.

our employees and their families

ČSOB honours and offers equal opportunities to all and respect to individuals irrespective of gender, race, religion, and views. ČSOB compensates performance and promotes personal knowledge and the career development of its employees. The ČSOB Leadership Model motivates everyone to participate in the bank's development, promotes leadership, individual growth and personal results thus highly recognising employees who act and behave as "company owners".

The bank is well aware that an employees' performance depends on their satisfaction. Care for employees consists of social, health, and training programmes. The bank offers benefits exceeding those required by law such as flexible work hours, rest for recovery ("sick days"), on-site medical care and if needed, also financial assistance to overcome a difficult situation of illness, problems in private or family life. It also offers additional pension insurance, different forms of outplacement, etc.

attitude to the environment

Rules for providing loans for SMEs and large corporations play an important role in overall ČSOB attitudes to maintain or to improve quality of the environment. Our lending policy includes active environmental impact monitoring of our customers' production. It is our commitment to get our lending policy to always, under any circumstances, respect environmentally sustainable development. We extend the same requirements to our vendors who have to guarantee the compliance of their businesses with the basic environmental rules and regulations.

ČSOB as a good corporate citizen

We aim at improving people's lives with up-to-date, high-quality banking services and counselling demanded by the public; part of this continuous and never-ending endeavour lies in innovation and the development of modern technologies. Therefore, the customer is always at the centre of everything we do. The attributes along this road are simplification, accessibility, and price reduction.

We will always be prepared to support the development of local economies, in particular, by applying an equal approach to free international trade and buying goods and services of local origin.

We consider the not-for-profit sector an indispensable component of civil society to the development of which we contribute. Advisory services for the sector, financing, preferential management of charity funds and property as well as special terms and conditions for service drawing will always belong to our commitments towards this specific segment.

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statement by the supervisory board of ČSOB

1. The Supervisory Board has performed its tasks in compliance with Articles 197 – 201 of the Commercial Code as amended, ČSOB's Articles of Association and the Supervisory Board's Rules of Conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

2. The stand-alone financial statements of the Bank and consolidated financial statements of the Bank and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

3. The stand-alone financial statements were audited by PricewaterhouseCoopers Audit, s.r.o., Praha. The auditors have opined that the stand-alone financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Bank on a stand-alone basis as at 31 December 2005, and the stand-alone results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

   The auditors have also opined that the consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Group as at 31 December 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

4. The Supervisory Board has reviewed the 2005 stand-alone annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2005 stand-alone annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board has also checked the Board of Director's Report on Relations between Related Parties.

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PRICEWATERHOUSECOOPERS

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Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A. S.

We have audited the accompanying consolidated balance sheet of Československá obchodní banka, a. s. ("the Bank") and its subsidiaries ("the Group") as at 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended ("the consolidated financial statements"). These consolidated financial statements, which include a description of the Group's activities, and underlying accounting records are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Group as at 31 December 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

13 March 2006

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Marek Richter
Auditor, Licence No. 1800

consolidated statement of income for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	2005	Restated 2004
Interest income		26,137	24,847
Interest expense		(10,371)	(9,005)
Net interest income	3	**15,766**	**15,842**
Net fee and commission income	4	7,005	6,658
Net trading income	5	2,613	1,936
Other operating income	6	4,929	1,402
General administrative expenses	7	(15,343)	(13,877)
Other operating expenses	8	(1,031)	(1,597)
Profit before impairment losses, provisions, contribution to pension fund clients and income tax		**13,939**	**10,364**
Impairment losses on loans and advances	15	346	16
Impairment losses on available-for-sale securities	13	(51)	-
Provisions	25	(433)	(309)
Contribution to pension fund clients		(402)	(348)
Profit before income tax		**13,399**	**9,723**
Income tax expense	9	(2,896)	(2,746)
Profit for the year		**10,503**	**6,977**
Attributable to:			
Equity holders of the Bank		10,328	6,901
Minority interest		175	76

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

consolidated balance sheet as at 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	31.12.2005	Restated 31.12.2004
ASSETS			
Cash and balances with central banks	10	15,017	16,505
Due from banks	11	81,678	111,737
Financial assets at fair value through profit or loss	12	190,555	81,013
Investment securities	13	174,613	155,447
Loans and leases	14	239,357	214,608
Pledged assets	12, 13	3,969	5,771
Property and equipment	16	8,371	11,435
Goodwill	17	3,555	3,472
Other assets, including tax assets	18	14,755	8,621
Prepayments and accrued income		5,133	5,550
Total assets		**737,003**	**614,159**
LIABILITIES			
Due to banks	19	22,947	24,722
Financial liabilities at fair value through profit or loss	20	122,684	66,847
Due to customers	21	472,631	426,058
Debt securities in issue	22	38,848	24,854
Other liabilities, including tax liabilities	23	23,292	22,865
Accruals and deferred income		1,695	1,590
Provisions	25	1,429	1,166
Total liabilities		**683,526**	**568,102**
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	26	5,105	5,105
Share premium account		2,259	2,259
Statutory reserve		18,687	18,687
Cumulative gains not recognised in the statement of income		1,458	784
Retained earnings		25,441	18,873
		52,950	45,708
Minority interest		527	349
Total equity		**53,477**	**46,057**
Total liabilities and equity		**737,003**	**614,159**

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

These consolidated financial statements were approved for issue by the Board of Directors on 13 March 2006 and signed on its behalf by:

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Petr Knapp
Member of the Board of Directors
and Senior Executive Officer

consolidated statement of changes in equity for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Attributable to equity holders of the Bank						Minority interest	Total Equity
	Share capital (Note: 26)	Share premium account	Statutory reserve[1]	Cumulative gains not recognised in the income statement [2]	Treasury shares	Retained earnings		
At 1 January 2004	**5,105**	**1,439**	**19,250**	**(180)**	**(368)**	**20,917**	**457**	**46,620**
Application of revised IAS 39 (Note: 2x)	-	-	-	550	-	191	-	741
At 1 January 2004 – restated	**5,105**	**1,439**	**19,250**	**370**	**(368)**	**21,108**	**457**	**47,361**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	580	-	-	-	580
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	468	-	-	-	468
Foreign currency translation	-	-	-	10	-	-	-	10
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(285)	-	-	-	(285)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(359)	-	-	-	(359)
Net after-tax gains not recognised in the statement of income	-	-	-	414	-	-		414
Net profit	-	-	-	-	-	6,901	76	6,977
Total recognized income for 2004				414		6,901	76	7,391
Transfer from statutory reserve	-	-	(563)	-	-	563	-	-
Purchase of treasury shares	-	-	-	-	(23)	-	-	(23)
Sale of treasury shares	-	820	-	-	391	-	-	1,211
Dividends paid	-	-	-	-	-	(9,699)	-	(9,699)
Buy-out of minority shareholders	-	-	-	-	-	-	(184)	(184)
At 31 December 2004	**5,105**	**2,259**	**18,687**	**784**	**-**	**18,873**	**349**	**46,057**
Correction of opening balance due to change in the consolidation scope (Note: 39)	-	-	-	79	-	84	7	170
At 1 January 2005 – after correction	**5,105**	**2,259**	**18,687**	**863**	**-**	**18,957**	**356**	**46,227**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	335	-	-	-	335
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	1,001	-	-	-	1,001
Foreign currency translation	-	-	-	(27)	-	-	-	(27)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(227)	-	-	(4)	(231)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(487)	-	-	-	(487)
Net after-tax gains not recognised in the statement of income	-	-	-	595	-	-	(4)	591
Net profit	-	-	-	-	-	10,328	175	10,503
Total recognized income for 2005				595		10,328	171	11,094
Dividends paid (Note: 37)	-	-	-	-	-	(3,844)	-	(3,844)
At 31 December 2005	**5,105**	**2,259**	**18,687**	**1,458**	**-**	**25,441**	**527**	**53,477**

(1) Statutory reserve represents accumulated transfers from retained earnings in accordance with the Czech Commercial Code. This reserve is not distributable.

(2) Accumulated gains/(losses) not recognised in the statement of income consist of the valuation allowance for foreign currency translation adjustments of CZK (113) m, CZK (103) m and CZK (130) m as at 1 January 2004, 31 December 2004 and 31 December 2005, respectively; net gains on available-for-sale securities of CZK 603 m, CZK 898 m, CZK 977 m and CZK 1,085 m as at 1 January 2004, 31 December 2004, 1 January 2005 after correction and 31 December 2005, respectively; net gains/(losses) on derivatives used as cash flow hedges of CZK (120) m, CZK (11) m and CZK 503 m as at 1 January 2004, 31 December 2004 and 31 December 2005, respectively.

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

consolidated statement of cash flows for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	2005	Restated 2004
Cash flow from / (used in) operating activities			
Profit before income tax		13,399	9,723
Adjustments for:			
Allowances and provisions for credit losses	15	(346)	(16)
Provisions	25	433	309
Depreciation of property and equipment	7	2,140	1,988
Property impairment charge	8	296	369
Impairment on investment securities	13	51	-
Amortisation of discounts and premiums		640	227
Impairment / amortisation of goodwill	8	63	224
Net (gain) on disposal of securities other than trading		(569)	(534)
Net (gain) on disposal of property and equipment	6	(19)	(16)
Own bonds adjustment		-	(5)
Change in cumulative gains not recognized in the statement of income		705	546
Other		28	(86)
(Increase) / decrease in operating assets:			
Due from banks, non-demand		32,862	18,379
Financial assets at fair value through profit or loss		(105,224)	(14,674)
Loans and leases		(24,613)	(23,177)
Other assets		(4,581)	(1,173)
Prepayments and accrued income		437	838
Increase / (decrease) in operating liabilities:			
Due to banks, term		4,736	(162)
Financial liabilities at fair value through profit or loss		55,837	20,389
Due to customers		45,089	(15,538)
Promissory notes and certificates of deposit		8,293	9,852
Other liabilities		654	(6,316)
Accruals and deferred income		105	(360)
Net cash flow from operating activities before income tax		30,416	787
Net income tax paid		(3,591)	(265)
Net cash flow from operating activities		26,825	522
Cash flow from / (used in) investing activities			
Acquisition of Investiční a Poštovní Banka (IPB), net of cash paid		-	(4,627)
Change in consolidation scope		(30)	77
Purchase of securities		(39,234)	(68,494)
Maturity/disposal of securities		29,152	71,542
Purchase of property and equipment		(2,941)	(2,145)
Disposal of property and equipment		2,088	957
Net cash flow (used in) investing activities		(10,965)	(2,690)
Cash flow from / (used in) financing activities			
Issue of bonds		9,041	4,368
Repayment of bonds		(3,305)	(6,093)
Net sale of treasury shares		-	1,188
Increase / (decrease) in minority interests		178	(108)
(Decrease) / increase in borrowings		(5,479)	3,266
Dividends paid	37	(3,844)	(9,699)
Net cash flow (used in) financing activities		(3,409)	(7,078)
Effect of exchange rate changes on cash and cash equivalents		(145)	(3)
Net increase / (decrease) in cash and cash equivalents		**12,306**	**(9,249)**
Cash and cash equivalents at beginning of year	30	14,081	23,330
Net increase / (decrease) in cash and cash equivalents		12,306	(9,249)
Cash and cash equivalents at the end of year	30	**26,387**	**14,081**

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

notes to the consolidated financial statements for the year ended 31 december 2005

(According to International Financial Reporting Standards as adopted by the European Union)

1. introduction

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company. It is a universal bank operating in the Czech Republic and the Slovak Republic providing a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies to its domestic and foreign customers. Furthermore, the ČSOB Group provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing and factoring and distributes life and non-life insurance products of other related entities.

2. summary of significant accounting policies

a) basis of presentation

ČSOB Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS). They have been prepared under the historical cost convention modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The financial statements are expressed in millions of Czech Crowns (CZKm). Certain prior period amounts have been reclassified to conform to current year classifications.

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, include classification of securities as held-to-maturity (Note: 13), assets held for sale (Note: 18), include allowances for credit losses (Note: 15), provisions (Note: 25), fair value of financial instruments (Note: 12, 20), deferred income tax (Note: 24), other contingent liabilities (Note: 28), impairment of securities in available-for-sale portfolio (Note: 13) and impairment of goodwill (Note: 17) and are disclosed further.

b) consolidation

Consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries) and all companies jointly controlled by the Bank (joint ventures).

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note: 2p).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint control exists when two or more venturers are bound by a contractual arrangement, which includes the establishment of joint control.

Joint ventures included in the Group consolidation are proportionally consolidated, which requires a venturer's share of the assets, liabilities, income and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis.

c) segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

d) foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Czech Crowns, which is the Bank's presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income, except when deferred in equity as qualifying net investment hedges.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities at the year-end exchange rates;
– income and expenses at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
– all resulting exchange differences are recognised as a separate component of equity in Cumulative gains not recognised in the statement of income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to Cumulative gains not recognised in the statement of income. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

e) interest income and expense

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

f) fees and commissions paid and received

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised ratably over the period the service is provided.

g) contribution to pension fund clients

The Group owns pension funds in the Czech Republic. Under the relevant Czech legislation, at least 85 % of the annual profit of these funds should be allocated to the pension fund members. This contribution to the pension fund members is shown on the face of the income statement.

h) financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

They are classified based on management's intention at inception.

financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable.

held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Net trading income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are included in Cumulative gains not recognised in the statement of income on an after-tax basis, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in Cumulative gains not recognised in the statement of income is reversed and included in Other operating income. Interest income arising from available-for-sale assets calculated using the effective interest method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Other operating income.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

i) fair valuation

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using the quoted market prices if there is a published price quotation in an active public market. For financial instruments that are not traded on an active public market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate and estimates of future cash flows.

j) recognition and derecognition of financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Group becomes party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred. A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net trading income and Cumulative gains not recognised in the statement of income, respectively. On settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

k) derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised in the balance sheet at fair value (including transaction costs) and subsequently are remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives at fair value through profit or loss are included in the Net trading income.

The Group uses derivatives, designated on the date a contract is entered into, as hedging as cash flow hedges to manage the Group's interest rate sensitivity. Cash flow hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

– formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
– the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
– the hedge is highly effective on an ongoing basis. A derivative is considered highly effective if the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in Cumulative gains not recognised in the statement of income. The ineffective portion is recorded directly in Net trading income. Amounts in Cumulative gains not recognised in the statement of income are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed related remaining amounts in Cumulative gains not recognised in the statement of income are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur related remaining amounts in Cumulative gains are reclassified immediately to the statement of income.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in Cumulative gains not recognised in the statement of income. Gain or loss relating to the ineffective portion is recognised immediately in the statement of income. Gains and losses accumulated in equity are included in the statement of income when the foreign operation is disposed of.

The Group occasionally purchases or issues financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If the separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value on the balance sheet with changes in fair value reflected in the statement of income.

l) securities repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as Pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks, Financial liabilities at fair value through profit or loss or Due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as Due from banks, Financial assets at fair value through profit or loss or Loans and leases, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in net trading income. The obligation to return them is recorded at fair value as a financial liability at fair value through profit or loss.

m) leases

group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period 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.

group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

n) impairment of financial assets

assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. The assets are grouped at the lowest levels for which there are identifiable cash flows (cash-generating units). This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principle payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written-off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for loan impairment in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

o) property and equipment

Property and equipment includes Group occupied properties, software, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and periodically reviewed for permanent impairment in value.

Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
Leasehold improvements	Expected life of the lease
Furniture	6 years
Equipment	4–30 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included as a net amount in Other operating income.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When it is highly probable that an asset will be sold, such an asset is classified as held for sale (as part of Other assets, including tax assets) at the lower of its carrying amount and fair value less costs to sell.

p) goodwill

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business or subsidiary company, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash-generating unit, that is expected to benefit from the synergies of the combination. Cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

q) income taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset only within the individual Group companies.

Deferred tax related to fair value movements of cash flow hedges, available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Other assets, including tax assets and a net deferred tax liability under Other liabilities, including tax liabilities.

r) due to banks, due to customers and debt securities in issue (funding)

Funding is recognised initially at the fair value of the consideration received net of transaction costs incurred and then carried subsequently at amortised cost.

s) provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

t) employee retirement benefits

Pensions are provided by the Czech Republic and Slovak Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating Czech Republic and Slovak Republic employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the statement of income as they are made.

u) offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

v) cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding Mandatory minimum reserves), trading assets, debt securities, due from banks repayable on demand and due to banks repayable on demand.

w) fiduciary activities

The Group commonly acts in fiduciary capacities that result in the holding or placing of assets on behalf of individuals and institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

x) IFRS / IAS accounting and reporting developments

In 2005, the Group commenced to apply the following standards, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements:

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004)	Share-based Payment
IFRS 3 (issued 2004)	Business Combinations
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

Adoption of IAS 1, 8, 10, 16, 21, 24, 27, 28, 32 (all revised 2003), 36, 38 (both revised 2004) and IFRS 2 and 5 did not result in substantial changes to the Group's accounting policies. In summary:

– IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures.
– IAS 8, 10, 16, 27, 28, 32 (all revised 2003) and IAS 36, 38 (both revised 2004) and IFRS 2 and 5 had no material effect on the Group's policies.
– IAS 21 (revised 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.
– IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

Adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– amortised on a straight line basis over a period of 20 years; and
– assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS (Note: 2p):

– the Group ceased amortisation of goodwill from 1 January 2005;
– accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
– from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

Adoption of IAS 17 (revised 2003) resulted in an increase in Retained earnings of CZK 107 m. The prior year financial statements were not restated.

The most significant impact of the new standards came from reclassification and subsequent restatement at fair value of securities classified as originated by the enterprise (IAS 39 – revised 2003). Both these changes has been applied retrospectively, as if they had always been in use. The following are the financial reporting impacts from the changes:

– increase in Net trading income of CZK 146 m for 2004,
– increase in Income tax expense of CZK 61 m for 2004,
– decrease in Due from banks of CZK 5,143 m and CZK 3,611 m as at 31 December 2004 and 1 January 2004, respectively,
– increase in Financial assets at fair value through profit or loss of CZK 7,552 m and CZK 3,153 m as at 31 December 2004 and 1 January 2004, respectively,
– increase in Investment securities of CZK 33,915 m and CZK 40,080 m as at 31 December 2004 and 1 January 2004, respectively,

– decrease in Loans and leases of CZK 34,435 m and CZK 38,514 m as at 31 December 2004 and 1 January 2004, respectively,
– decrease in Other assets, including tax assets of CZK 255 m and CZK 214 m as at 31 December 2004 and 1 January 2004, respectively,
– decrease in Prepayments and accrued income of CZK 758 m and CZK 149 m as at 31 December 2004 and 1 January 2004, respectively,
– increase in Other liabilities, including tax liabilities of CZK 6 m and CZK 3 m as at 31 December 2004 and 1 January 2004, respectively,
– increase in Cumulative gains not recognised in the statement of income of CZK 597 m and CZK 550 m as at 31 December 2004 and 1 January 2004, respectively,
– increase in Retained earnings of CZK 276 m and CZK 191 m as at 31 December 2004 and 1 January 2004, respectively.

Certain new standards, amendments and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss, except for certain debt securities, promissory notes issued, repo transactions and term deposits received. The Group believes that these instruments meet the definition of 'at fair value through profit or loss' category as restricted by the amendment to IAS 39.

IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

Other new standards, amendments or interpretations. The Group has not early adopted the following other new standards, amendments or interpretations:

- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic

Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006);

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

Unless otherwise described above, the new standards, amendments and interpretations are not expected to significantly affect the Group's financial statements.

3. net interest income

(CZKm)	2005	Reclassified 2004
Interest income		
Mandatory minimum reserves with central banks	148	174
Due from banks	2,108	3,001
Financial assets at fair value through profit or loss	4,619	3,422
Investment securities	6,373	5,867
Loans and leases	12,889	12,383
	26,137	**24,847**
Interest expense		
Due to banks	2,494	799
Financial liabilities at fair value through profit or loss	772	654
Due to customers	6,108	6,622
Debt securities in issue	988	920
Discount amortisation on other provisions (Note: 25)	9	10
	10,371	**9,005**
Net interest income	**15,766**	**15,842**

Included within interest income is CZK 158 m (2004: CZK 129 m) with respect to interest income accrued on impaired financial assets.

4. net fee and commission income

(CZKm)	2005	2004
Fee and commission income	8,489	8,053
Fee and commission expense	(1,484)	(1,395)
	7,005	**6,658**

5. net trading income

Net trading income, as reported in the statement of income, does not include net interest recognised on interest-earning and interest-bearing trading positions. Net trading income and trading-related net interest income are set out in the table below to provide a fuller presentation of the Group's trading income:

(CZKm)	2005	Restated 2004
Net trading income – as reported	2,613	1,936
Net interest income (Note: 3)	3,847	2,768
	6,460	**4,704**
Foreign exchange	2,321	2,054
Fixed-income securities and money market	4,412	3,377
Interest rate contracts	(273)	(860)
Equity shares	-	133
	6,460	**4,704**

Included within Net trading income are gains of CZK 281 m (2004: CZK 146 m) and included within trading-related net interest income is net interest of CZK 378 m (2004: CZK 227 m) relating to those financial instruments that were designated as at fair value through profit or loss on initial recognition. Net foreign exchange gains include results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations.

6. other operating income

(CZKm)	2005	Reclassified 2004
Income from settlement of Slovenská inkasná (Note: 14)	3,022	-
Net gain from derecognition of available-for-sale financial assets	564	327
Release of impairment on property and equipment	467	50
Operating leasing and rental income	382	317
Dividend income	71	35
Net gain on disposal of property and equipment	19	16
Net gain on disposal of securities purchased on primary market	5	207
Other	399	450
	4,929	**1,402**

7. general administrative expenses

(CZKm)	2005	2004
Personnel expenses	6,216	5,929
Depreciation of property and equipment (Note: 16)	2,140	1,988
Other general administrative expenses	6,987	5,960
	15,343	**13,877**

personnel expenses

(CZKm)	2005	2004
Salaries and bonuses	4,444	4,170
Salaries and other short-term benefits of key management	69	58
Social security costs	1,507	1,428
Other pension costs, including retirement benefits	196	273
	6,216	**5,929**

management bonus scheme

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval of the Compensation Committee of the Supervisory Board. The key performance indicator of the Annual Performance Bonus is based on the growth of the net consolidated profit per share within the calendar year. As a motivating tool, the members of the Board of Directors were participating within 2000–2003 in a Share Purchase Programme that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. The second stage of the Programme originally launched for the years 2004–2006 was cancelled with retrospective effect in February 2006 and replacement is currently under negotiation.

For his membership in the Supervisory Board only the Chairman is remunerated.

retirement benefits

The Bank provides its Czech Republic employees (including key management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1 % or 2 % of their salaries to the ČSOB Penzijní fond Stabilita, a.s. or ČSOB Penzijní fond Progres, a.s., wholly-owned subsidiaries of ČSOB, with a contribution of the Bank of 2 % or 3 % of their salaries, respectively.

other general administrative expenses

(CZKm)	2005	Reclassified 2004
Information technology	1,624	1,256
Marketing and public relations	1,143	797
Rent and maintenance	941	734
Retail service fees	817	787
Telecommunications and postage	636	667
Professional fees	315	303
Administration	281	272
Power and fuel consumption	166	155
Travel and transportation	155	153
Training	120	99
Insurance	79	73
Other	710	664
	6,987	**5,960**

8. other operating expenses

(CZKm)	2005	Reclassified 2004
Deposit insurance	488	828
Property revaluation charge (Note: 16)	296	369
Goodwill impairment (Note: 17)	63	-
Amortisation of goodwill (Note: 17)	-	224
Other	184	176
	1,031	**1,597**

9. income tax expense

(CZKm)	2005	Restated 2004
Current tax expense	3,080	3,892
Previous year over accrual	(331)	(109)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences (Note:24)	147	(1,037)
	2,896	**2,746**

Further information about deferred income tax is presented in Note: 24. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

(CZKm)	2005	Restated 2004
Profit before taxation	13,399	9,723
Applicable tax rates	26 %	28 %
Taxation at applicable tax rates	3,484	2,722
Previous year over accrual	(331)	(109)
Tax effect of non-taxable income	(970)	(1,117)
Tax effect of non-deductible expenses	647	1,418
Prior years' deferred tax that will not reverse	-	(148)
Effect of foreign taxes	(20)	(18)
Effect on opening deferred taxes due to reduction in tax rate	89	19
Other	(3)	(21)
	2,896	**2,746**

10. cash and balances with central banks

(CZKm)	31.12.2005	31.12.2004
Cash on hand	7,095	7,969
Balances with central banks	6,808	7,357
Other cash values	1,114	1,179
	15,017	**16,505**

Mandatory minimum reserves are not available for use in the Group's day to day operations. Mandatory minimum reserves as at 31 December 2005 represented CZK 4,943 m (31 December 2004: CZK 5,399 m).

The Czech National Bank (CNB) has paid interest on mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on mandatory minimum reserve balances at 1.5 % in both 2005 and 2004.

11. due from banks

(CZKm)	31.12.2005	Restated 31.12.2004
Analysed by product and bank domicile:		
Current accounts		
domestic	655	187
foreign	1,213	1,274
Term placements		
domestic	7,124	4,973
foreign	185	14,240
Loans		
domestic	47,759	74,387
foreign	24,769	16,785
	81,705	111,846
Allowance for credit losses (Note: 15)	(27)	(109)
Net due from banks	**81,678**	**111,737**

Gross non-performing due from banks amounted to CZK 36 m at 31 December 2005 (31 December 2004: CZK 699 m).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans) as at 31 December 2005 was CZK 47,991 m, of which CZK 4,558 m has been sold or repledged (31 December 2004: CZK 71,718 m and CZK 2,583 m respectively). Under reverse repo transactions, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

12. financial assets at fair value through profit or loss (including trading assets)

(CZKm)	31.12.2005	Restated 31.12.2004
Trading assets		
Treasury bills	4,546	19,733
Reverse repo transactions	108,141	17,916
Debt securities	14,594	10,856
Equity shares	-	739
Derivative contracts (Note: 29)	6,232	4,162
Term deposits placed with banks	40,486	20,504
	173,999	73,910
Financial assets at fair value through profit or loss designated at inception		
Debt securities	17,446	7,552
Assets pledged as collateral in repo transactions	(890)	(449)
Total reduced by pledged assets	**190,555**	**81,013**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2005 was CZK 108,105 m of which CZK 10,417 m has been either sold or repledged (31 December 2004: CZK 20,763 m and CZK Nil respectively). Under reverse repo transactions, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

See Note: 29 for additional information on trading derivative contracts, including credit risk.

13. investment securities

(CZKm)	31.12.2005	Restated 31.12.2004
Securities available-for-sale – at fair value		
Treasury bills	1,212	4,485
Debt securities	63,002	52,452
Equity securities	3,260	5,712
Provisions for impairment	(51)	-
Total available-for-sale portfolio	67,423	62,649
Securities held-to-maturity – at amortised cost		
Treasury bills	8,848	5,059
Debt securities	101,421	93,061
Total held-to-maturity portfolio	110,269	98,120
Total securities	**177,692**	**160,769**
Securities pledged as collateral in repo transactions	(3,079)	(5,322)
Total securities reduced by pledged assets	**174,613**	**155,447**

Schedule of Activity in Investment Securities

(CZKm)	2005 Available-for-sale	2005 Held-to-maturity	2005 Total	Restated 2004 Total
At 1 January	62,650	98,119	160,769	171,264
Exchange adjustments	(614)	(717)	(1,331)	(3,039)
Purchases	20,037	28,512	48,549	63,100
Disposals (sales or redemption)	(13,549)	(15,033)	(28,582)	(71,009)
Change in consolidation scope	(1,297)	-	(1,297)	(121)
Amortisation of discounts and premiums	(170)	(612)	(782)	(719)
Gains from changes in fair value	275	-	275	801
Provisions for impairment	(51)	-	(51)	-
Other	142	-	142	492
At 31 December	**67,423**	**110,269**	**177,692**	**160,769**

14. loans and leases

(CZKm)	31.12.2005	Restated 31.12.2004
Analysed by category of borrower:		
Czech Ministry of Finance (reflecting Slovenská inkasná – see Slovenská inkasná note below)	-	21,332
Government bodies	8,816	20,126
Industrial companies	39,382	31,982
Retail customers	84,188	60,407
Other service companies	47,359	31,500
Trade companies	26,512	19,719
Finance lease customers	26,366	24,985
Other	13,084	10,363
Gross loans and leases	245,707	220,414
Allowance for credit losses (Note: 15)	(6,350)	(5,806)
Net loans and leases	**239,357**	**214,608**

Finance lease receivables may be analysed as follows:

(CZKm)	31.12.2005	31.12.2004
Not later than 1 year	16,369	14,057
Later than 1 year and not later than 5 years	12,558	13,505
Later than 5 years	85	27
Gross investment in finance leases	29,012	27,589
Unearned future finance income on finance leases	(2,646)	(2,604)
Net investment in finance leases	**26,366**	**24,985**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	14,555	12,453
Later than 1 year and not later than 5 years	11,735	12,508
Later than 5 years	76	24
Net investment in finance leases	**26,366**	**24,985**

The allowance for uncollectible finance lease receivables included in the provision for credit losses amounted to CZK 835 m at 31 December 2005 (31 December 2004: CZK 673 m).

Finance lease receivables are fully collateralised by leased items. Leasing companies maintain legal ownership of the respective collateral.

Gross non-performing loans and leases amounted to CZK 4,092 m at 31 December 2005 (31 December 2004: CZK 3,752 m).

Slovenská inkasná (SI)

After more than 7 years of arbitration between the Bank and the Slovak Ministry of Finance (SMoF) under the auspices of the International Centre for Settlement of Investment Disputes (ICSID) in Washington, D.C., on 29 December 2004 the ICSID Tribunal issued a final award. The Award required the Slovak Republic to pay within 30 days from the date of the Award compensation of SKK 24,879 m and USD 10 m as a contribution to ČSOB's arbitration proceeding costs. Thereafter, the awarded amounts accumulate interest at 5 % p.a. until paid.

On 10 February 2005 ČSOB and SMoF concluded an agreement (Settlement Agreement), which stipulated conditions for the settlement of the Award. Based on the Settlement Agreement SMoF paid an advance of SKK 16,000 m to ČSOB on 11 February 2005. The remaining balance was settled on 30 December 2005.

In 1997 the Bank's Czech-state shareholders pledged their support in principle to protect the Bank against negative financial or regulatory impacts that may arise from the SI issue. The Czech Ministry of Finance (CMoF) agreed in the Stabilisation Agreement executed on 25 June 1998 to advance ČSOB an amount equal to 90 % of the outstanding balance of SI's debt to the Bank including interest. As a condition for receiving that support, the Bank was obliged to continue using its best efforts to enforce its rights as creditor of SI and against the Slovak Republic by all means available to it. In consequence of the extension of the ICSID arbitration the Stabilisation agreement was amended in 2001 and 2004 and the state support was postponed.

Based on the ICSID award and the Settlement Agreement, the Stabilisation Agreement signed between the Bank and CMoF was amended again. The third amendment to the Stabilisation Agreement was concluded on 10 February 2005 specifying the conditions for final settlement of the Stabilisation Agreement. Under this amendment 85 % of the amount awarded by the ICSID Tribunal was offset against the receivable from the CMoF. By the end of 2005, all payments due under the Stabilisation agreement from CMoF were received by the Bank.

In accordance with the terms of the Settlement Agreement and Stabilisation Agreement and the fact that all relevant payments were received, the Bank ceased to recognize the receivable from the CMoF, contingent receivable from SMoF and contingent liability towards CMoF in 2005 (Note: 27). The final SI settlement resulted in one off income of CZK 3,022 m, recorded as Other operating income (Note: 6).

15. credit losses

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2005 and 2004:

(CZKm)	2005	2004
At 1 January	6,697	10,744
Change of consolidation scope	-	5
Write-offs	(1,036)	(4,531)
Recoveries	1,724	1,162
Net decrease in credit loss allowance and provisions	(346)	(16)
Foreign currency translation and other adjustments	(8)	(187)
Transfers	-	(480)
31 December	**7,031**	**6,697**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2005 and 2004 are distributed as follows:

(CZKm)	31.12.2005	31.12.2004
Allowance for credit losses		
Loans and leases (Note: 14)	6,350	5,806
Due from banks (Note: 11)	27	109
Provisions for guarantees and undrawn credit lines (Note: 27)	654	782
	7,031	**6,697**

16. property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2004	11,505	10,026	769	22,300
Exchange adjustments	(2)	(3)	-	(5)
Change in consolidation scope	-	370	7	377
Transfers	307	960	(1,267)	-
Additions	41	720	1,384	2,145
Disposals	(622)	(717)	(539)	(1,878)
At 31 December 2004	11,229	11,356	354	22,939
Exchange adjustments	(50)	(35)	-	(85)
Change in consolidation scope	17	46	-	63
Transfers	186	1,793	(1,979)	-
Additions	1	190	1,892	2,083
Disposals	(2,180)	(1,408)	-	(3,588)
Transfers to assets held-for-sale (Note: 18)	(2,714)	-	-	(2,714)
At 31 December 2005	6,489	11,942	267	18,698
Accumulated depreciation and impairment				
At 1 January 2004	2,917	6,949	-	9,866
Exchange adjustments	(1)	(6)	-	(7)
Change in consolidation scope	-	235	-	235
Disposals	(176)	(588)	-	(764)
Impairment utilization and release	(183)	-	-	(183)
Impairment charge (Note: 8)	369	-	-	369
Charge for the year (Note: 7)	337	1,651	-	1,988
At 31 December 2004	3,263	8,241	-	11,504
Exchange adjustments	(9)	(19)	-	(28)
Change in consolidation scope	2	36	-	38
Disposals	(762)	(1,111)	-	(1,873)
Impairment utilization and release	(504)	-	-	(504)
Impairment charge (Note: 8)	169	127	-	296
Charge for the year (Note: 7)	680	1,460	-	2,140
Transfers to assets held-for-sale (Note: 18)	(1,246)	-	-	(1,246)
At 31 December 2005	1,593	8,734	-	10,327
Net book value				
At 1 January 2004	**8,588**	**3,077**	**769**	**12,434**
At 31 December 2004	**7,966**	**3,115**	**354**	**11,435**
At 31 December 2005	**4,896**	**3,208**	**267**	**8,371**

17. goodwill

(CZKm)	2005	2004
Net book value		
At 1 January	3,471	3,798
Impairment charge (Note: 8)	(63)	-
Other acquisitions	147	8
Net changes in IPB goodwill	-	(110)
Amortisation (Note: 8)	-	(224)
31 December	**3,555**	**3,472**

Goodwill has been allocated to acquired subsidiaries (CZK 866 m) and the Retail / SME segment (CZK 2,689 m), each representing a cash-generating unit. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by management covering a three-year period, and a discount rate based on the zero coupon rate adjusted by country risk factor. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. The discount rate varies from 8.60 % to 9.58 % in the ten-year period. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount (Note: 31).

18. other assets, including tax assets

(CZKm)	31.12.2005	Restated 31.12.2004
Other debtors, net of provisions	6,013	3,963
Hedging derivative contracts (Note: 29)	3,449	2,785
Other receivables from clients	2,129	164
Assets held-for-sale (Note: 16)	1,468	-
Net deferred tax asset (Note: 24)	620	894
Estimated receivables	552	154
Current income tax receivable	156	39
Items in the course of collection	94	275
Receivables from securities clearing entities	80	25
VAT and other tax receivables	78	8
Other clearing accounts	-	263
Other	116	51
	14,755	**8,621**

19. due to banks

(CZKm)	31.12.2005	31.12.2004
Analysed by product and bank domicile:		
Current accounts		
domestic	117	416
foreign	2,813	2,607
Term deposits		
foreign	3,910	113
Borrowings		
domestic	2,131	7,012
foreign	13,976	14,574
Total due to banks	**22,947**	**24,722**

20. financial liabilities at fair value through profit or loss (including trading liabilities)

(CZKm)	31.12.2005	31.12.2004
Trading liabilities		
Securities sold, not yet purchased	61	3,744
Derivative contracts (Note: 29)	7,280	6,095
	7,341	9,839
Financial liabilities at fair value through profit or loss designated at inception		
Promissory notes	4,494	7,669
Repo transactions	19,102	3,187
Term deposits	91,747	46,152
	115,343	57,008
	122,684	**66,847**

See Note: 29 for additional information on trading derivative contracts, including credit risk.

21. due to customers

(CZKm)	31.12.2005	31.12.2004
Analysed by product:		
Current accounts	225,612	186,204
Term deposits	247,019	239,854
Total due to customers	**472,631**	**426,058**
Analysed by customer type:		
Individuals and households	269,724	257,562
Private companies and entrepreneurs	90,865	83,591
Foreign	53,476	41,654
Government bodies	26,737	13,231
Liability to pension fund policy holders	12,402	8,788
Other financial institutions	9,313	6,801
Non-profit institutions	7,631	10,735
Insurance companies	2,483	3,696
Total due to customers	**472,631**	**426,058**

22. debt securities in issue

Issue date	Currency	Maturity date	Effective interest rate	31.12.2005 (CZKm)	31.12.2004 (CZKm)
Bonds issued:					
May 2000	CZK	May 2005	6.59 %	-	1,430
December 2000	CZK	December 2005	6.57 %	-	1,875
May 2002	CZK	May 2007	4.60 %	1,208	1,268
December 2002	CZK	December 2007	PRIBOR 12M-0.30 %	493	502
February 2003	CZK	February 2008	3.09 %	848	746
June 2003	CZK	June 2008	2.67 %	450	450
September 2003	SKK	September 2008	4.94 %	192	197
September 2003	CZK	September 2008	3.31 %	1,376	1,269
November 2003	CZK	November 2010	3.79 %	410	399
February 2004	CZK	February 2009	3.56 %	1,329	1,131
March 2004	CZK	December 2008	8.64 %	20	55
June 2004	CZK	June 2009	3.95 %	1,393	868
June 2004	CZK	June 2009	PRIBOR 12M-0.11 %	441	861
October 2004	SKK	October 2009	4.80 %	479	492
November 2004	CZK	November 2007	3.39 %	9	10
January 2005	CZK	January 2010	3.35 %	1,099	-
March 2005	CZK	March 2008	2.73 %	1,047	-
May 2005	CZK	May 2010	2.84 %	915	-
September 2005	CZK	September 2020	3.14 %	319	-
October 2005	CZK	October 2015	PRIBOR 12M+0.05 %	3,216	-
November 2005	CZK	November 2015	4.60 %	1,397	-
November 2005	SKK	November 2010	2.90 %	613	-
				17,254	**11,553**
Promissory notes				21,588	13,295
Certificates of deposit				6	6
Total debt securities in issue				**38,848**	**24,854**

23. other liabilities, including tax liabilities

(CZKm)	31.12.2005	Restated 31.12.2004
Items in the course of transmission	9,865	5,861
Other creditors	3,877	4,610
Other clearing accounts	2,589	2,280
Estimated payables	2,229	1,692
Current income tax payable	1,126	1,964
Payables to securities clearing entities	1,025	299
Provisions for guarantees and undrawn credit lines (Note: 27)	654	782
Hedging derivative contracts (Note: 29)	431	1,649
VAT and other tax payables	294	297
Current accounts from which value was collected	81	314
Net deferred tax liability (Note: 24)	50	84
Liability to Česká finanční, s.r.o.	-	2,461
Other	1,071	572
	23,292	**22,865**

The last instalment related to IPB obligations to repurchase former Banka Haná bad loans from Česká finanční, s.r.o. in connection with the CNB-sponsored restructuring of that bank was paid on 31 July 2005 as had been agreed in the Settlement Agreement signed on 13 August 2003.

24. deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using the 24 % income tax rate enacted for 2006 onward (26 % for 2005).

The movement on the deferred income tax account is as follows:

(CZKm)	2005	Restated 2004
At 1 January	810	(121)
Income statement (debit) / credit (Note: 9)	(147)	1,037
Available-for-sale securities		
Fair value remeasurement	8	(130)
Transfer to net profit	50	42
Cash-flow hedges		
Fair value remeasurement	(318)	(168)
Transfer to net profit	154	126
Change of consolidation scope	14	23
Exchange differences	-	1
At 31 December	**571**	**810**

Deferred income tax asset and liability are attributable to the following items:

(CZKm)	31.12.2005	Restated 31.12.2004
Deferred income tax asset (Note: 18)		
Legal claim	293	318
Impairment of occupied properties	224	309
Provisions	184	209
Allowances for credit losses	167	312
Interest rate bonus	167	127
Finance lease	-	(126)
Cash flow hedges	(159)	-
Available-for-sale securities	(260)	(265)
Other temporary differences	4	10
	620	**894**
Deferred income tax liability (Note: 23)		
Finance lease	149	30
Trading assets and liabilities valuation	-	34
Allowances for credit losses	(148)	-
Other temporary differences	49	20
	50	**84**

The deferred tax (debit) / credit in the statement of income comprises the following temporary differences:

(CZKm)	31.12.2005	Restated 31.12.2004
Interest rate bonus	45	13
Allowances for credit losses	40	271
Provisions	14	36
Legal claim	-	318
Prior years' deferred tax that will not reverse	-	148
Finance lease valuation	(1)	123
Trading assets valuation	(37)	61
Available-for-sale securities	(46)	99
Impairment of occupied properties	(67)	8
Other temporary differences	(6)	(21)
Deferred tax expense resulting from reduction in tax rate	(89)	(19)
	(147)	**1,037**

The Bank's management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities.

25. provisions

(CZKm)	Litigation and other losses	Combination restructuring charges	Staff reduction charges	Onerous rent contract losses	Total
At 1 January 2005	770	19	156	221	1,166
Net provision charge	254	-	184	(5)	433
Discount amortisation (Note: 3)	-	-	-	9	9
Utilised during year	(31)	(19)	(80)	(49)	(179)
At 31 December 2005	**993**	**-**	**260**	**176**	**1,429**

The provision for litigation and other losses is not discounted to its net present value, as the moment of its utilisation could not be predicted with sufficient certainty. The discounting effect on the provision for combination restructuring charges and staff reduction charges is negligible.

combination restructuring charges

As part of its efforts to gain further cost synergies from the acquisition of IPB, ČSOB announced a programme to close redundant branches throughout the Czech Republic.

staff reduction charges

In 2004 the Bank announced a program to reduce the total number of personnel by approximately 350. A charge of CZK 123 m was recorded in 2004 to cover related costs. By the end of 2005 approximately 95 % of the total planned reduction was achieved. In 2005 another staff reduction program started, which aims to reduce the number of personnel by approximately a further 500. A charge of CZK 220 m was recorded in 2005.

onerous rent contract losses

ČSOB assumed a number of leasehold property arrangements from IPB in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000. This provision represents the present value of the future net rental losses that will arise.

26. share capital and treasury shares

The total authorised share capital as at 31 December 2005 and 2004 was CZK 5,105 m made up of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

All shareholders are entitled to one vote for every CZK 1,000 of nominal value owned. Shares are transferable upon approval of the Bank's Supervisory Board.

There were no Treasury shares held by the Group at 31 December 2005 and 2004.

27. contingent asset, liabilities and commitments

	31.12.2005		31.12.2004	
(CZKm)	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
Contingent asset				
Slovenská inkasná loan (Note: 14)	-	-	30,788	-
Contingent liabilities				
Czech Ministry of Finance (Note: 14)	-	-	30,788	-
Guarantees issued	19,967	10,293	15,632	7,176
	19,967	**10,293**	**46,420**	**7,176**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	81,970	36,158	59,639	27,128
Documentary credits	1,876	888	1,005	450
	83,846	**37,046**	**60,644**	**27,578**
Provisions for guarantees and undrawn credit lines (Notes: 15 and 23)	654		782	

The above contractual amounts represent the maximum credit risk which would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements. Risk weighted amounts represent the on-balance sheet credit risk equivalents of the contractual amounts, weighted by customer risk factors, calculated in accordance with the Czech National Bank guidelines for capital adequacy measurement purposes. The calculation aims to achieve a measure of credit exposure arising from those instruments.

28. other contingent liabilities

a) litigation

Other than the litigation for which provisions have already been raised in (Note: 25), the Group is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Group will result from the ultimate resolution of these legal actions.

Additionally, there is a number of various claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but Management is not able to reliably estimate the total effective claim, since the claims are not mutually exclusive. Management believes that such claims are unfounded and potential losses arising from such claims are covered by respective guarantee agreements and thus they represent no risk of material impact on the financial position of the Group.

Further, the Group has initiated a number of legal actions to protect its assets.

b) taxation

Czech and Slovak tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

c) assets under management and custody

Assets managed by the Group on behalf of others amounted to CZK 90,345 m as at 31 December 2005 (31 December 2004: CZK 48,886 m). Assets held by the Group under custody arrangements amounted to CZK 183,042 m as at 31 December 2005 (31 December 2004: CZK 146,379 m).

d) operating lease commitments

Future minimum lease payments under land and building operating leases are as follows:

(CZKm)	31.12.2005	31.12.2004
Not later than 1 year	97	21
Later than 1 year and not later than 5 years	180	168
Later than 5 years	142	175
	419	**364**

The above operating leases can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

e) commitments

Capital expenditure contracted at the balance sheet date but not yet incurred in respect of the Group's new head office building is CZK 2.7 bn (2004: CZK 2.7 bn).

29. derivatives

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties to the derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Further, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

There are no significant concentrations of trading and hedging derivative credit exposures other than with the international banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Group's own risks.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives include also those derivatives which are used for asset and liability management (ALM) purposes to manage interest rate position of the Banking Book and which do not meet criteria of hedge accounting. The Group used single currency interest swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2005 and 2004 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

	31.12.2005			31.12.2004		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	237,807	3,095	4,461	131,528	1,924	3,410
Forwards	67,412	45	66	106,809	104	120
Written options	13,167	-	12	7,920	1	6
Purchased options	13,557	15	-	7,920	6	-
	331,943	**3,155**	**4,539**	**254,177**	**2,035**	**3,536**
Foreign exchange contracts						
Swaps	195,346	2,435	1,813	75,922	1,808	1,883
Forwards	17,862	93	366	15,123	168	456
Written options	37,258	7	542	19,592	-	220
Purchased options	36,418	542	-	10,976	151	-
	286,884	**3,077**	**2,721**	**121,613**	**2,127**	**2,559**
Equity contracts						
Forwards	100	-	20	-	-	-
Commodity contracts						
Swaps	650	-	-	-	-	-
Total derivatives held for trading (Notes: 12, 20)	**619,577**	**6,232**	**7,280**	**375,790**	**4,162**	**6,095**

hedging derivatives

The Group's ALM utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading, or ALM, activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of cash flow hedges. Fair value hedging was not used by the Group in the reporting period to manage interest rate risk.

The Group used single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps were used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

There was no significant cash flow hedge ineffectiveness as at 31 December 2005 and 2004.

Starting in 2005, the Group hedges part of the currency translation risk of net investments in foreign operations through cross currency interest rate swaps and currency deposits. Deposits amounting to CZK 576 m were designated as hedges and gave rise to currency gains for the year of CZK 23 m, which have been deferred in equity.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2005 and 2004 are set out as follows:

	31.12.2005			31.12.2004		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	29,311	734	168	31,857	486	21
Cross currency interest rate swaps	32,894	2,715	245	28,319	2,299	1,628
	62,205	**3,449**	**413**	**60,176**	**2,785**	**1,649**
Net investment hedges						
Cross currency interest rate swaps	1,815	-	18	-	-	-
Total hedging derivatives (Notes: 18, 23)	**64,020**	**3,449**	**431**	**60,176**	**2,785**	**1,649**

30. cash and cash equivalents

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	31.12.2005	Restated 31.12.2004
Cash and balances with central banks	10,074	11,106
Financial assets at fair value through profit or loss	5,757	998
Investment securities	10,078	1,819
Due from banks, demand	3,372	3,165
Due to banks, demand	(2,894)	(3,007)
Cash and cash equivalents	**26,387**	**14,081**

31. segment reporting

The Group's primary segment reporting is by customer segment.

segment reporting information by customer segments for 2005

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Group Total
Net interest income	11,164	1,801	133	2,039	629	15,766
Non-interest income	7,027	2,165	3,193	953	1,209	14,547
Segment expenses	(8,918)	(895)	(525)	(381)	(5,655)	(16,374)
Segment result	9,273	3,071	2,801	2,611	(3,817)	13,939
Impairment losses and provisions	(391)	(4)	1,073	-	(816)	(138)
Contribution to pension fund clients	(402)	-	-	-	-	(402)
Profit before taxation	8,480	3,067	3,874	2,611	(4,633)	13,399
Income tax (expense)/benefit	(2,160)	(803)	(255)	(679)	1,001	(2,896)
Segment profit	6,320	2,264	3,619	1,932	(3,632)	10,503
Minority interests	-	-	-	-	(175)	(175)
Net profit	**6,320**	**2,264**	**3,619**	**1,932**	**(3,807)**	**10,328**
Assets	**149,787**	**99,057**	**795**	**437,515**	**49,849**	**737,003**

segment reporting information by customer segments for 2004 (restated)

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Group Total
Net interest income	10,499	1,520	123	3,059	641	15,842
Non-interest income	6,625	1,795	283	328	965	9,996
Segment expenses	(8,322)	(779)	(614)	(350)	(5,409)	(15,474)
Segment result	8,802	2,536	(208)	3,037	(3,803)	10,364
Impairment losses and provisions	(1,636)	976	699	-	(332)	(293)
Contribution to pension fund clients	(348)	-	-	-	-	(348)
Profit before taxation	6,818	3,512	491	3,037	(4,135)	9,723
Income tax (expense)/benefit	(2,064)	(670)	54	(751)	685	(2,746)
Segment profit	4,754	2,842	545	2,286	(3,450)	6,977
Minority interests	-	-	-	-	(76)	(76)
Net profit	**4,754**	**2,842**	**545**	**2,286**	**(3,526)**	**6,901**
Assets	**124,883**	**73,441**	**22,065**	**329,232**	**64,538**	**614,159**

The Group systems are not set up to allocate liabilities to segments, therefore these are not presented.

definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300 m.

Corporate: Companies with a turnover greater than CZK 300 m and non-banking institutions in the financial sector.

Historic: Exceptional loans with Czech state coverage and certain other loans granted by the Group to previously state-owned companies.

Financial markets: Asset Liability Management segment, Dealing segment.

Other: Non-banking subsidiaries, Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 95 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Bank operates in the Czech Republic and the Slovak Republic. The Group's secondary segment reporting by geographical segment for 2005 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	588,228	73,113	27,148	1,503
Slovak Republic	148,775	8,857	3,165	428
Total	**737,003**	**81,970**	**30,313**	**1,931**

The geographical segment reporting for 2004 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	537,970	52,792	22,754	1,423
Slovak Republic	76,189	6,847	3,084	221
Total	**614,159**	**59,639**	**25,838**	**1,644**

32. currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the significant net on- and off-balance sheet assets and liabilities positions (trading and banking) of the Group, categorised by currency.

(CZKm)	31.12.2005	31.12.2004
USD	33	(407)
SKK	(2,702)	(1,570)
EUR	2,891	1,093

The foreign currency management policy for ČSOB's banking book is to minimise foreign currency positions to the extent practicable. Trading foreign currency positions are subject to limits and controlled continuously.

33. interest rate risk

The table below summarises the effective interest rate by major currencies:

	2005				2004			
(%)	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Due from banks	4.28	2.87	4.87	5.64	3.64	2.68	5.18	7.29
Securities	4.57	4.61	5.78	5.42	4.76	4.65	6.13	5.83
Loans	4.84	3.87	5.35	6.57	5.11	4.01	6.29	6.51
Finance leases	6.94	-	7.58	-	8.66	8.07	12.69	-
Liabilities								
Due to banks	1.82	2.04	1.61	5.63	2.48	2.01	2.85	5.49
Due to customers	2.06	0.96	2.12	2.14	2.26	1.01	2.64	0.87
Debt securities in issue	4.60	-	4.04	-	4.27	0.41	4.82	-

The Group's interest rate exposures are monitored and managed using interest rate sensitivity gap reports, amongst other methods. Those reports contain both on- and off-balance sheet net interest rate sensitive positions (interest rate sensitive non- trading assets less non-trading interest rate sensitive liabilities) of the Group which are segregated by currency and repricing time bands at a single point in time.

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2005:

(CZKm)	**Up to 1 month**	**1–3 months**	**3–6 months**	**6–12 months**	**Over 12 months**
CZK	(16,967)	7,029	(3,422)	(199)	13,559
EUR	(4,958)	8,128	(3,260)	(263)	352
USD	1,249	(1,261)	27	43	(58)
SKK	(5,647)	3,752	23	1,306	565

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2004:

(CZKm)	**Up to 1 month**	**1–3 months**	**3–6 months**	**6–12 months**	**Over 12 months**
CZK	(12,485)	(8,376)	20,682	(18,401)	18,580
EUR	(6,626)	6,740	(537)	695	(272)
USD	(721)	564	410	268	(521)
SKK	(7,354)	6,978	(827)	611	(1,062)

The above tables show interest rate sensitivity gap positions of the ČSOB Group (i.e. interest rate sensitive assets – interest rate sensitive liabilities in each time bucket). Liabilities with non-specified maturities (current accounts, notice deposits) are incorporated into interest risk management in the form of benchmarks, i.e. structures of liabilities' sensitivities specified with regard to the actual behavioural experience of the product.

The tables set out interest rate sensitivity gap positions as at the year-end and are not, therefore, indicative of such positions that existed during the year or will exist in the future.

The above tables were extracted from the management information systems of the Bank and other Group companies.

34. liquidity risk

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2005:

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	9,139	-	-	-	-	5,878	15,017
Due from banks	3,372	56,346	1,113	20,285	561	1	81,678
Financial assets at fair value through profit or loss	-	148,087	7,151	7,443	23,060	5,704	191,445
Investment securities	-	13,516	17,740	75,831	67,396	3,209	177,692
Loans and leases	5,040	37,061	34,593	62,656	60,411	39,596	239,357
Other financial assets	305	2,352	5,939	150	38	8,709	17,493
Total assets	17,856	257,362	66,536	166,365	151,466	63,097	722,682
Liabilities							
Due to banks	2,894	7,056	27	1,432	4,341	7,197	22,947
Financial liabilities at fair value through profit or loss	-	95,158	20,957	100	50	6,419	122,684
Due to customers	226,465	135,868	32,079	54,655	23,394	170	472,631
Debt securities in issue	1	21,326	263	12,325	4,931	2	38,848
Other financial liabilities	842	485	745	1,100	266	19,407	22,845
Total liabilities	230,202	259,893	54,071	69,612	32,982	33,195	679,955
Net liquidity gap	**(212,346)**	**(2,531)**	**12,465**	**96,753**	**118,484**	**29,902**	**42,727**

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2004 (restated):

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	10,118	-	-	-	-	6,387	16,505
Due from banks	3,165	85,914	2,032	19,763	280	583	111,737
Financial assets at fair value through profit or loss	-	55,177	2,930	5,901	12,510	4,944	81,462
Investment securities	-	8,189	12,805	72,301	61,762	5,712	160,769
Loans and leases	4,390	51,338	27,244	62,939	41,623	27,074	214,608
Other financial assets	88	2,186	3,297	833	33	7,368	13,805
Total assets	17,761	202,804	48,308	161,737	116,208	52,068	598,886
Liabilities							
Due to banks	3,007	6,231	4,540	1,236	9,698	10	24,722
Financial liabilities at fair value through profit or loss	-	54,368	2,498	2,052	1,834	6,095	66,847
Due to customers	196,691	123,695	27,435	54,617	23,304	316	426,058
Debt securities in issue	-	13,040	3,563	7,851	400	-	24,854
Other financial liabilities	126	986	3,145	425	1	16,646	21,329
Total liabilities	199,824	198,320	41,181	66,181	35,237	23,067	563,810
Net liquidity gap	**(182,063)**	**4,484**	**7,127**	**95,556**	**80,971**	**29,001**	**35,076**

A positive liquidity gap means expected cash receipts could exceed expected cash payments (including theoretically possible customer deposit withdrawals) in a given period. Conversely, a negative liquidity gap means expected cash payments (including theoretically possible customer deposit withdrawals) could exceed expected cash receipts in a given period.

Although Due to customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the “Demand” column), statistical evidence shows it is unlikely a majority of those customers will actually withdraw their deposits from the Bank on maturity.

The unspecified band includes assets and liabilities for which the remaining maturity could not be reliably estimated.

The Group’s liquidity management is carried out using various techniques including market operations which aim to ensure sufficient cash is available to satisfy its cash requirements.

The above tables set out the liquidity gaps as at the year-end and are not, therefore, indicative of such gaps that existed during the year or will exist in the future.

35. fair values of financial assets and liabilities

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

	31.12.2005		Restated 31.12.2004	
(CZKm)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Due from banks	81,678	81,769	111,737	111,972
Investment securities	110,269	114,232	98,120	101,923
Loans and leases	239,357	246,585	214,608	219,859
FINANCIAL LIABILITIES				
Due to banks	22,947	23,114	24,722	24,799
Due to customers	472,631	472,551	426,058	425,297
Debt securities in issue	38,848	39,216	24,854	25,107

The following methods and assumptions were used in estimating fair values of the Group’s financial assets and liabilities:

due from banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans and advances reprice within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

investment securities

Investment securities include only interest-bearing securities held to maturity, as securities available-for-sale are measured at fair value. Fair values for held to maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

loans and leases

A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the balance sheet date.

due to banks

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current interbank market rates.

due to customers

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

debt securities in issue

Bonds issued are publicly traded and their fair values are based upon quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

36. related parties

A number of banking transactions are executed with related parties in the normal course of business. In the opinion of management these transactions were made on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk, interest rate risk or liquidity risk or present other unfavourable features.

	Due from banks and Loans and leases		Due to banks and customers	
(CZKm)	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**
Directors/Key management personnel	-	-	3	4
KBC Bank NV	4,367	4,182	4,027	1,772

Interest income recognised on the KBC Bank NV loans in 2005 amounted to CZK 195 m (2004: CZK 265 m). Interest expense incurred on the KBC Bank NV loans in 2005 amounted to CZK 73 m (2004: CZK 24 m).

The loans to KBC Bank NV, as at 31 December 2005 and 2004, were not collateralised.

Guarantees given to KBC Bank NV as at 31 December 2005 amounted to CZK 27 m (31 December 2004: CZK 2 m). Guarantees received from KBC Bank NV as at 31 December 2005 amounted to CZK 629 m (31 December 2004: Nil).

In 2004 ČSOB offered part of the treasury shares to its shareholders, of which KBC Bank NV purchased 98,728 hares.

In 2005 ČSOB purchased collateralised debt obligations at fair value of CZK 6,407 m from a related party within KBC Group (2004: 2,285 m).

37. dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 20 April 2005, a dividend of CZK 753 per share was approved in respect of 2004 net profit. This dividend represented a total amount of CZK 3,844 m. The dividend in respect of 2005 will be ratified at the Annual General Meeting, which is expected to be held on 21 April 2006.

38. ČSOB's shareholders

The shareholder structure of ČSOB as at 31 December was as follows:

(%)	2005	2004
KBC Bank NV	89.97	89.88
European Bank for Reconstruction and Development	7.47	7.47
Others	2.56	2.65
Total	100.00	100.00

On 31 December 2005, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 89.97 % (31 December 2004: 89.88 %). On the same date, KBC Bank NV was controlled by KBC Group NV. Thus, KBC Group NV was the company indirectly exercising ultimate control over ČSOB.

On 31 December 2004, KBC Bank NV was controlled by KBC Bank and Insurance Holding Company NV, a majority shareholder of which was Almanij (the abbreviated form of Algemene Maatschappij voor Nijverheidskrediet NV). Almanij's and KBC Bank and Insurance Holding Company's extraordinary General Meetings agreed on a merger on 2 March 2005. Following the merger, Almanij was dissolved and it lost its controlling position over ČSOB, which is now held by KBC Group NV.

39. consolidated companies

Scope of consolidation as at 31 December 2005 was as follows:

Name	Country of incorporation
Subsidiaries	
Auxilium, a.s.	Czech Republic
Bankovní informační technologie, s.r.o.	Czech Republic
Business Center, s.r.o.	Slovak Republic
ČSOB Asset Management, a.s.	Czech Republic
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic
ČSOB distribution, a.s.	Slovak Republic
ČSOB d.s.s., a.s.	Slovak Republic
ČSOB Investiční společnost, a.s.	Czech Republic
ČSOB Investment Banking Services, a.s.	Czech Republic
ČSOB Leasing, a.s.	Czech Republic
ČSOB Leasing, a.s.	Slovak Republic
ČSOB Leasing poisťovací maklér, s.r.o.	Slovak Republic
ČSOB Leasing pojišťovací makléř, s.r.o.	Czech Republic
ČSOB Penzijní fond Progres, a. s.	Czech Republic
ČSOB Penzijní fond Stabilita, a. s.	Czech Republic
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic
Hornický penzijní fond Ostrava, a.s.	Czech Republic
Hypoteční banka, a.s.	Czech Republic
MOTOKOV, a.s.	Czech Republic
Joint ventures	
Českomoravská stavební spořitelna, a.s.	Czech Republic
O.B.HELLER a.s.	Czech Republic
OB HELLER Factoring a.s.	Slovak Republic

In 2005 ČSOB included ČSOB Asset Management, správ. spol., a.s., ČSOB distribution, a.s., ČSOB d.s.s., a.s., ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond and MOTOKOV, a.s. in the consolidation scope for the first time. No goodwill arose on consolidation.

In 2005 ČSOB included ČSOB Penzijní fond Progres, a.s. in the consolidation scope for the first time. The subsidiary was acquired by ČSOB in 2000. The purchase consideration paid represented CZK 65 m and related goodwill was CZK 8 m.

In 2005 ČSOB included Auxilium, a.s. in the consolidation scope for the first time. The subsidiary was acquired by ČSOB in 1998. The impact of this change in the consolidation scope as at 1 January 2005 reflected in Retained earnings represents CZK 30 m.

In 2005 ČSOB increased its share in ČSOB Investiční společnost, a.s. The purchase consideration paid represented CZK 72 m. The impact of this change in the consolidation scope as at 1 January 2005 reflected in Retained earnings represents CZK 79 m.

The prior year financial statements were not restated in respect of the above changes in consolidation scope.

In 2005 ČSOB included Hornický Penzijní fond Ostrava, a.s. in the consolidation scope in 2005 for the first time. The subsidiary was acquired by ČSOB in 2005. The purchase consideration paid represented CZK 223 m and related goodwill was CZK 138 m.

40. events after the balance sheet date

On 25 November 2005 the Bank exercised a call option issued by Heller Netherlands Holding B.V. for the purchase of 50 shares of O.B.HELLER representing 50% of the Company voting rights. Based on this transaction on 16 January 2006 the purchase contract was signed. The acquisition has to be approved by the Czech Antimonopoly Office. After the submission was made on 28 February 2006 the approval is expected within a month. Total assets of the Company reported as at 31 December 2005 amounted to CZK 649 m, net assets amounted to CZK 107 m.

In January 2006 the Bank sold a portfolio of headquarter buildings, which were classified as assets held for sale with regard to the construction of a new headquarter building. Net book value of the buildings as at 31 December 2005 was CZK 1,236 m and the net gain realised from the transaction to be recognised in 2006 profit before tax was CZK 766 m.

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REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A. S.

We have audited the accompanying stand-alone balance sheet of Československá obchodní banka, a. s. ("the Bank") as at 31 December 2005, and the related stand-alone statements of income, changes in shareholders' equity and cash flows for the year then ended ("the financial statements"). The financial statements, which include a description of the Bank's activities, and underlying accounting records are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Bank on a stand-alone basis as at 31 December 2005, and the stand-alone results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The Bank has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU for the Bank and its subsidiaries ("the Group"). Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2005 in order to obtain full information on the financial position and the results of the operations and cash flows of the Group as a whole.

13 March 2006

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Marek Richter
Auditor, Licence No. 1800

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and Register of Audit Companies with the Chamber of Auditors of Czech Republic under Licence No 021.

separate statement of income for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	2005	2004
Interest income		19,210	18,536
Interest expense		(7,361)	(6,411)
Net interest income	4	**11,849**	**12,125**
Net fee and commission income	5	5,805	5,449
Net trading income	6	2,697	1,902
Other operating income	7	4,248	1,256
General administrative expenses	8	(12,657)	(11,621)
Other operating expenses	9	(969)	(1,360)
Profit before impairment losses, provisions and income tax		**10,973**	**7,751**
Impairment losses on loans and advances	16	142	671
Impairment losses on available-for-sale securities	14	(51)	-
Provisions	26	(506)	(192)
Profit before income tax		**10,558**	**8,230**
Income tax expense	10	(2,154)	(2,079)
Profit for the year		**8,404**	**6,151**

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

separate balance sheet as at 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	31.12.2005	31.12.2004
ASSETS			
Cash and balances with central banks	11	14,838	16,309
Due from banks	12	75,369	109,501
Financial assets at fair value through profit or loss	13	193,527	83,072
Investment securities	14	132,133	119,056
Loans and leases	15	139,753	139,653
Pledged assets	13, 14	4,209	6,026
Investments in subsidiaries and joint ventures	37	26,985	11,211
Property and equipment	17	6,520	9,019
Goodwill	18	2,689	2,752
Other assets, including tax assets	19	13,192	7,793
Prepayments and accrued income		3,956	4,564
Total assets		**613,171**	**508,956**
LIABILITIES			
Due to banks	20	10,677	12,411
Financial liabilities at fair value through profit or loss	21	122,724	66,847
Due to customers	22	391,865	356,647
Debt securities in issue	23	22,354	13,190
Other liabilities, including tax liabilities	24	21,066	20,761
Accruals and deferred income		239	497
Provisions	26	1,340	1,007
Total liabilities		**570,265**	**471,360**
EQUITY			
Share capital	27	5,105	5,105
Share premium account		1,423	1,423
Statutory reserve		18,687	18,687
Cumulative gains not recognised in the income statement		1,419	669
Retained earnings		16,272	11,712
Total equity		**42,906**	**37,596**
Total liabilities and equity		**613,171**	**508,956**

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

These separate financial statements were approved for issue by the Board of Directors on 13 March 2006 and signed on its behalf by:

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Petr Knapp
Member of the Board of Directors
and Senior Executive Officer

separate statement of changes in equity for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Share capital (Note: 27)	Share premium account	Statutory reserve[1]	Cumulative gains not recognised in the income statement[2]	Treasury shares	Retained earnings	Total Equity
At 1 January 2004	**5,105**	**681**	**19,250**	**301**	**(446)**	**14,697**	**39,588**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	324	-	-	324
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	496	-	-	496
Foreign currency translation	-	-	-	15	-	-	15
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(108)	-	-	(108)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(359)	-	-	(359)
Net after-tax gains not recognised in the income statement	-	-	-	368	-	-	368
Net profit	-	-	-	-	-	6,151	6,151
Total recognized income for 2004	-	-	-	368	-	6,151	6,519
Transfer from statutory reserve	-	-	(563)	-	-	563	-
Purchase of treasury shares	-	-	-	-	(23)	-	(23)
Sale of treasury shares	-	742	-	-	469	-	1,211
Dividends paid	-	-	-	-	-	(9,699)	(9,699)
At 31 December 2004	**5,105**	**1,423**	**18,687**	**669**	**-**	**11,712**	**37,596**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	415	-	-	415
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	982	-	-	982
Foreign currency translation	-	-	-	(12)	-	-	(12)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(148)	-	-	(148)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(487)	-	-	(487)
Net after-tax gains not recognised in the income statement	-	-	-	750	-	-	750
Net profit	-	-	-	-	-	8,404	8,404
Total recognized income for 2005	-	-	-	750	-	8,404	9,154
Dividends paid (Note: 39)	-	-	-	-	-	(3,844)	(3,844)
At 31 December 2005	**5,105**	**1,423**	**18,687**	**1,419**	**-**	**16,272**	**42,906**

(1) Statutory reserve represents accumulated transfers from retained earnings in accordance with the Czech Commercial Code. This reserve is not distributable.

(2) Accumulated gains not recognised in the income statement consist of the valuation allowance for foreign currency translation adjustments of CZK (196) m, CZK (181) m and CZK (193) m as at 1 January 2004, 31 December 2004 and 31 December 2005, respectively; net gains on available-for-sale securities of CZK 622 m, CZK 838 m and CZK 1,105 m as at 1 January 2004, 31 December 2004 and 31 December 2005, respectively; net gains/(losses) on derivatives used as cash flow hedges of CZK (125) m, CZK 12 m and CZK 507 m as at 1 January 2004, 31 December 2004 and 31 December 2005, respectively.

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

separate statement of cash flows for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

(CZKm)	Note	2005	2004
Cash flow from / (used in) operating activities			
Profit before income tax		10,558	8,230
Adjustments for:			
Impairment losses on loans and advances	16	(142)	(671)
Provisions	26	506	192
Depreciation of property and equipment	8	1,618	1,548
Property impairment charge	9	330	256
Amortisation of discounts and premiums		647	(171)
Impairment / Amortisation of goodwill	9	63	186
Net loss / (gain) on disposal of securities other than trading		(195)	(150)
Impairment on investment securities	14	51	-
Own bonds adjustment		-	(5)
Change in cumulative gains not recognized in the income statement		870	492
Other		147	10
(Increase) / decrease in operating assets:			
Due from banks, non-demand		34,299	12,045
Financial assets at fair value through profit or loss		(105,983)	(17,693)
Loans and leases		(168)	(3,124)
Other assets		(4,262)	(1,977)
Prepayments and accrued income		608	903
Increase / (decrease) in operating liabilities:			
Due to banks, term		3,792	(50)
Financial liabilities at fair value through profit or loss		55,877	20,410
Due to customers		35,218	(27,235)
Promissory notes and certificates of deposit		7,177	7,626
Other liabilities		1,300	(6,321)
Accruals and deferred income		(258)	(48)
Net cash flow from / (used in) operating activities before income tax		42,053	(5,547)
Net income tax (paid) / recovered		(2,982)	18
Net cash flow from / (used in) operating activities		39,071	(5,529)
Cash flow from / (used in) investing activities			
Acquisition of Investiční a Poštovní Banka (IPB), net of cash paid		-	(4,627)
Purchase of investment securities		(31,323)	(50,733)
Purchase of subsidiary and joint venture companies		(13,330)	(3,123)
Maturity/disposal of securities		22,862	62,914
Purchase of property and equipment		(1,916)	(763)
Disposal of property and equipment		973	188
Net cash flow (used in) / from investing activities		(22,734)	3,856
Cash flow from / (used in) financing activities			
Issue of bonds		2,010	1,050
Repayment of bonds		-	(3,000)
Net sale of treasury shares		-	1,188
(Decrease) / increase in borrowings		(5,422)	3,247
Dividends paid	39	(3,844)	(9,699)
Net cash flow (used in) financing activities		(7,256)	(7,214)
Effect of exchange rate changes on cash and cash equivalents		(145)	(3)
Net increase / (decrease) in cash and cash equivalents		**8,936**	**(8,890)**
Cash and cash equivalents at beginning of year	31	11,664	20,554
Net increase / (decrease) in cash and cash equivalents		8,936	(8,890)
Cash and cash equivalents at the end of year	31	**20,600**	**11,664**

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

notes to the separate financial statements for the year ended 31 december 2005

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

1. introduction

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company. It is a universal bank operating in the Czech Republic and the Slovak Republic providing a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies to its domestic and foreign customers.

2. summary of significant accounting policies

a) basis of presentation

The separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS). They have been prepared under the historical cost convention modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The financial statements are expressed in millions of Czech Crowns (CZKm).

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include classification of securities as held-to-maturity (Note: 14), assets held for sale (Note: 19), allowances for credit losses (Note: 16), provisions (Note: 26), fair value of financial instruments (Notes: 13, 21), deferred income tax (Note: 25), other contingent liabilities (Note: 29), impairment of securities in available-for-sale portfolio (Note: 14) and impairment of goodwill (Note: 18) and are disclosed further.

b) segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

c) foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). As the Bank operates in the Czech Republic and the Slovak Republic it has two functional currencies – Czech Crowns and Slovak Crowns. The separate financial statements are presented in Czech Crowns, which is the Bank's presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income.

The results and financial position of the Slovak branch that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities at the year-end exchange rates;
– income and expenses at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
– all resulting exchange differences are recognised as a separate component of equity in Cumulative gains not recognised in the income statement.

d) investments in subsidiaries and jointly controlled entities

A subsidiary is an entity, that is controlled by another entity (parent entity). Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Investments in subsidiaries and jointly controlled entities are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries and jointly controlled entities are recorded in Other operating income.

e) interest income and expense

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

f) fees and commissions paid and received

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised ratably over the period the service is provided.

g) financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. They are classified based on management's intention at inception.

financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable.

held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Net trading income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are included in Cumulative gains not recognised in the income statement on an after-tax basis, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in Cumulative gains not recognised in the income statement is reversed and included in Other operating income. Interest income arising from available-for-sale assets calculated using the effective interest method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Other operating income.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

h) fair valuation

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using the quoted market prices if there is a published price quotation in an active public market. For financial instruments that are not traded on an active public market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Bank including the discount rate and estimates of future cash flows.

i) recognition and derecognition of financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Bank becomes party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred. A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net trading income and Cumulative gains not recognised in the income statement, respectively. On settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

j) derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised in the balance sheet at fair value (including transaction costs) and subsequently are remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives at fair value through profit or loss are included in the Net trading income.

The Bank uses derivatives, designated on the date a contract is entered into, as hedging as cash flow hedges to manage the Bank's interest rate sensitivity. Cash flow hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered highly effective if the Bank achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in Cumulative gains not recognised in the income statement. The ineffective portion is recorded directly in Net trading income. Amounts in Cumulative gains not recognised in the income statement are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed related remaining amounts in Cumulative gains not recognised in the income statement are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur related remaining amounts in Cumulative gains are reclassified immediately to the statement of income.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If the separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value on the balance sheet with changes in fair value reflected in the statement of income.

k) securities repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as Pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks, Financial liabilities at fair value through profit or loss or Due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as Due from banks, Financial assets at fair value through profit or loss or Loans and leases, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in Net trading income. The obligation to return them is recorded at fair value as a financial liability at fair value through profit or loss.

l) leases

bank is the lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period 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.

m) impairment of financial assets

assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. The assets are grouped at the lowest levels for which there are identifiable cash flows (cash-generating units). This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

– significant financial difficulty of the issuer or obligor;
– a breach of contract, such as a default or delinquency in interest or principle payments;
– the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
– it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written-off against the related allowance for credit losses. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of the Impairment losses on loans and advances in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

n) property and equipment

Property and equipment includes Bank occupied properties, software, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and periodically reviewed for permanent impairment in value.

Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
Leasehold improvements	Expected life of the lease
Furniture	6 years
Equipment	4–30 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included as a net amount in Other operating income.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When it is highly probable that an asset will be sold, such an asset is classified as held for sale (as part of Other assets, including tax assets) at the lower of its carrying amount and fair value less costs to sell.

o) goodwill

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash-generating unit, that is expected to benefit from the synergies of the combination. Cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

p) income taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset within the Bank.

Deferred tax related to fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Bank records a net deferred tax asset under Other assets, including tax assets.

q) due to banks, due to customers and debt securities in issue (funding)

Funding is recognised initially at the fair value of the consideration received net of transaction costs incurred and then carried subsequently at amortised cost.

r) provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

s) employee retirement benefits

Pensions are provided by the Czech Republic and Slovak Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

The Bank contributes to a defined contribution retirement benefit scheme for participating Czech Republic and Slovak Republic employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the statement of income as they are made.

t) offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

u) cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding Mandatory minimum reserves), trading assets, debt securities, due from banks repayable on demand and due to banks repayable on demand.

v) fiduciary activities

The Bank commonly acts in fiduciary capacities that result in the holding or placing of assets on behalf of individuals and institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

w) IFRS/IAS accounting and reporting developments

In 2005, improved versions of several existing International Accounting Standards (IAS), including amendments to IAS 32 and 39, and also new International Financial Reporting Standards (IFRS), including IFRS 1, 2, 3, 4 and 5, came into force.

Certain new standards, amendments and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods and which the Bank has not early adopted:

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Bank's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss, except for certain debt securities, promissory notes issued, repo transactions and term deposits received. The Bank believes that these instruments meet the definition of 'at fair value through profit or loss' category as restricted by the amendment to IAS 39.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

Other new standards, amendments or interpretations. The Bank has not early adopted the following other new standards, amendments or interpretations:

- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);

- IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

Unless otherwise described above, the new standards, amendments and interpretations are not expected to significantly affect the Bank's financial statements.

3. transition to IFRS

The Bank's separate financial statements for the year ended 31 December 2005 are the first full set of annual financial statements prepared in accordance with IFRS as adopted by the European Union. The Bank's IFRS adoption date according to IFRS 1 is 1 January 2005 and its transition date is 1 January 2004.

The following reconciliations provide a quantification of the effect of the transition to IFRS:

Reconciliation of equity at 1 January 2004 and 31 December 2004

(CZKm)	**1.1.2004**	**31.12.2004**
Total equity under local GAAP	37,454	36,096
Restatement of charge of allowances and provisions for credit losses	1,317	70
Restatement of charge of provisions for investments in subsidiaries	1,050	1,114
Recognition of fair revaluation gains due to reclassification of securities from originated-by-enterprise to available-for-sale portfolio	587	724
Deferred tax adjustments	(507)	50
Recognition of contribution and reclassification of employee fund from equity to other liabilities	(264)	(239)
Recognition of fair revaluation gains due to reclassification of securities from originated-by-enterprise to portfolio of financial assets at fair value through profit or loss	185	124
Restatement of foreign currency translation reserve	(103)	(106)
Restatement of fair value adjustments of securities in available-for-sale portfolio	30	(190)
Other adjustments	(161)	(47)
Total equity under IFRS	**39,588**	**37,596**

Reconciliation of net profit for the year ended 31 December 2004

Net profit under local GAAP (CZKm)	7,085
Restatement of charge of allowances and provisions for credit losses	(1,247)
Deferred tax adjustments	656
Reclassification of fair value adjustments of securities in available-for-sale portfolio from statement of income into equity	(406)
Restatement of charge of provisions for investments in subsidiaries	63
Recognition of fair revaluation gains due to reclassification of securities from originated-by-enterprise to portfolio of financial assets at fair value through profit or loss	(61)
Recognition of contribution to employee fund	(53)
Other adjustments	114
Net profit under IFRS	**6,151**

In accordance with IFRS 1, where relevant, the carrying value of goodwill in these separate financial statements is the same as in the Bank's consolidated financial statements. No other exemptions allowed under IFRS 1 have been applied.

4. net interest income

(CZKm)	2005	2004
Interest income		
Mandatory minimum reserves with central banks	141	170
Due from banks	2,047	2,605
Financial assets at fair value through profit or loss	4,753	3,601
Investment securities	5,188	4,985
Loans and leases	7,081	7,175
	19,210	**18,536**
Interest expense		
Due to banks	2,186	371
Financial liabilities at fair value through profit or loss	772	795
Due to customers	3,952	4,798
Debt securities in issue	442	437
Discount amortisation on other provisions (Note: 26)	9	10
	7,361	**6,411**
Net interest income	**11,849**	**12,125**

Included within interest income is CZK 154 m (2004: CZK 124 m) with respect to interest income accrued on impaired financial assets.

5. net fee and commission income

(CZKm)	2005	2004
Fee and commission income	6,714	6,217
Fee and commission expense	(909)	(768)
	5,805	**5,449**

6. net trading income

Net trading income, as reported in the statement of income, does not include net interest recognised on interest-earning and interest-bearing trading positions. Net trading income and trading-related net interest income are set out in the table below to provide a fuller presentation of the Bank's trading income:

(CZKm)	2005	2004
Net trading income – as reported	2,697	1,902
Net interest income (Note: 4)	3,981	2,806
	6,678	**4,708**
Foreign exchange	2,395	2,050
Fixed-income securities and money market	4,555	3,445
Interest rate contracts	(272)	(787)
	6,678	**4,708**

Included within Net trading income are gains of CZK 288 m (2004: CZK 175 m) and included within trading-related net interest income is net interest of CZK 508 m (2004: CZK 266 m) relating to those financial instruments that were designated as at fair value through profit or loss on initial recognition. Net foreign exchange gains include results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations.

7. other operating income

(CZKm)	2005	2004
Income from settlement of Slovenská inkasná (Note: 15)	3,022	-
Release of impairment on property and equipment	467	50
Net gain from derecognition of available-for-sale financial assets	195	150
Dividend income	175	430
Operating leasing and rental income	87	79
Net gain on disposal of securities purchased on primary market	5	243
Other	297	304
	4,248	**1,256**

8. general administrative expenses

(CZKm)	2005	2004
Personnel expenses	5,002	4,921
Depreciation of property and equipment (Note: 17)	1,618	1,548
Other general administrative expenses	6,037	5,152
	12,657	**11,621**

personnel expenses

(CZKm)	2005	2004
Salaries and bonuses	3,578	3,445
Salaries and other short-term benefits of key management	69	58
Social security costs	1,223	1,186
Other pension costs, including retirement benefits	132	232
	5,002	**4,921**

management bonus scheme

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval of the Compensation Committee of the Supervisory Board. The key performance indicator of the Annual Performance Bonus is based on the growth of the net consolidated profit per share within the calendar year. As a motivating tool, the members of the Board of Directors were participating within 2000–2003 in a Share Purchase Programme that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. The second stage of the Programme originally launched for the years 2004–2006 was cancelled with retrospective effect in February 2006 and replacement is currently under negotiation.

For his membership in the Supervisory Board only the Chairman is remunerated.

retirement benefits

The Bank provides its Czech Republic employees (including key management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1 % or 2 % of their salaries to the ČSOB Penzijní fond Stabilita, a. s. or ČSOB Penzijní fond Progres, a. s., wholly-owned subsidiaries of ČSOB, with a contribution of the Bank of 2 % or 3 % of their salaries, respectively.

other general administrative expenses

(CZKm)	2005	2004
Information technology	1,503	1,159
Rent and maintenance	887	682
Marketing and public relations	875	584
Retail service fees	815	775
Telecommunications and postage	545	578
Professional fees	245	248
Administration	218	236
Power and fuel consumption	166	155
Travel and transportation	138	128
Training	92	99
Insurance	63	73
Other	490	435
	6,037	**5,152**

9. other operating expenses

(CZKm)	2005	2004
Deposit insurance	435	758
Property impairment charge (Note: 17)	330	256
Goodwill impairment (Note: 18)	63	-
Amortisation of goodwill	-	186
Other	141	160
	969	**1,360**

10. income tax expense

(CZKm)	2005	2004
Current tax expense	2,250	3,256
Previous year over accrual	(308)	(160)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences (Note: 25)	212	(1,017)
	2,154	**2,079**

Further information about deferred income tax is presented in Note: 25. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

(CZKm)	2005	2004
Profit before taxation	10,558	8,230
Applicable tax rates	26 %	28 %
Taxation at applicable tax rates	2,745	2,304
Previous year over accrual	(308)	(160)
Tax effect of non-taxable income	(829)	(1,016)
Tax effect of non-deductible expenses	470	1,104
Prior years' deferred tax that will not reverse	-	(148)
Effect on opening deferred taxes due to reduction in tax rate	82	14
Other	(6)	(19)
	2,154	**2,079**

11. cash and balances with central banks

(CZKm)	31.12.2005	31.12.2004
Cash on hand	7,094	7,966
Balances with central banks	6,631	7,164
Other cash values	1,113	1,179
	14,838	**16,309**

Mandatory minimum reserves are not available for use in the Bank's day to day operations. Mandatory minimum reserves as at 31 December 2005 represented CZK 4,766 m (31 December 2004: CZK 5,208 m).

The Czech National Bank (CNB) has paid interest on mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on mandatory minimum reserve balances at 1.5 % in both 2005 and 2004.

12. due from banks

(CZKm)	31.12.2005	31.12.2004
Analysed by product and bank domicile:		
Current accounts		
domestic	9	7
foreign	909	1,269
Term placements		
foreign	104	14,190
Loans		
domestic	50,233	78,067
foreign	24,141	16,077
	75,396	109,610
Allowance for credit losses (Note: 16)	(27)	(109)
Net due from banks	**75,369**	**109,501**

Gross non-performing due from banks amounted to CZK 36 m at 31 December 2005 (31 December 2004: CZK 699 m).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans domestic) as at 31 December 2005 was CZK 47,316 m, of which CZK 4,558 m has been sold or repledged (31 December 2004: CZK 71,114 m and CZK 2,583 m respectively). Under reverse repo transactions, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

13. financial assets at fair value through profit or loss (including trading assets)

(CZKm)	31.12.2005	31.12.2004
Trading assets:		
Treasury bills	4,546	19,733
Reverse repo transactions	108,175	17,916
Debt securities	15,178	11,616
Derivative contracts (Note: 30)	6,246	4,219
Term deposits placed with banks	40,486	20,504
	174,631	**73,988**
Financial assets at fair value through profit or loss designated at inception		
Debt securities	19,786	9,687
Assets pledged as collateral in repo transactions	(890)	(603)
	193,527	**83,072**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2005 was CZK 108,139 m of which CZK 10,417 m has been either sold or repledged (31 December 2004: CZK 20,763 m and CZK Nil respectively). Under reverse repo transactions, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

See Note: 30 for additional information on trading derivative contracts, including credit risk.

14. investment securities

(CZKm)	31.12.2005	31.12.2004
Securities available-for-sale – at fair value		
Treasury bills	-	3,594
Debt securities	55,430	46,544
Equity securities	921	3,445
Provisions for impairment	(51)	-
Total available-for-sale portfolio	56,300	53,583
Securities held-to-maturity – at amortised cost		
Treasury bills	4,590	2,894
Debt securities	74,562	68,002
Total held-to-maturity portfolio	79,152	70,896
Total securities	**135,452**	**124,479**
Securities pledged as collateral in repo transactions	(3,319)	(5,423)
Total securities reduced by pledged assets	**132,133**	**119,056**

Schedule of Activity in Investment Securities

(CZKm)	2005 Available-for-sale	2005 Held-to-maturity	2005 Total	2004 Total
At 1 January	53,583	70,896	124,479	142,007
Exchange adjustments	(585)	(717)	(1,302)	(3,039)
Purchases	18,382	19,359	37,741	47,598
Disposals (sales or redemption)	(12,810)	(9,857)	(22,667)	(62,764)
Amortisation of discounts and premiums	(225)	(529)	(754)	(288)
Gains from changes in fair value	342	-	342	585
Transfer to Investment in subsidiaries and joint ventures	(2,443)	-	(2,443)	-
Provisions for impairment	(51)	-	(51)	-
Other	107	-	107	380
At 31 December	**56,300**	**79,152**	**135,452**	**124,479**

Transfer to Investment in subsidiaries and joint ventures represents the reclassification of an investment which met the criteria for consolidation in 2005.

15. loans and leases

(CZKm)	31.12.2005	31.12.2004
Analysed by category of borrower:		
Czech Ministry of Finance (reflecting Slovenská inkasná – see Slovenská inkasná note below)	-	21,332
Government bodies	7,013	18,013
Industrial companies	39,215	31,664
Trade companies	23,670	17,043
Retail customers	14,567	10,433
Other service companies	54,978	40,002
Other	5,476	5,913
Gross loans and leases	144,919	144,400
Allowance for credit losses (Note: 16)	(5,166)	(4,747)
Net loans and leases	**139,753**	**139,653**

Gross non-performing loans and leases amounted to CZK 2,138 m at 31 December 2005 (31 December 2004: CZK 2,820 m).

Slovenská inkasná (SI)

After more than 7 years of arbitration between the Bank and the Slovak Ministry of Finance (SMoF) under the auspices of the International Centre for Settlement of Investment Disputes (ICSID) in Washington, D.C., on 29 December 2004 the ICSID Tribunal issued a final award. The Award required the Slovak Republic to pay within 30 days from the date of the Award compensation of SKK 24,879 m and USD 10 m as a contribution to ČSOB’s arbitration proceeding costs. Thereafter, the awarded amounts accumulate interest at 5 % p.a. until paid.

On 10 February 2005 ČSOB and SMoF concluded an agreement (Settlement Agreement), which stipulated conditions for the settlement of the Award. Based on the Settlement Agreement SMoF paid an advance of SKK 16,000 m to ČSOB on 11 February 2005. The remaining balance was settled on 30 December 2005.

In 1997 the Bank's Czech-state shareholders pledged their support in principle to protect the Bank against negative financial or regulatory impacts that may arise from the SI issue. The Czech Ministry of Finance (CMoF) agreed in the Stabilisation Agreement executed on 25 June 1998 to advance ČSOB an amount equal to 90 % of the outstanding balance of SI's debt to the Bank including interest. As a condition for receiving that support, the Bank was obliged to continue using its best efforts to enforce its rights as creditor of SI and against the Slovak Republic by all means available to it. In consequence of the extension of the ICSID arbitration the Stabilisation agreement was amended in 2001 and 2004 and the state support was postponed.

Based on the ICSID award and the Settlement Agreement, the Stabilisation Agreement signed between the Bank and CMoF was amended again. The third amendment to the Stabilisation Agreement was concluded on 10 February 2005 specifying the conditions for final settlement of the Stabilisation Agreement. Under this amendment 85 % of the amount awarded by the ICSID Tribunal was offset against the receivable from the CMoF. By the end of 2005, all payments due under the Stabilisation agreement from CMoF were received by the Bank.

In accordance with the terms of the Settlement Agreement and Stabilisation Agreement and the fact that all relevant payments were received, the Bank ceased to recognize the receivable from the CMoF, contingent receivable from SMoF and contingent liability towards CmoF in 2005 (Note: 28). The final SI settlement resulted in one off income of CZK 3,022 m, recorded as Other operating income (Note: 7).

16. credit losses

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2005 and 2004:

(CZKm)	2005	2004
At 1 January	5,638	8,611
Write-offs	(614)	(3,267)
Recoveries	970	1,155
Net decrease in credit loss allowance and provisions	(142)	(671)
Foreign currency translation and other adjustments	(5)	(190)
31 December	**5,847**	**5,638**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2005 and 2004 are distributed as follows:

(CZKm)	31.12.2005	31.12.2004
Allowance for credit losses		
Loans and leases (Note: 15)	5,166	4,747
Due from banks (Note: 12)	27	109
Provisions for guarantees and undrawn credit lines (Note: 28)	654	782
	5,847	**5,638**

17. property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2004	9,754	8,142	751	18,647
Exchange adjustments	(1)	(1)	-	(2)
Transfers	307	907	(1,214)	-
Additions	-	-	763	763
Disposals	(465)	(457)	-	(922)
At 31 December 2004	9,595	8,591	300	18,486
Exchange adjustments	(22)	(26)	-	(48)
Transfers	1,043	951	(1,994)	-
Additions	-	-	1,916	1,916
Disposals	(1,952)	(903)	-	(2,855)
Transfers to assets held for sale (Note: 19)	(2,714)	-	-	(2,714)
At 31 December 2005	5,950	8,613	222	14,785
Accumulated depreciation and impairment				
At 1 January 2004	2,619	5,779	-	8,398
Exchange adjustments	-	(1)	-	(1)
Disposals	(120)	(431)	-	(551)
Impairment utilization and release	(183)	-	-	(183)
Impairment charge (Note: 9)	256	-	-	256
Charge for the year (Note: 8)	295	1,253	-	1,548
At 31 December 2004	2,867	6,600	-	9,467
Exchange adjustments	(3)	(19)	-	(22)
Disposals	(540)	(839)	-	(1,379)
Impairment utilization and release	(503)	-	-	(503)
Impairment charge (Note: 9)	278	52	-	330
Charge for the year (Note: 8)	635	983	-	1,618
Transfers to assets held for sale (Note: 19)	(1,246)	-	-	(1,246)
At 31 December 2005	1,488	6,777	-	8,265
Net book value				
At 1 January 2004	**7,135**	**2,363**	**751**	**10,249**
At 31 December 2004	**6,728**	**1,991**	**300**	**9,019**
At 31 December 2005	**4,462**	**1,836**	**222**	**6,520**

18. goodwill

(CZKm)	2005	2004
Net book value		
At 1 January	2,752	3,048
Impairment charge (Note: 9)	(63)	-
Net changes in IPB goodwill	-	(110)
Amortisation (Note: 9)	-	(186)
31 December	**2,689**	**2,752**

Goodwill has been allocated to the Retail / SME segment (CZK 2,689 m), representing a cash-generating unit. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by management covering a three-year period, and a discount rate based on the zero coupon rate adjusted by country risk factor. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. The discount rate varies from 8.60 % to 9.58 % in the ten-year period. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount. (Note: 32).

19. other assets, including tax assets

(CZKm)	31.12.2005	31.12.2004
Other debtors, net of provisions	5,650	3,566
Hedging derivative contracts (Note: 30)	3,514	2,827
Assets held for sale (Note: 17)	1,468	-
Other receivables from clients	1,400	47
Estimated receivables	417	62
Net deferred tax asset (Note: 25)	347	677
Items in the course of collection	94	275
Receivables from securities clearing entities	80	25
VAT and other tax receivables	59	-
Current income tax receivable	55	-
Other clearing accounts	-	263
Other	108	51
	13,192	**7,793**

20. due to banks

(CZKm)	31.12.2005	31.12.2004
Analysed by product and bank domicile:		
Current accounts		
domestic	129	419
foreign	2,777	2,590
Term deposits		
foreign	4,121	330
Borrowings		
domestic	2,130	6,113
foreign	1,520	2,959
Total due to banks	**10,677**	**12,411**

21. financial liabilities at fair value through profit or loss (including trading liabilities)

(CZKm)	31.12.2005	31.12.2004
Trading liabilities		
Securities sold, not yet purchased	61	3,744
Derivative contracts (Note: 30)	7,320	6,095
	7,381	9,839
Financial liabilities at fair value through profit or loss designated at inception		
Promissory notes	4,494	7,669
Repo transactions	19,102	3,187
Term deposits	91,747	46,152
	115,343	57,008
	122,724	**66,847**

See Note: 30 for additional information on trading derivative contracts, including credit risk.

22. due to customers

(CZKm)	31.12.2005	31.12.2004
Analysed by product:		
Current accounts	225,881	185,838
Term deposits	165,984	170,809
Total due to customers	**391,865**	**356,647**
Analysed by customer type:		
Individuals and households	200,365	196,971
Private companies and entrepreneurs	92,137	83,835
Foreign	53,476	41,654
Government bodies	26,683	13,181
Non-profit institutions	7,631	10,735
Other financial institutions	9,313	6,801
Insurance companies	2,260	3,470
Total due to customers	**391,865**	**356,647**

23. debt securities in issue

Issue date	Currency	Maturity date	Effective interest rate	31.12.2005 (CZKm)	31.12.2004 (CZKm)
Bonds issued:					
September 2003	SKK	September 2008	4.94 %	306	315
March 2004	CZK	December 2008	8.64 %	500	500
October 2004	SKK	October 2009	4.80 %	536	550
November 2005	CZK	November 2015	4.60 %	1,397	-
November 2005	SKK	November 2010	2.90 %	613	-
				3,352	**1,365**
Promissory notes				18,996	11,819
Certificates of deposit				6	6
Total debt securities in issue				**22,354**	**13,190**

24. other liabilities, including tax liabilities

(CZKm)	31.12.2005	31.12.2004
Items in the course of transmission	9,812	5,844
Other creditors	3,505	3,562
Other clearing accounts	2,589	2,248
Estimated payables	1,929	1,475
Payables to securities clearing entities	1,025	299
Current income tax payable	669	1,654
Provisions for guarantees and undrawn credit lines (Note: 28)	654	782
Hedging derivative contracts (Note: 30)	440	1,654
VAT and other tax payables	200	190
Current accounts from which value was collected	81	314
Liability to Česká finanční, s.r.o.	-	2,461
Other	162	279
	21,066	**20,761**

The last instalment related to IPB obligations to repurchase former Banka Haná bad loans from Česká finanční, s.r.o. in connection with the CNB-sponsored restructuring of that bank was paid on 31 July 2005 as had been agreed in the Settlement Agreement signed on 13 August 2003.

25. deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using the 24 % income tax rate enacted for 2006 onward (26 % for 2005).

The movement on the deferred income tax account is as follows:

(CZKm)	2005	2004
At 1 January	677	(216)
Income statement (debit) / credit (Note: 10)	(212)	1,017
Available-for-sale securities		
Fair value remeasurement	(9)	(114)
Transfer to net profit	47	42
Cash-flow hedges		
Fair value remeasurement	(310)	(178)
Transfer to net profit	154	126
At 31 December	**347**	**677**

Deferred income tax asset and liability are attributable to the following items:

(CZKm)	31.12.2005	31.12.2004
Deferred income tax asset (Note: 19)		
Legal claim	293	318
Provisions	181	179
Impairment of occupied properties	174	233
Allowances for credit losses	159	151
Cash-flow hedges	(160)	(4)
Available-for-sale securities	(282)	(265)
Other temporary differences	(18)	65
	347	**677**

The deferred tax (debit) / credit in the statement of income comprises the following temporary differences:

(CZKm)	31.12.2005	31.12.2004
Allowances for credit losses	20	361
Provisions	16	22
Legal claim	-	318
Prior years' deferred tax that will not reverse	-	148
Trading assets valuation	(30)	55
Accelerated tax depreciation	(38)	37
Impairment of occupied properties	(42)	25
Other temporary differences	(56)	65
Deferred tax expense resulting from reduction in tax rate	(82)	(14)
	(212)	**1,017**

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

26. provisions

(CZKm)	Litigation and other losses	Combination restructuring charges	Staff reduction charges	Onerous rent losses	Total
At 1 January 2005	611	19	156	221	1,007
Net provision charge	327	-	184	(5)	506
Discount amortisation (Note: 4)	-	-	-	9	9
Utilised during year	(34)	(19)	(80)	(49)	(182)
At 31 December 2005	**904**	**-**	**260**	**176**	**1,340**

The provision for litigation and other losses is not discounted to its net present value, as the moment of its utilisation could not be predicted with sufficient certainty. The discounting effect on the provision for combination restructuring charges and staff reduction charges is negligible.

combination restructuring charges

As part of its efforts to gain further cost synergies from the acquisition of IPB, ČSOB announced a programme to close redundant branches throughout the Czech Republic.

staff reduction charges

In 2004 the Bank announced a program to reduce the total number of personnel by approximately 350. A charge of CZK 123 m was recorded in 2004 to cover related costs. By the end of 2005 approximately 95 % of the total planned reduction was achieved. In 2005 another staff reduction program started, which aims to reduce the number of personnel by approximately a further 500. A charge of CZK 220 m was recorded in 2005.

onerous rent contract losses

ČSOB assumed a number of leasehold property arrangements from IPB in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000. This provision represents the present value of the future net rental losses that will arise.

27. share capital and treasury shares

The total authorised share capital as at 31 December 2005 and 2004 was CZK 5,105 m made up of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

All shareholders are entitled to one vote for every CZK 1,000 of nominal value owned. Shares are transferable upon approval of the Bank's Supervisory Board.

There were no Treasury shares held by the Bank at 31 December 2005 and 2004.

28. contingent asset, liabilities and commitments

(CZKm)	31.12.2005 Contract amount	31.12.2005 Risk weighted amount	31.12.2004 Contract amount	31.12.2004 Risk weighted amount
Contingent asset				
Slovenská inkasná loan (Note: 15)	-	-	30,788	-
Contingent liabilities				
Czech Ministry of Finance (Note: 15)	-	-	30,788	-
Guarantees issued	19,967	10,293	15,632	7,176
	19,967	10,293	46,420	7,176
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	74,014	32,203	53,376	24,036
Documentary credits	1,876	888	1,005	450
	75,890	33,091	54,381	24,486
Provisions for guarantees and undrawn credit lines (Notes: 16 and 24)	654		782	

The above contractual amounts represent the maximum credit risk which would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements. Risk weighted amounts represent the on-balance sheet credit risk equivalents of the contractual amounts, weighted by customer risk factors, calculated in accordance with the Czech National Bank guidelines for capital adequacy measurement purposes. The calculation aims to achieve a measure of credit exposure arising from those instruments.

29. other contingent liabilities

a) litigation

Other than the litigation for which provisions have already been raised (Note: 26), the Bank is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Bank will result from the ultimate resolution of these legal actions.

Additionally, there is a number of various claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but Management is not able to reliably estimate the total effective amount, since the claims are not mutually exclusive. Management believes that such claims are unfounded. Besides, potential losses arising from such claims are covered by respective guarantee agreements and thus they represent no risk of material impact on the financial position of the Bank.

Further, the Bank has initiated a number of legal actions to protect its assets.

b) taxation

Czech and Slovak tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

c) assets under management and custody

Assets managed by the Bank on behalf of others amounted to CZK 2,603 m as at 31 December 2005 (31 December 2004: CZK 2,123 m). Assets held by the Bank under custody arrangements amounted to CZK 182,268 m as at 31 December 2005 (31 December 2004: CZK 146,379 m).

d) operating lease commitments

Future minimum lease payments under land and building operating leases are as follows:

(CZKm)	31.12.2005	31.12.2004
Not later than 1 year	95	19
Later than 1 year and not later than 5 years	174	155
Later than 5 years	141	155
	410	**329**

The above operating leases can be technically cancelled under Czech law; however, the Bank is commercially bound to continue with these leases for the periods set out above.

e) capital commitments

Capital expenditure contracted at the balance sheet date but not yet incurred in respect of the Bank's new head office building is CZK 2.7 bn (2004: CZK 2.7 bn).

30. derivatives

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties to the derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Further, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

There are no significant concentrations of trading and hedging derivative credit exposures other than with the international banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Bank's own risks.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives include also those derivatives which are used for asset and liability management (ALM) purposes to manage interest rate position of the Banking Book and which do not meet criteria of hedge accounting. The Bank used single currency interest swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2005 and 2004 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

	31.12.2005			31.12.2004		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	243,905	3,118	4,483	149,228	1,991	3,410
Forwards	67,412	45	66	106,809	104	120
Written options	13,167	-	12	7,920	1	6
Purchased options	13,557	15	-	7,920	6	-
	338,041	**3,178**	**4,561**	**271,877**	**2,102**	**3,536**
Foreign exchange contracts						
Swaps	197,161	2,434	1,831	76,234	1,808	1,883
Forwards	17,862	92	366	15,086	158	456
Written options	37,258	-	542	19,592	-	220
Purchased options	36,418	542	-	10,976	151	-
	288,699	**3,068**	**2,739**	**121,888**	**2,117**	**2,559**
Equity contracts						
Forwards	100	-	20	-	-	-
Commodity contracts						
Swaps	650	-	-	-	-	-
Total derivatives held for trading (Notes: 13, 21)	**627,490**	**6,246**	**7,320**	**393,765**	**4,219**	**6,095**

hedging derivatives

The Bank's ALM utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading, or ALM, activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of cash flow hedges. Fair value hedging was not used by the Bank in the reporting period to manage interest rate risk.

The Bank used single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps were used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

There was no significant cash flow hedge ineffectiveness as at 31 December 2005 and 2004.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding hedging derivatives as at 31 December 2005 and 2004 are set out as follows:

	31.12.2005			31.12.2004		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	42,436	799	195	31,857	528	25
Cross currency interest rate swaps	32,766	2,715	245	28,319	2,299	1,628
(Notes: 19, 24)	**75,202**	**3,514**	**440**	**60,176**	**2,827**	**1,653**

31. cash and cash equivalents

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	31.12.2005	31.12.2004
Cash and balances with central banks	10,073	11,101
Trading portfolio assets	5,757	998
Investment securities	6,758	1,299
Due from banks, demand	918	1,276
Due to banks, demand	(2,906)	(3,010)
Cash and cash equivalents	**20,600**	**11,664**

32. segment reporting

The Bank‘s primary segment reporting is by customer segment.

Segment reporting information by customer segments for 2005

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	7,496	1,681	110	2,039	523	11,849
Non-interest income	5,309	1,944	3,302	953	1,242	12,750
Segment expenses	(6,382)	(688)	(481)	(381)	(5,694)	(13,626)
Segment result	6,423	2,937	2,931	2,611	(3,929)	10,973
Impairment losses and provisions	(99)	27	474	-	(817)	(415)
Operating profit before taxation	6,324	2,964	3,405	2,611	(4,746)	10,558
Income tax (expense)/benefit	(1,644)	(771)	(100)	(679)	1,040	(2,154)
Net profit	**4,680**	**2,193**	**3,305**	**1,932**	**(3,706)**	**8,404**
Assets	**47,051**	**93,360**	**795**	**437,515**	**34,450**	**613,171**

Segment reporting information by customer segments for 2004

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	6,985	1,375	122	3,059	584	12,125
Non-interest income	5,153	1,640	283	357	1,174	8,607
Segment expenses	(6,191)	(633)	(614)	(351)	(5,192)	(12,981)
Segment result	5,947	2,382	(209)	3,065	(3,434)	7,751
Impairment losses and provisions	(879)	1,001	699	-	(342)	479
Operating profit before taxation	5,068	3,383	490	3,065	(3,776)	8,230
Income tax (expense)/benefit	(1,546)	(619)	54	(813)	845	(2,079)
Net profit	**3,522**	**2,764**	**544**	**2,252**	**(2,931)**	**6,151**
Assets	**38,999**	**69,310**	**22,065**	**329,232**	**49,350**	**508,956**

The Bank systems are not set up to allocate liabilities to segments, therefore these are not presented.

definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300 m.

Corporate: Companies with a turnover greater than CZK 300 m and non-banking institutions in the financial sector.

Historic: Exceptional loans with Czech state coverage and certain other loans granted by the Bank to previously state-owned companies.

Financial markets: Asset Liability Management segment, Dealing segment.

Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 95 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Bank operates in the Czech Republic and the Slovak Republic. The Bank's secondary segment reporting by geographical segment for 2005 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	473,356	64,926	22,310	886
Slovak Republic	139,815	9,088	2,289	974
Total	**613,171**	**74,014**	**24,599**	**1,860**

The geographical segment reporting for 2004 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	440,291	46,464	18,369	1,002
Slovak Republic	68,665	6,912	2,363	212
Total	**508,956**	**53,376**	**20,732**	**1,214**

33. currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the significant net on- and off-balance sheet assets and liabilities positions (trading and banking) of the Bank, categorised by currency.

(CZKm)	31.12.2005	31.12.2004
EUR	2,421	726
USD	(49)	(418)
SKK	(2,993)	(1,767)

The foreign currency management policy for ČSOB's banking book is to minimise foreign currency positions to the extent practicable. Trading foreign currency positions are subject to limits and controlled continuously.

34. interest rate risk

The table below summarises the effective interest rate by major currencies:

	2005				2004			
(%)	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Due from banks	4.85	2.70	7.49	2.05	4.22	2.51	7.79	3.71
Securities	4.89	4.62	6.65	5.39	5.08	4.66	7.00	5.79
Loans	4.30	3.58	4.96	6.00	4.57	3.71	5.90	5.94
Liabilities								
Due to banks	1.41	2.03	1.04	5.63	2.07	1.99	2.28	5.49
Due to customers	0.86	0.96	1.85	2.14	1.06	1.01	2.37	0.87
Debt securities in issue	4.60	-	4.04	-	-	-	4.82	-

The Bank's interest rate exposures are monitored and managed using interest rate sensitivity gap reports, amongst other methods. Those reports contain both on- and off-balance sheet net interest rate sensitive positions (interest rate sensitive non-trading assets less non-trading interest rate sensitive liabilities) of the Bank which are segregated by currency and repricing time bands at a single point in time.

Set out below is management's estimate of the interest rate sensitivity gap positions for the Bank in the major currencies as at 31 December 2005:

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(2,525)	6,640	(4,459)	(2,272)	2,616
EUR	(4,948)	7,946	(3,245)	(233)	480
USD	1,249	(1,261)	27	43	(58)
SKK	(6,167)	4,156	91	1,443	477

Set out below is management's estimate of the interest rate sensitivity gap positions for the Bank in the major currencies as at 31 December 2004:

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(13,684)	(3,879)	21,481	(9,487)	5,569
EUR	(6,598)	6,337	(501)	756	6
USD	(721)	564	410	268	(521)
SKK	(8,591)	6,783	722	625	461

The above tables show interest rate sensitivity gap positions of the Bank (i.e. interest rate sensitive assets – interest rate sensitive liabilities in each time bucket). Liabilities with non-specified maturities (current accounts, notice deposits) are incorporated into interest risk management in the form of benchmarks, i.e. structures of liabilities' sensitivities specified with regard to the actual behavioural experience of the product.

The tables set out interest rate sensitivity gap positions as at the year-end and are not, therefore, indicative of such positions that existed during the year or will exist in the future.

The above tables were extracted from the management information systems of the Bank.

35. liquidity risk

The following table sets out the financial assets and liabilities of the Bank by remaining maturity as at 31 December 2005:

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	8,960	-	-	-	-	5,878	14,838
Due from banks	918	53,752	1,321	18,485	893	-	75,369
Financial assets at fair value through profit or loss	-	148,705	7,161	9,577	23,278	5,696	194,417
Investment securities	-	6,758	11,082	55,142	61,600	870	135,452
Loans and leases	4,461	35,129	19,712	29,191	11,708	39,552	139,753
Other financial assets	-	1,836	5,507	-	-	7,753	15,096
Total assets	14,339	246,180	44,783	112,395	97,479	59,749	574,925
Liabilities							
Due to banks	2,906	4,026	98	291	3,356	-	10,677
Financial liabilities at fair value through profit or loss	-	95,163	20,964	111	50	6,436	122,724
Due to customers	226,066	126,596	15,613	9,215	14,221	154	391,865
Debt securities in issue	1	18,735	263	1,956	1,397	2	22,354
Other financial liabilities	-	128	463	-	-	19,192	19,783
Total liabilities	228,973	244,648	37,401	11,573	19,024	25,784	567,403
Net liquidity gap	**(214,634)**	**1,532**	**7,382**	**100,822**	**78,455**	**33,965**	**7,522**

The following table sets out the financial assets and liabilities of the Bank by remaining maturity as at 31 December 2004:

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	9,922	-	-	-	-	6,387	16,309
Due from banks	1,276	84,308	1,537	19,517	2,280	583	109,501
Financial assets at fair value through profit or loss	-	56,091	2,958	7,911	12,510	4,205	83,675
Investment securities	-	5,459	10,724	49,804	55,047	3,445	124,479
Loans and leases	4,174	48,841	14,569	36,841	8,325	26,903	139,653
Other financial assets	-	1,628	2,875	779	-	6,891	12,173
Total assets	15,372	196,327	32,663	114,852	78,162	48,414	485,790
Liabilities							
Due to banks	3,010	5,631	789	1,283	1,688	10	12,411
Financial liabilities at fair value through profit or loss	-	54,370	2,499	2,049	1,834	6,095	66,847
Due to customers	195,581	116,731	17,510	11,116	15,393	316	356,647
Debt securities in issue	-	11,563	261	1,366	-	-	13,190
Other financial liabilities	-	231	2,479	-	-	15,920	18,630
Total liabilities	198,591	188,526	23,538	15,814	18,915	22,341	467,725
Net liquidity gap	**(183,219)**	**7,801**	**9,125**	**99,038**	**59,247**	**26,073**	**18,065**

A positive liquidity gap means expected cash receipts could exceed expected cash payments (including theoretically possible customer deposit withdrawals) in a given period. Conversely, a negative liquidity gap means expected cash payments (including theoretically possible customer deposit withdrawals) could exceed expected cash receipts in a given period.

Although Due to customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the "Demand" column), statistical evidence shows it is unlikely a majority of those customers will actually withdraw their deposits from the Bank on maturity.

The unspecified band includes assets and liabilities for which the remaining maturity could not be reliably estimated.

The Bank's liquidity management is carried out using various techniques including market operations which aim to ensure sufficient cash is available to satisfy its cash requirements.

The above tables set out the liquidity gaps as at the year-end and are not, therefore, indicative of such gaps that existed during the year or will exist in the future.

36. fair values of financial assets and liabilities

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

(CZKm)	31.12.2005 Carrying value	31.12.2005 Fair value	31.12.2004 Carrying value	31.12.2004 Fair value
FINANCIAL ASSETS				
Due from banks	75,369	75,408	109,501	109,674
Investment securities	79,152	82,540	70,896	74,361
Loans and leases	139,753	140,358	139,653	139,873
FINANCIAL LIABILITIES				
Due to banks	10,677	10,839	12,411	12,404
Due to customers	391,865	391,865	356,647	356,656
Debt securities in issue	22,354	22,585	13,190	13,252

The following methods and assumptions were used in estimating fair values of the Bank's financial assets and liabilities:

due from banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans and advances reprice within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

investment securities

Investment securities include only interest-bearing securities held to maturity, as securities available-for-sale are measured at fair value. Fair values for held to maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

loans and leases

A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the balance sheet date.

due to banks

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current interbank market rates.

due to customers

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

debt securities in issue

Bonds issued are publicly traded and their fair values are based upon quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

37. significant subsidiary and joint venture companies

Direct ownership of the Bank (%) in the significant subsidiaries and joint ventures was as follows:

Name	Country of incorporation	31.12.2005	31.12.2004
Subsidiaries			
Auxilium, a.s.	Czech Republic	100	100
Bankovní informační technologie, s.r.o.	Czech Republic	100	100
Business Center, s.r.o.	Slovak Republic	100	100
ČSOB Asset Management, a.s.	Czech Republic	21	21
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	100
ČSOB distribution, a.s.	Slovak Republic	100	100
ČSOB d.s.s., a.s.	Slovak Republic	100	100
ČSOB Investiční společnost, a.s.	Czech Republic	73	73
ČSOB Investment Banking Services, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Slovak Republic	90	90
ČSOB Penzijní fond Progres, a. s.	Czech Republic	100	100
ČSOB Penzijní fond Stabilita, a. s.	Czech Republic	100	100
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	100
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	95	95
Hornický penzijní fond Ostrava, a.s.	Czech Republic	100	-
Hypoteční banka, a.s.	Czech Republic	100	100
MOTOKOV, a.s.	Czech Republic	1	1
Joint ventures			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	55
O.B.HELLER a.s.	Czech Republic	50	50

Based on the Agreement on the exercise of voting rights the Bank is entitled to a total of 53% of the voting rights in the ČSOB Asset Management, a.s., therefore the company is considered as a subsidiary.

38. related parties

A number of banking transactions are executed with related parties in the normal course of business. In the opinion of management these transactions were made on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk, interest rate risk or liquidity risk or present other unfavourable features.

The outstanding balances from related party transactions are as follows:

	Due from banks and Loans and leases		Due to banks and customers	
(CZKm)	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Directors/Key management personnel	-	-	3	4
KBC Bank NV	4,367	4,179	4,027	1,772
Subsidiaries	9,163	10,155	2,838	2,272
Joint ventures	2,356	1,287	2	5

Interest income recognised on the KBC Bank NV loans in 2005 amounted to CZK 195 m (2004: CZK 265 m). Interest expense incurred on the KBC Bank NV loans in 2005 amounted to CZK 73 m (2004: CZK 24 m).

Interest income recognised on the loans to subsidiaries in 2005 amounted to CZK 228 m (2004: CZK 355 m). Interest expense incurred on the loans to subsidiaries in 2005 amounted to CZK 47 m (2004: CZK 24 m).

Interest income recognised on the loans to joint ventures in 2005 amounted to CZK 29 m (2004: CZK 27 m).

Dividend income received from subsidiaries and joint ventures in 2005 amounted to CZK 130 m (2004: CZK 420 m). Rental expenses paid to subsidiaries and joint ventures in 2005 amounted to CZK 87 m (2004: CZK 91 m).

The loans to KBC Bank NV, as at 31 December 2005 and 2004, were not collateralised.

Guarantees given to KBC Bank NV as at 31 December 2005 amounted to CZK 27 m (31 December 2004: CZK 2 m). Guarantees received from KBC Bank NV as at 31 December 2005 amounted to CZK 629 m (31 December 2004: Nil).

In 2004 ČSOB offered part of the treasury shares to its shareholders, of which KBC Bank NV purchased 98,728 shares.

In 2005 ČSOB purchased collateralised debt obligations at fair value of CZK 6,407 m from a related party within KBC Group (2004: CZK 2,285 m).

39. dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 20 April 2005, a dividend of CZK 753 per share was approved in respect of 2004 net profit. This dividend represented a total amount of CZK 3,844 m. The dividend in respect of 2005 will be ratified at the Annual General Meeting, which is expected to be held on 21 April 2006.

40. ČSOB's shareholders

The shareholder structure of ČSOB as at 31 December was as follows:

(%)	2005	2004
KBC Bank NV	89.97	89.88
European Bank for Reconstruction and Development	7.47	7.47
Others	2.56	2.65
Total	100.00	100.00

On 31 December 2005, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 89.97 % (31 December 2004: 89.88 %). On the same date, KBC Bank NV was controlled by KBC Group NV. Thus, KBC Group NV was the company indirectly exercising ultimate control over ČSOB.

On 31 December 2004, KBC Bank NV was controlled by KBC Bank and Insurance Holding Company NV, a majority shareholder of which was Almanij (the abbreviated form of Algemene Maatschappij voor Nijverheidskrediet NV). Almanij's and KBC Bank and Insurance Holding Company's extraordinary General Meetings agreed on a merger on 2 March 2005. Following the merger, Almanij was dissolved and it lost its controlling position over ČSOB, which is now held by KBC Group NV.

41. events after the balance sheet date

On 25 November 2005 the Bank exercised a call option issued by Heller Netherlands Holding B.V. for the purchase of 50 shares of O.B.HELLER representing 50% of the Company voting rights. Based on this transaction on 16 January 2006 the purchase contract was signed. The acquisition has to be approved by the Czech Antimonopoly Office. After the submission was made on 28 February 2006 the approval is expected within a month. Total assets of the Company reported as at 31 December 2005 amounted to CZK 649 m, net assets amounted to CZK 107 m.

In January 2006 the Bank sold a portfolio of headquarter buildings, which were classified as assets held for sale with regard to the construction of a new headquarter building. Net book value of the buildings as at 31 December 2005 was CZK 1,236 m and the net gain realised from the transaction to be recognised in 2006 profit before tax was CZK 766 m.

conclusions of the ordinary general meeting

The General Meeting of Československá obchodní banka, a. s., held on 21 April 2006, approved the separate financial statements of the Bank and consolidated financial statements of the Bank and its subsidiaries as at 31 December 2005 prepared in accordance with International Financial Reporting Standards as adopted by the European Union (collectively “the financial statements”). It thus confirmed that, in 2005, the Bank and its subsidiary companies recorded consolidated profit of CZK 10.3 bn and the amount of total consolidated assets reached CZK 737 bn as at 31 December 2005.

The financial statements were examined by the Supervisory Board of the Bank. The auditor’s report by PricewaterhouseCoopers Audit, s.r.o. on the financial statements is without qualification.

The General Meeting further approved:
1. distribution of profit;
2. conditions for paying out a dividend;
3. remuneration to members of the Board of Directors and of the Supervisory Board; and
4. election of Jan Oscar Cyriel Vanhevel, John Arthur Hollows and Patrick Roland Vanden Avenne as new members of the Supervisory Board from 22 April 2006 following the resignation of Messrs André Bergen, Francois Florquin and Marko Voljč as members of the Supervisory Board from 21 April 2006.

In accordance with the decision of the General Meeting, a part of the retained earnings from the previous years in the amount of CZK 1,923,708 ths and the profit stated in the separate financial statements as at 31 December 2005 in the line profit for the year in the amount of CZK 8,403,707 ths, i.e. in total CZK 10,327,415 ths, will be distributed as a dividend to shareholders.

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