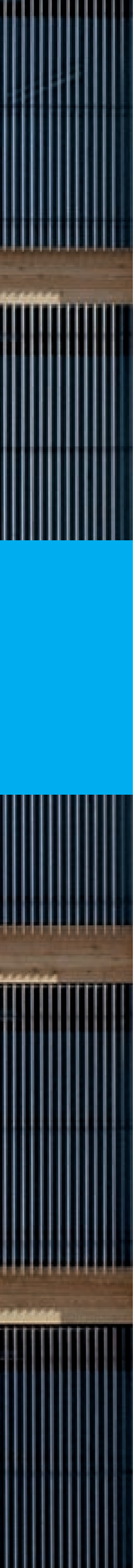

Annual Report 2007

Československá obchodní banka, a. s.

ČSOB

ČSOB's Basic Information

Business name:	Československá obchodní banka, a. s.
Registered office:	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
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 December 1964
ID No.:	00001350
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz

CSOB'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:	Michalská 18, Bratislava, 815 63, Slovak Republic
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 April 1993
ID No.:	30 805 066
Bank code:	7500
SWIFT:	CEKOSKBX
Telephone:	+421 259 661 111
Fax:	+421 254 414 795
E-mail:	info@csob.sk
Internet address:	http://www.csob.sk

[*] Since 1 January 2008 is acting in Slovakia as a new legal entity with the official business name – Československá obchodná banka, a. s. (new ID No.: 36 854 140).

All great things are made of small details

When designing a new building, the architect considers every small detail; when building relationships with our clients, we do the same.
We at ČSOB think everything over so that each detail fits to a perfect whole.

Key Figures

Consolidated, EU IFRS[1]	2007	2006 Reclassified	2006 Reclassified, excl. RE[2]	2005 Reclassified	2005 Reclassified, excl. SI[3]
Financial statements figures					
Balance sheet at the year end (CZKm)					
Total assets	925,424	762,301	762,301	736,538	736,538
Loans and receivables – net (excl. credit institutions)	391,841	309,301	309,301	239,357	239,357
Client deposits (excl. credit institutions)[4]	561,961	494,637	494,637	472,431	472,431
Debt securities in issue	46,839	40,087	40,087	37,384	37,384
Subordinated debt	12,161	5,182	5,182	200	200
Shareholders' equity[5]	56,865	52,139	52,139	52,950	52,950
Statement of income (CZKm)					
Operating income	32,090	29,775	28,800	28,877	25,855
Operating expenses	16,965	16,668	16,550	15,877	15,877
Profit before tax	13,867	12,442	11,583	13,399	10,377
Income tax expense	2,993	2,797	2,591	2,896	2,110
Profit for the year[5]	10,837	9,543	8,891	10,328	8,092
Ratios (%)					
Return on average equity (ROAE)[6]	19.47	18.41	17.15	21.01	16.46
Return on average assets (ROAA)[7]	1.23	1.27	1.19	1.53	1.20
Cost / income ratio	52.87	55.98	57.47	54.98	61.41
Capital adequacy ratio – bank[8), 9)]	11.12	9.29	n/a	10.55	n/a
Total shareholders' equity to total assets[8]	6.14	6.84	6.84	7.19	7.19
Loans to deposits[8]	69.73	62.53	62.53	50.66	50.66

General information[8]	2007	2006	2005
Number of clients – Bank (thousands)[10]	2,995	2,931	2,908
FTEs	10,357	10,060	9,943
Number of contact points[11]	365	339	325
ATMs[12]	769	715	650
Financial market rates			
CZK / EUR (average)	27.76	28.34	29.78
PRIBOR 3M (%, average)	3.09	2.30	2.01

Credit Rating	Long-term	Short-term	Financial Strength	Individual	Support
Moody's[13]	A1	Prime-1	C		
Fitch[14]	A+	F1		B/C	1

1) International Financial Reporting Standards as adopted by the EU
2) Sale of real estate in Prague
3) Slovenská inkasná
4) The "Deposits received from other than credit institutions" item from the consolidated balance sheet
5) Attributable to equity holders of the bank
6) Profit for the year attributable to equity holders of the bank to the average of quarterly shareholders equity balances in the year
7) Profit for the year attributable to equity holders of the bank to the average of quarterly asset balances in the year
8) As at the year end
9) According to the ČNB methodology; the 2005 and 2006 figures based on Basel I and the 2007 figure on Basel II
10) Figures according to the new methodology for unique clients statistics
11) Includes ČSOB branches and PSB financial centers, i.e. without approximately 3,330 post offices
12) Includes ČSOB's and PSB's ATMs, i.e. without some 2,500 cash desks of Albert and Hypernova stores
13) Last update in February 2007
14) Last update in January 2005

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Opening Statement by the CEO

Ladies and gentlemen,

The year 2007 was extraordinarily successful for ČSOB and its Group. Growing, net of real estate sale, by 22% year on year, our consolidated net profit for the year 2007 exceeded CZK 10.8 bn, which represents an absolute record in the history of the ČSOB Group. Moreover, this profit does not include any important extraordinary items that would be unrelated to our usual business activity and everyday efforts of our employees. Thanks to our great achievements throughout all segments, we increased the volume of business loans by 26%, while keeping high asset quality and only 3% year-on-year increase in operating expenses, net of the real estate one-off. For a more detailed, comprehensive analysis of the financial and business results of the ČSOB Group please refer to the Report of the Board of Directors on pages 12 through 21 herein.

Personally, I will remember the successful year 2007 also as the year when I moved, together with more than two and a half thousand colleagues, from historical buildings in the centre of Prague to a unique, green space in Prague-Radlice which suits much better our needs. I see our Radlice base as a quiet coach who helps us with our transformation into a highly efficient organism and as a very attractive employer in both the Czech and European contexts.

In 2007, the ownership integration of the ČSOB Group into the KBC Group was completed in June when KBC Bank became the sole shareholder of ČSOB as a result of the squeeze-out of minority shareholders. For us, this milestone means more direct responsibility towards our parent company and, at the same time, it highlights the fact that the ČSOB Group is an incremental part of the strong European KBC Group. According to market estimates, we represent about a fifth of its total value.

My thanks go to all who have contributed to the ČSOB Group's continuing success.

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

A

Rather than laying a cornerstone, we planted a sycamore maple in front of the main entrance. The tree is a symbol of the company's positive attitude towards the environment and nature.

Macroeconomic Environment

The Czech Economy in 2007

The Czech Economy prospered in 2007. In real terms, the year-on-year growth of gross domestic product (GDP) surpassed six percent for the third year in a row. The unemployment rate reached its lowest average level since 1997. Despite the ongoing real appreciation of the Czech crown, the trade balance surplus climbed to record heights. Public budgets booked a relatively good result. Last but not least, a fragile government majority in the Czech Parliament endorsed legislative changes that open the doors to the first round of much needed fiscal reforms.

Even evident achievements do not allow the Czech economy to rest on laurels. The low unemployment rate dampens investment and spurs wage pressures. Rapid real appreciation of the Czech crown reduces profitability of Czech exporters. Despite the low average unemployment rate, structurally weak areas plagued with high and long-lasting unemployment still exist. In the long run, the low priority assigned in reality to education, science and research threatens the competitiveness of the domestic labour force.

Globally rising oil and food prices count, besides tax changes and administrative price deregulations, among the key accelerators of Czech inflation in the years 2007 – 2008. Persistently weak demand pressures on the price growth ask the Czech National Bank the question, to what degree the central bank should respond by hiking rates to rapidly growing domestic inflation in an environment of cooling economic growth in the U.S.A. and the Eurozone. First of all due to fears of mounting inflation expectations, the CNB raised the two-week repo rate by a cumulative percentage point last year, to 3.5% in December.

As in previous years, also in 2007 the CNB considered the nominal exchange rate development when handling interest rates. Triggered by large volumes of crown loans granted to buyers of high yielding assets denominated in other currencies, the sharp depreciation of the domestic currency in the first half of the past year demonstrated that not only the positive but also the negative interest rate differential has limits, beyond which it can become a threat to the smooth development of the Czech economy.

Despite higher key interest rates of the central bank and the trade balance surplus that more than doubled, the current account of the Czech balance of payments remained in the red in 2007. This was caused by ongoing profit repatriation from the Czech Republic. Direct investment debits in the investment income credits item jumped by 20% year on year in 2007 to reach a level of 7% of the GDP. Net of reinvestments, the current account of the Czech balance of payments appears in mild surplus.

Public budgets recorded a deficit as low as 1.6% of GDP last year. The improvement was reached mainly thanks to surprisingly high tax revenues, originating from unexpected economic growth, high household consumption and low unemployment – which spoils the joy. A more intense participation of the expenditure side in the process of public deficit healing has been postponed until the fiscal reforms enter a later stage marked by bolder systemic changes in public health care, pensions, and social security.

2007 was another successful year also for the banking sector. Assets of commercial banks grew by 18.9% annually and reached a level of 105.3% of GDP. Total outstanding loans granted to households and non-financial enterprises jumped by 33.4% and 19.4%, respectively. Non-financial enterprises' deposits in commercial banks increased by 18% year on year, household deposits added 9.8%. Profit generated by commercial banks grew by 23.9% compared to the previous period, amounting to CZK 47.1 billion.

Macroeconomic indicators of the Czech Republic

Indicator	Unit of measurement	2007	2006	2005	2004	2003
GDP	%, Y/Y	6.5	6.4	6.4	4.5	3.6
Industrial output	%, Y/Y	8.2	11.2	6.7	9.6	5.5
Construction output	%, Y/Y	6.7	6.6	4.2	9.7	8.9
Inflation rate (CPI)	%, average	2.8	2.5	1.9	2.8	0.1
Unemployment rate	%, average	5.3	7.1	7.9	8.3	7.8
Current account	% of GDP	(2.5)	(3.1)	(1.6)	(5.2)	(6.2)
Gross foreign debt	% of GDP	37.9	36.9	38.2	35.9	34.7
Public budgets balance	% of GDP	(1.6)	(2.7)	(3.6)	(3.0)	(6.6)
Public debt	% of GDP	28.7	29.4	29.7	30.4	30.1
Money supply (M2)	%, at year-end	13.2	9.9	8.0	4.4	6.9
Long-term yields (Maastricht criterion)	%, at year-end	4.65	3.68	3.61	4.05	4.82
PRIBOR 3M	%, average	3.09	2.30	2.01	2.36	2.28
CZK/EUR	average	27.76	28.34	29.78	31.90	31.84
CZK/USD	average	20.31	22.61	23.95	25.70	28.23

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

The Slovak Economy in 2007

In 2007, the Slovak economy continued its very successful development crowned with the fastest economic growth for the entire period extending from the start of the country's economic transformation. Fast growing GDP manifested also in the labour market, as the unemployment rate hit a 10-year low without any substantial wage pressures. Unlike the previous year, the inflation rate fell significantly, and this, together with the strong Slovak crown, created conditions for another cut in interest rates. Slovakia has made significant progress on its path to the Eurozone, with the decision on the country's accession to be made as early as this spring.

The upswing of the Slovak economy again increased last year. GDP growth hit a new all-time high (10.4%), due primarily to the rapidly rising exports of automotive products, encouraged by the launch of production of two new carmakers (PSA and KIA). Less significant contributors to economic growth were consumer demand, based on real wage growth, falling unemployment, and strong demand for loans.

Showing no acceleration, in spite of strong economic growth, inflation did not threaten compliance with the Maastricht inflation criterion. Harmonised year-on-year inflation fell to an all-time low of 1.2% during the year, but, at the end of the year, it started to be driven upward by food prices that rose across the EU. Positive inflation developments, along with the appreciation of the Slovak crown, provided the central bank with room to cut rates. The base rate of the National Bank of Slovakia was cut twice, down to the final 4.25%.

The Slovak crown on average strengthened by 10.3% against the euro and 21.1% against the U.S. dollar last year, contributed significantly to the positive inflation developments. The appreciation of the crown made the NBS revaluate the central parity by 8.5% to SKK 35.4424 per EUR, with the band of +/-15%, as early as in March. In addition, the central bank had to intervene against the rapidly appreciating crown in March and April in the total amount of EUR 2.6 bn. The rest of the year was much calmer in terms of the Slovak currency developments.

The appreciation of the crown was encouraged by good news from the economy, which increased Slovakia's chances of adopting the euro within the planned deadline (1 January 2009). The good news included falling inflation, strong GDP growth and especially a rapidy improving foreign trade result. Exports, primarily encouraged by carmakers' new production facilities, rose at a double-digit rate, and helped significantly to reduce the deficit, from SKK 81 bn in 2006 to approximately 25% of that value. The good news is that this trend is very likely to persist in 2008.

The trend of increasing indebtedness of the population persisted in 2007, encouraged by generally improving standard of living and falling interest rates. Demand was primarily focused on mortgages that rose by 28.2% Y/Y. On the other hand, households continued to strongly prefer bank deposits in 2007, which increased up by approximately 13% last year. Business loans also rose at quite a fast rate, by more than 20%.

Favourable economic developments and a relatively stable currency create the conditions for Slovakia to with the decision to be made in the first half of 2008. Thus, Slovakia will most probably be able to adopt the euro in early 2009. The central parity of the exchange rate of the crown might be revalued once again prior to that.

Macroeconomic indicators of the Slovak Republic

Indicator	Unit of measurement	2007	2006	2005	2004	2003
GDP	%, Y/Y	10.4	8.5	6.6	5.2	4.8
Industrial output	%, Y/Y	13.0	9.9	3.0	4.2	4.8
Construction output	%, Y/Y	5.7	14.9	14.7	5.7	6.0
Inflation rate (CPI)	%, average	2.8	4.5	2.7	7.5	8.5
Unemployment rate	%, average	11.1	13.3	16.2	18.1	17.4
Current account	% of GDP	(5.3)	(7.0)	(8.5)	(7.8)	(5.9)
Gross foreign debt	% of GDP	54.7	50.9	58.2	49.7	48.7
Public budgets balance	% of GDP	(2.5)*	(3.7)	(2.8)	(2.4)	(2.7)
Public debt	% of GDP	30.6*	30.4	34.2	41.4	42.4
Money supply (M3)	%, at year-end	12.9	15.3	7.8	15.0	-
Long-term yields (Maastricht criterion)	%, at year-end	4.61	4.15	3.62	4.58	5.42
BRIBOR 3M	%, average	4.34	4.32	2.93	4.67	6.18
SKK/EUR	average	33.78	37.25	38.59	40.05	41.49
SKK/USD	average	24.71	27.72	31.02	32.27	36.77

* Convergence Programme of the Slovak Republic for 2007 – 2010

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

Designed by Josef Pleskot, the barrier-free building with four floors houses 2,600 people and is located in Prague – Radlice.

Report of the Board of Directors

Strategy of the ČSOB Group is fully aligned with KBC's strategy for the region of Central and Eastern Europe and Russia. Hence, the ČSOB Group's **vision** is to deliver clients the best banking and insurance offer in the Czech Republic tailored to the needs of the Czech market.

Main Events in 2007

ČSOB successfully finished 2007 – a year full of important events. Relocation to a new environmentally friendly building in Prague - Radlice, a change in shareholders structure and completed separation of ČSOB SK as a new legal entity (effective from 1 January 2008) were the most important among them.

Between April and June 2007, most Prague employees of the ČSOB Group moved from downtown to the **new ecological building in Prague - Radlice** reaching thus an important milestone on our journey towards a high performance corporate culture. The new building gives space for interaction of 2,600 service-minded people.

On 8 March 2007, the CNB approved the squeeze-out of minority shareholders, which was approved by the ČSOB General Meeting on 20 March. In June 2007, **KBC Bank NV became the sole shareholder of ČSOB**. This operation was financed by KBC's capital surplus. The value of ČSOB was set at CZK 185 bn, i.e. about 20% of KBC's market capitalization.

On 1 January 2008, **ČSOB SK**, formerly the Slovak branch of ČSOB, started operating as **a new legal entity** and became the owner of the ČSOB Group's business subsidiaries in SK. KBC obtained full direct control over ČSOB SK. The separation aligned formal bodies of ČSOB in both countries with the country management approach within KBC Central Europe.

Other important events were:

- In February, Moody's upgraded ČSOB's Financial Strength rating from C- to C. ČSOB's long-term rating A1 by Moody's is at the same level as the country ceiling (i.e. the highest possible) which reflects good asset quality, enhanced risk management, a good track record as a conservative institution, stable funding and systematic support from majority shareholder, KBC Bank.
- In March, Moody's upgraded the national rating of ČSOB PF Progres and ČSOB PF Stabilita up to Aa1.cz.
- In March, ČSOB took a CZK 7 bn tranche of subordinated debt provided by KBC Bank.
- In December, KBC Bank increased share capital (incl. premium) in ČSOB by CZK 6 bn.
- In December, rating agency Standard&Poor's upgraded ČSOB Pojišťovna's long-term rating and rating of financial strength to A-.
- On 31 December 2007, Zemský PF was successfully merged with ČSOB PF Progres.

2007 Awards

For the second time in a row, ČSOB has been declared the **Bank of the Year 2007 Czech Republic** by The Banker magazine, member of the Financial Times publishing group. ČSOB was also awarded the **Best Bank 2007 Czech Republic** by the Global Finance magazine. In the Zlatá koruna 2007 contest, ČSOB was the most successful of Czech financial institutions dominating in both main categories – **Innovation of the Year** and **Public Award** – and was honoured with 16 medals, of which 5 were gold.

In addition to these comprehensive awards, the ČSOB Group won various specialized awards, such as:

- ČSOB was for the fifth time in a row awarded as **The Best Foreign Exchange Bank 2007** in the Czech Republic by Global Finance.
- In the MasterCard Bank of the Year 2007 competition, Pavel Kavánek was awarded the **Banker of the Year**.
- Hypoteční banka was placed on the first place in the **Mortgage of the Year** category of the MasterCard Bank of the Year 2007.
- **ČSOB Leasing CZ** ranked for the fifth time in a row as No. 1 among financial intermediaries and support financial institutions in the **CZECH TOP 100**.

Innovation Leadership in 2007

Delivering product innovations, distribution innovations and constant simplification of processes for operational excellence, the ČSOB Group remained devoted to **Innovation Leadership** also in 2007. The "Zlatá koruna 2007" contest, where the ČSOB Group completely dominated the Innovation of the Year category: gold for HB's Mortgage On-line, silver for PSB's CashBack and bronze for ČSOB's CashBack, confirmed that ČSOB's innovative activities follow the right direction.

Selected banking innovations:

ČSOB

- New customized account packages
- Image Card
- ČSOB Mortgage with guaranteed amount of repayments
- Club of Successful Businessmen – new web based advisory for SME
- VARIO mortgage allowing to adjust repayments and duration (SK)

Hypoteční banka

- Mortgage On-line
- Remote access to the land register free of charge
- Info service via SMS or e-mail free of charge

Poštovní spořitelna

- Red Account, new savings product
- Loyalty programme for payments with payment cards

Českomoravská stavební spořitelna
Na těchto základech můžete stavět

- New building savings Liška plus+

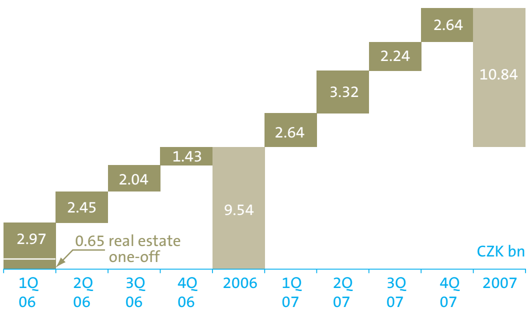
Selected innovations in other financial services:

- *Mutual funds:*
  First socially responsible funds
  – e.g. ČSOB Water Wealth 1
- *Leasing:*
  eLine – on-line application to enter leasing contracts
  Car Park – website for operational leasing
- *Pension funds:*
  On-line access to accounts for PF's clients
- *Insurance:*
  New accident insurance packages
  – Dítě, Pohoda, Komfort
  New travel insurance tariff Rodina
  New insurance for engineering companies
  – Merkur

ČSOB Group Results

Financial Performance in the Year 2007[1)]

In 2007, the ČSOB Group maintained its high profitability and achieved excellent financial results. The ČSOB Group recorded 2007 **net profit** attributable to equity holders of the Bank of **CZK 10,837 m** (+14% Y/Y). Net of the one-off revenue from the sale of real estate in 2006, the net profit grew by **22% Y/Y** due to good business growth across all client segments.



In the course of 2007, ČSOB succeeded in improving its **financial ratios** (excluding one-offs): cost-income ratio from 57.5% to 52.9%, loan-deposit ratio from 62.5% to 69.7%, and net interest margin from 2.62% to 2.73%. Return on allocated capital (ROAC)[2)] for the year 2007 reached 36.4% in CZ and 11.8% in SK.

Consolidated Statement of Income

Total operating income for ČSOB amounted to CZK 32,090 m in 2007, i.e. 8% higher than CZK 29,775 m achieved a year earlier. Net of the exceptional gain from the sale of the real estate portfolio in 2006 (CZK 975 m), the operating income increased by 11% Y/Y.

Net interest income (NII) increased by 16% Y/Y to CZK 21,198 m thanks to good business results in all business segments. Owing to the increase in loan and deposit volumes, SME reported the strongest growth of NII. On the other hand, volumes of deposits and higher margin were the main drivers of the NII growth in PSB. The contribution of subsidiaries to NII grew thanks to an increased volume of outstanding mortgages in Hypoteční banka and higher interest income from loans in ČMSS. ČSOB succeeded to maintain the overall net interest margin at 2.7%.

Net fee and commission income increase of 6% (to CZK 7,309 m) was driven mainly by the increasing number of transactions, especially in retail mutual funds, retail loans and corporate guarantees in ČSOB, and payment cards and current accounts in PSB.

Total Y/Y **net trading income**[3)] decrease of 10%, to CZK 2,253 m, resulted from revaluation of CDOs (ca CZK –800 m) after the recent market turbulences. It is the ČSOB's intent to keep the CDO positions until maturity and, therefore, the loss from their revaluation booked in 2007 should gradually be offset in the following years. Nevertheless, Financial Markets showed volatile, yet very positive development mainly due to the good performance of the customer desk and profitable dealing operations in the capital market and money market desks.

Other operating income[4)] decreased by 39% to CZK 1,330 m. However, the income of this line realized in 2006 was boosted by the real estate one-off income.

Total operating expenses amounted to CZK 16,965 million in the financial year 2007, which is a nominal increase of 2% Y/Y from CZK 16,668 m. Excluding the real estate one-off expense in 2006 (CZK 117 m), operating expenses grew only by 3% Y/Y.

Staff expenses decreased by 3% Y/Y to CZK 7,597 m. Excluding the extraordinary items, incl. expenses stemming from the stock option plan (as part of the squeeze-out of minority shareholders) in 2006, staff expenses would increase by 8% driven by higher performance bonuses and salaries rising due to business expansion.

An increase of **general administrative expenses** (+4% to CZK 7,663 m) was connected especially with communication expenses driven by the data network (e.g. e-toll) and the increase of building expenses driven by the branch expansion and parallel running of the head office buildings in 2007. General administrative expenses were distorted in 2006 by CZK 117 m real estate one-off.

1) All financial figures set out below were drawn from ČSOB's 2007 audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.
2) Allocated capital is the amount of capital which needs to be put aside for a certain activity and as such is a function of the risk weighted assets (according to KBC's methodology).

3) NTI = Net gains from financial instruments at fair value through P/L
4) Other operating income = Net realized gains on available-for-sale financial assets + Dividend income + Other net income

Depreciation and amortization reached CZK 1,939 m (+3%). The increase relates to operational leasing that generates income (mainly in the line of other operating income) and expenses (mainly depreciation and amortization). The increase was also caused by the activation of the new headquarters in the assets and the start of its depreciation.

Provisions amounted to CZK 234 m in FY 2007; the positive contribution comes mainly from the reserves used in 2007, while in 2006 reserves for litigation were released.

Impairment losses grew by 103% Y/Y to CZK 1,439 m due to higher recoveries in 2006.

Share of profit of associates increased by 302% Y/Y as a result of ČSOB Pojišťovna's profit growth. ČSOB Pojišťovna has been consolidated in the ČSOB Group by 25% since the half of 2006.

Income tax expense of the ČSOB Group for the year 2007 grew by 7% Y/Y amounting to CZK 2,993 m. Income tax expense in 2007 was influenced by deferred tax expense resulting mainly from the reduction in the deferred tax rate – 24% rate applicable in 2006 changed to 20% in 2007.

Consolidated Balance Sheet

At the end of 2007, consolidated assets totalled CZK 925.4 bn, which represented an increase of 21% compared to the end of 2006. The fast growth of Loans and receivables and Financial assets held for trading was partially offset by lower volume of Financial assets at fair value through profit and loss.

Selected balance sheet items

CZKm	31. 12. 2007	31. 12. 2006	Y/Y	Comments
Total assets	925,424	762,301	21%	The growth of total assets driven mainly by the fast growing volume of loans and also by higher volume of assets held for trading
Financial assets held for trading	224,488	149,647	50%	The increase due to market conditions – volatile part
Loans and receivables	411,129	340,279	21%	Fast growing volume of loans due to positive sale performance in all segments, particularly in SME and Retail mortgages
Property and equipment	11,936	11,024	8%	The increase of leased assets and buildings (mainly technical improvements)
Financial liabilities at fair value through profit and loss	145,789	84,163	73%	The increase due to market conditions – volatile part
Financial liabilities at amortized costs	681,882	586,855	16%	The growth caused mainly by client deposits, deposits from credit institutions and subordinated debt
Share Capital	5,855	5,105	15%	Increase of issued capital
Share Premium Account	7,509	2,259	232%	Increase of issued capital
Parent shareholders' equity	56,865	52,139	9%	Share capital increase

Loans and receivables showed significant growth in volume by 21% to CZK 411.1 bn. This fast growth is a result of a positive business development in all business segments of the Bank and subsidiaries. Item Loans and receivables includes Group business lending, due from banks and business unrelated items such as ALM (securities) and group eliminations.

Group business lending[5)] as such rose by 26% Y/Y to CZK 402.4 bn. In ČSOB CZ, all parts of the loan portfolio increased substantially: mortgages to individuals (+48%), building loans to individuals (+28%), consumer loans (+26%), SME loans (+34%), corporate loans (+11%) and leasing (+21%). The same applied to ČSOB SK where lending rose across all segments totally by 22% (in SKK), mainly thanks to a 42% growth in retail lending (of which mortgages +51%), a 20% growth in leasing and a 16% growth in the corporate segment.

The growing lending portfolio[6)] has kept high quality. Non-performing loans (overdue more than 90 days) as at 31 December 2007 accounted for as low as 1.72% of gross loans and the share of Normal loans (internal classification, PD 1-7) increased by 3.30 percentage points to 96.14% of the total loan portfolio.

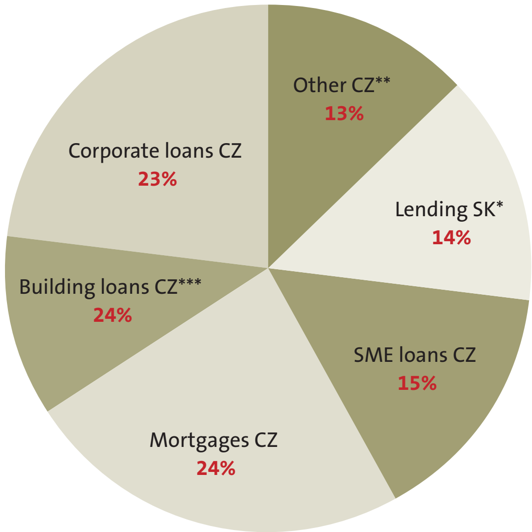
Financial liabilities at amortized costs showed an increase of 16% to CZK 681.9 bn. The item Financial liabilities at amortized costs comprises deposits received from credit institutions (CZK 60.9 bn), deposits received from other than credit institutions (CZK 562.0 bn), debt securities in issue (CZK 46.8 bn) and subordinated liabilities (CZK 12.2 bn after the CZK 7 bn tranche from KBC Bank NV in 2007).

The volume of **deposits together with assets under management** (pension funds, mutual funds and discretionary asset management)[7)] showed a 21% Y/Y increase (to CZK 788.4 bn) driven mainly by deposits and pension funds which both grew by 24% over the past twelve months. Within the wide spectrum of mutual funds offered, capital guaranteed funds (CGFs) were extremely successful with AUM up 46% Y/Y to CZK 36.6 bn (direct position only).

Parent shareholders' equity increased by 9% to CZK 57 bn due to the CZK 6 bn capital increase. Consolidated capital adequacy ratio reached 10.72% (according to Basel II implemented on 1 July 2007) due to the share capital (incl. premium) increase and issuing of CZK 7 bn subordinated debt.

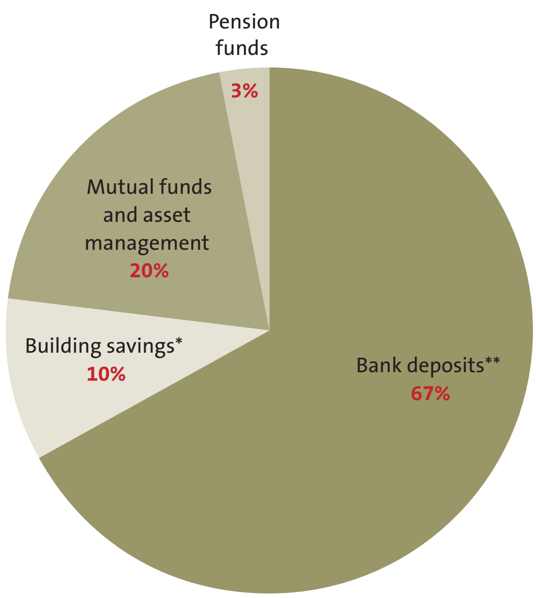
5) Based on Internal management reporting system. "Group business lending" = "Loans and receivables" – "Due from banks" – ALM (securities) – historical bad debts +/– eliminations (ČMSS 55%)
6) Based on Internal management reporting system. "Group business lending" = "Loans and receivables" – "Due from banks" – ALM (securities) – historical bad debts +/– eliminations (ČMSS 55%)
7) Based on Internal management reporting system

Group business lending (CZ+SK)



Note:
* Includes: corporate (7.1%), leasing (3.4%), retail (3.1%) and other (0.9%)
** Includes: leasing (8.4%), retail (3.2%) and factoring (1.0%)
*** ČMSS consolidated proportionally by 55%

Total AUM and deposits (CZ+SK)

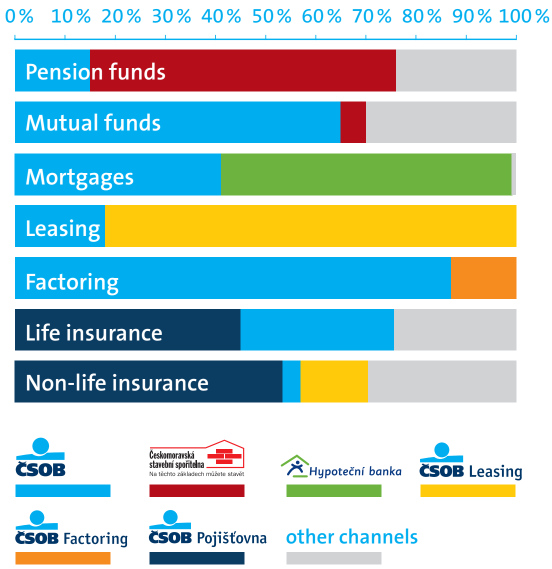


Note:
* ČMSS consolidated proportionally by 55%
** incl. Depositary notes

ČSOB Group in the Czech Republic

Group Synergies

The concept of **Multibranding and Multichannel** is ČSOB's major competitive advantage, which delivers strong outcomes. The following Figure well documents 2007 cross-selling activities within the ČSOB Group CZ. This distribution model allows the ČSOB Group to efficiently combine diversification with specialization.



The ČSOB Group's long-term success in financing housing needs has been built especially on the power of the brands of ČMSS ("Fox" brand), Hypoteční banka ("green" brand) and ČSOB ("blue" brand). While the "Fox" is No. 1 among Czech building societies, the combined effort of "green" brokers and "blue" branches succeeds in raising the ČSOB Group's market share in mortgages. Behind the outstanding sales results of pension funds stands the excellent performance of the distribution channels, in particular the agent network of ČMSS that sold more than 75,000 pension fund contracts and the ČSOB branch network with almost 20,000 contracts sold in 2007. Furthermore, ČSOB banking network accounts for almost one-fifth of ČSOB Leasing CZ turnover and 87% of ČSOB Factoring CZ turnover. Life insurance policies were sold almost equally through ČSOB Pojišťovna (Insurance Company), ČSOB Bank network and other parties. In selling non-life insurance, ČSOB Pojišťovna is largely aided by ČSOB Leasing CZ.

Bancassurance. The ČSOB Group still aims to be No. 1 in combining banking products with own insurance products. Good examples of bancassurance innovations are:

- ČSOB Životní pojištění with two new options of accident insurance against death and injury with lasting effect – a more attractive product for bank clients.
- ČSOB Leasing CZ started to offer new insurance products of ČSOB Pojišťovna – GAP car insurance and insurance of machine transportation for free.

In 2007, more than two-thirds of ČSOB mortgages in CZ were linked with both life insurance and property insurance.

FY 2007	ČSOB CZ
Life insurance / ČSOB mortgages	68%
Property insurance / ČSOB mortgages	75%
Consumer loans insurance / ČSOB consumer loans	77%

Note: The number of new contracts insured / all insurable

Retail/SME Financial Services

Strengthening customer relationship management and improving the quality of financial services for retail and SME customers is a key long-term strategic priority of ČSOB. Strong focus on this area should become a main competitive advantage of ČSOB and, thus, result in strong organic growth. In 2007, ČSOB performed the following activities to further build the concept of a good customer relationship management:

- Financial advisory built upon detailed financial planning for individual clients and households.
- Customer care concept realized through a personalized service of Personal and Firm Bankers and Specialized Advisors located in most of ČSOB's branches.
- Regular service quality measurement fully integrated into the remuneration scheme of branch employees.
- Enlargement of the branch network.
- Continuing integration of IT applications into one CRM tool used by branch employees for complex management of their relations with clients.

ČSOB strongly believes that the above mentioned activities resulted in higher customer retention as well as in acquisition of new clients. In 2007, the number of retail and SME customers increased by nearly 35 thousand. Simultaneously, a higher customer satisfaction was followed by significantly increased sales of financial products and services.

ČSOB currently has one of the largest variety of saving products on the Czech financial market, especially in the area of investment funds. Market share in total **retail savings** managed by the ČSOB Group has been stable of around 30% for a long time. Specifically, the total volume of savings reached CZK 318 bn at the end of 2007. Concerning investment funds, the total volume of KBC/ČSOB funds reached CZK 81.4 bn (direct position only) at the end of 2007. Record net sales of funds in 2007 also resulted in a significant Y/Y increase of market share by nearly 2 percentage points up to 28.8% at the end of 2007.

In 2007, ČSOB further retained its position of the largest **retail loan provider for housing purposes** on the Czech financial market. The total volume of outstanding loans provided for these purposes increased by 38% compared to 2006 and reached CZK 160 bn at the end of 2007. A market share of 31.3% was reached due mainly to record sales of new mortgages. In 2007, ČSOB and Hypoteční banka sold together more than 22 thousand contracts in the amount of CZK 38 bn. Market share of the ČSOB Group in newly provided retail mortgages reached 26.8% in 2007.

Record sales were also achieved in the **segment of SME clientele**. Outstanding volume of credits, including leasing and factoring, provided in ČSOB branches increased by 35% in 2007 and reached CZK 62 bn. This increase was mainly driven by loans provided for company investments and development. In 2007, ČSOB also recorded the highest increase of SME savings in the ČSOB history. The total volume of AUM (deposits and funds) increased by 20% Y/Y and, thus, reached a volume of CZK 120 bn at the end of 2007. The main innovation in the SME deposit area was ČSOB Saving Account for Businessman.

Poštovní spořitelna (Postal Savings Bank, PSB), ČSOB's second retail banking brand, is a key player in the lower mass retail market, serving over 2 million clients. PSB offers its services in the postal network of some 3,330 post offices in the Czech Republic, 29 own PSB Financial centres (branches) and various direct channels. PSB followed its long-term strategy to become the No.1 bank for mass retail in the next ten years and build PSB as a modern multi-channel bank. The multi-channel distribution of PSB services has been enhanced by the launch of close cooperation with ČMSS whose 2,500 financial advisors actively promote selected PSB products. As in previous years, PSB continues to attract urban and young clients. In May, PSB launched a new sub-brand focusing on the youth segment, Space. The focus on the youth meets with great success – the number of Mini Accounts and Junior Accounts grew Y/Y by 267% and 21%, respectively. PSB is also focused on the sale of investment products – the outstanding volume of Postal Investment Programme rose by 38% to almost CZK 2.7 bn. The most important PSB's innovations in 2007 were Red Account and loyalty programme for both debit and credit cards users. The Red Account has the potential to become the fastest growing product.

Services for Corporate Clients

Meeting all the key commercial targets, 2007 again represented a successful year for the **corporate and institutional banking** division that provides financial services for companies with business turnover above CZK 300 m. In recent months, ČSOB successfully continued in its evolution into a full-fledged financial advisory provider supporting its customers in strategic development through comprehensive and highly customized consulting services. These individual customizations are based on long-term experience, international know-how and deep knowledge of the local market, but also on exceptionally broad product portfolio that was further strengthened in 2007. Attention was paid mainly to sophisticated services in domains like structured finance, financial markets, trade finance or custody.

Last year's growth of the Czech economy allowed ČSOB to continue in the corporate credit lending. Despite a very sound credit portfolio of more than CZK 94 bn, several innovative measures to further enhance credit risk management were taken. Thanks to the achieved improvements, ČSOB is now proud to be compliant with the Basel II requirements as well as with other market conditions of modern corporate banking.

Asset Management

At year-end 2007, the ČSOB Group's total assets under management containing mutual funds, discretionary asset management and pension funds reached CZK 164.4 billion, the Y/Y growth of 24% (according to the AKAT methodology).

Owing to continuous launching of innovative new products, ČSOB AM Group[8)] remained market leader of the discretionary asset management and mutual funds industry on the Czech market in 2007, as in the previous year. While over the past few years its share on the Czech market in total assets under management (discretionary assets and mutual funds) has continually stayed above 20%, in 2007 ČSOB reached a 23% market share.

2007 was a good year for ČSOB AM CZ in the **discretionary asset management**, despite the fact there was a negative climate on the stock market in the second half of the year. In the segment of private individuals the market share is almost 40%, assets exceeded CZK 10 bn and grew by 8% Y/Y. A booming segment was SME, where assets

8) ČSOB AM Group consists of two companies: ČSOB AM CZ and ČSOB IS – the first covering the asset management of clients' money and the second covering mutual fund business

increased by more than 50% Y/Y. Total assets in discretionary asset management (including Group clients) came to CZK 75.7 bn.

ČSOB AM CZ also launched the ČSOB Property fund, a qualified investors' fund dedicated to investments in the real estate market in CEE. The fund belongs to the first funds of that nature in the market and was granted a license in July 2007. Its capital of CZK 50 million was increased by the Bank and ČSOB Pojišťovna by CZK 918 million. The fund also concluded its first investment – EUR 35 m prime property in Prague.

ČSOB AM Group, via ČSOB IS, is also highly active in the **mutual funds** industry, where ČSOB, in collaboration with KBC AM, launched 10 open-ended and 66 capital guaranteed funds on the Czech market in 2007, for both retail and institutional clients.

Thanks to its numerous innovative products, especially capital guaranteed funds, ČSOB IS is continually strengthening its position in the Czech market for mutual funds. Assets in ČSOB's mutual funds grew above the market to reach 28.8% market share at the end of 2007. Growing by 47% during 2007 in the assets in capital guaranteed funds (incl. funds for single life insurance), ČSOB confirmed its No. 1 position with assets over CZK 41 bn in this most dynamic part of the market. ČSOB IS also launched SRI (socially responsible investment) funds. In 2007, SRI funds were one of the most popular investments with sales app. CZK 2 billion.

ČSOB has been offering two strong **pension funds** with different investment profiles: ČSOB PF Stabilita (conservative investment strategy, mainly fixed-return securities) and ČSOB PF Progres (dynamic investment profile with more stocks and foreign bonds). The total volume of clients' assets placed in ČSOB pension funds reached CZK 19.7 bn at the end of 2007 representing 22% Y/Y growth. In 2007, ČSOB PFs jumped one place and became the third largest provider of pension insurance in the country with almost 615,000 active clients, with a 15% Y/Y growth. ČSOB PFs achieved the largest increase in market share, in terms of number of clients, of 0.8 percentage points Y/Y. Behind the outstanding sales results stands the excellent performance of the distribution channels, in particular the agent network of ČMSS which sold more than 75,000 pension fund contracts and ČSOB branch network with almost 20,000 contracts sold in 2007. ČSOB PF Progres remained the best performing pension fund on the market over the long term and received again public award for the best performing pension fund, first place in Zlatá koruna 2007. The ČSOB pension funds' successful year 2007 was completed by a merger of ČSOB PF Progres and Zemský PF on 31 December 2007.

Other Core Financial Services

In 2007, **Financial Markets** recorded the most successful year in the Bank's history, despite the market turbulences in the second half of the year. The most successful areas were the Capital Market desk, the Money Market desk and the FX desk. Extremely positive point in FX was the fact that ČSOB was able to maintain or even increased its leading position on the local market. The main reasons for the good result and positioning were proper trading strategy and very good contacts and relationships with a vast majority of foreign banks and investment houses active on the local market, which were using ČSOB as the main bank for execution of their orders and information source. A very important and positive fact was that ČSOB further increased the usage of derivatives by 32% in 2007 and the interest rates and commodity part increased by 238%. ČSOB's Derivatives (traded into the books of KBC) were the most profitable part of the whole KBC FXO trading, same as in 2006.

ČSOB Leasing CZ confirmed its No. 1 position with 2007 new turnover of CZK 25.2 bn, which is 16% higher compared to 2006. The Y/Y improvement was driven by financial leasing (+10%), full service operative leasing (+34%) and consumer loans (+46%). From the commodity view, the best results were achieved in the area of commercial vehicles (+33%). ČSOB Leasing CZ also ranked first among financial intermediaries and support financial institutions in the CZECH TOP 100 for the fifth time in a row.

As of 31 December 2007, total new turnover of assumed receivables of **ČSOB Factoring CZ** amounted to CZK 27.1 bn (39% above the previous year). In the end of 2007, ČSOB Factoring CZ reached a market share of 21.3% and kept the position of the market leader. Good development of business was driven by raised volume of credits provided to clients, which were acquired at the end 2006, and also supported by significant improvement in the cooperation with the Bank.

In line with the governance structure, the ČSOB Group consolidated 25% of the **insurance** company ČSOB Pojišťovna in its accounts. In 2007, ČSOB Pojišťovna reported net profit of CZK 840 m, which is the best result in its history. Non-life gross written premium in the amount of CZK 3.635 bn grew by 12% Y/Y. The highest growth was recorded in Households, MTPL and Casco. Since October 2007, the new product Merkur is being sold as part of industrial risk – for engineering business. Life gross written premium of CZK 5.421 bn increased in 2007 by 22% Y/Y. ČSOB Pojišťovna raised its market share to 10.1% in life insurance and 4.8% in non-life insurance and confirmed its position No. 5 in the market of life and non-life insurance.

Direct Banking

The increase in banking transactions initiated through Direct Sales and Services gives evidence that e-banking is becoming a more common part of life. In 2007, there were more than 65 million transactions executed through direct services in ČSOB (including PSB), i.e. 20% more than in 2006, and **80% of all transactions** realized in ČSOB were executed through direct services. More than 44% of ČSOB clients have opened at least one channel of Direct Banking with their bank accounts. Also the first year of e-Toll functioning was very successful, CZK 6 bn were cleared for road-toll transactions by ČSOB.

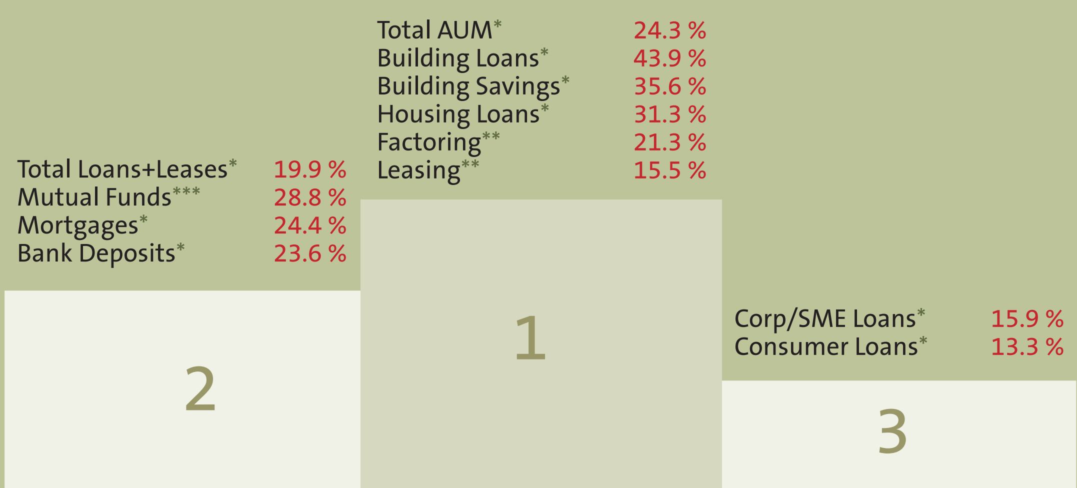
In 2007, almost 3 million client calls were answered by the **Client Centre**. This represented ca 233 thousand calls per month, signifying a Y/Y increase of 9%. In compliance with the business focus of the Client Centre on an active approach towards the clients, ČSOB are progressing to increase the rate of the outbound calls in comparison with inbound calls from 29% in 2006 to 37% in 2007.

In May, ČSOB successfully finished the migration of **Card management system** from GPE to Sinsys (global KBC provider) that enables the Bank and its partners to extend the quality of service and further implement services with added value. By the end of 2007, the **CashBack** service, unique in the Czech Republic, reached 100 million transactions and was awarded in the Zlatá koruna contest as one of the Innovations of the Year 2007. On a yearly basis, ČSOB increased the number of transactions processed via ČSOB merchants by 21% and via ATMs by 34%. The number of ATMs raised by 52 to 637 in total. The expansion of functionalities via ATM network continued, ČSOB successfully launched personal loans offers and credit cards via ATM.

Other 2007 **e-innovations** were ČSOB Business Banking 24 Online and Max Homebanking PS Online. ČSOB completely re-designed all the currently managed web pages of all blue brand companies together with two new web pages – Private Bank and Club of Successful Businessmen and launched on-line sales of MTPL insurance.

ČSOB Group's market shares in the Czech Republic
(as at 31 December 2007)

Insurance	MS	Rank
Life	10.1%	5
Non-Life	4.8%	5



Poznámky:
* Market shares by outstanding volumes at the end of period
** Market share by volumes of new business
*** According to AKAT methodology, incl. institutional funds and third parties funds, MS according to outstanding volume at the end of period

Source: CNB, financial associations

ČSOB Group in Slovakia

ČSOB Group SK achieved very good business results in 2007, using 86 retail branches and 15 SME-specialized Business Centres of ČSOB SK and the network of ČSOB's Slovak subsidiaries. **Total business lending** in Slovakia increased by 22% Y/Y and reached SKK 73.9 bn, thanks to the growth reported in all segments: Retail (+42%), Corporate (+16%), SME (+9%), Leasing (+21%). Being the main part of retail loans, mortgages rose by 51% Y/Y. In terms of total assets, ČSOB SK has remained No. 4 in the Slovak market.

Behind the good business results stand continuous **product improvements and distribution innovations**. In line with the Group strategy, ČSOB SK also seeks to strengthen insurance sales via the bank network.

ČSOB SK redesigned all service packages for SME clients and individuals to make their use more effective. ČSOB SK also launched a new package for administrators – ČSOB Business Account KOMPLET for Administrators – and updated Agricultural Bridging Loan and Renewal Housing Fund. ČSOB SK successfully offered its highly structured and sophisticated acquisition financing, which resulted in transactions within the telecommunication industry amounting to SKK 2.7 bn. ČSOB SK participated in syndicated loan transactions exceeding in total EUR 1 bn.

Noteworthy among retail innovations is ČSOB Mortgage for young people entitled to a state housing benefit and contribution from the Bank. In autumn 2007, ČSOB SK was the first bank in Slovakia to launch VARIO mortgage, an adjustable rate mortgage with flexible payment options, maturity (up to 40 years) and repayment anytime after 30 years. Retail branches started to provide credit products such as consumer loans, overdrafts and credit cards through the ATM network. ČSOB SK is the first bank to offer cardholders the option to design their own unique payment card – IMAGE card.

Other companies of the **ČSOB Group SK** also significantly contributed to the achieved results.

In the course of 2007, **ČSOB AM SK** extended its offer by eight new capital guaranteed funds in SKK for retail clients and eight capital guaranteed funds for clients of the Private Bank. ČSOB AM SK continues to strengthen its No. 4 position in the Slovak mutual funds market with a market share of 11.5%. Gross sales of mutual funds in 2007 reached SKK 14.2 bn (+35% Y/Y). In 2007, ČSOB AM SK launched a first property CGF – FUND PARTNERS ČSOB Reality SKK 1.

In 2007, together with a slight increase of the number of clients **ČSOB d.s.s.** witnessed a significant growth of assets under management up to the total of SKK 2.8 bn. At the end of 2007, ČSOB d.s.s. had more than 104 thousand clients.

In 2007, **ČSOB SP** continued its past success as the number of concluded housing savings agreements increased Y/Y by 41%. In line with the set objectives and seeking to simplify processes of service provision, ČSOB SP introduced the sales of housing savings through the Bank branches, launched cross-selling of products and restructured its loan portfolio. To provide its clients with higher quality and achieve better client satisfaction, ČSOB SP has significantly reduced the loan approval period.

In **bancassurance**, an increased cooperation of ČSOB Poisťovňa and ČSOB SK doubled the volume of life gross written premium compared to 2006. ČSOB Poisťovna further secured its significant position which was proved by the third place in the 2007 insurance company awards organized by the TREND weekly.

FY 2007	ČSOB SK
Life insurance / ČSOB mortgages	53%
Property insurance / ČSOB mortgages	63%
Consumer loans insurance / ČSOB consumer loans	84%

Note: The number of new contracts insured / all insurable

In 2007, **ČSOB Leasing SK** financed assets in the total amount of SKK 12.3 bn. The company concluded over 16,150 contracts. With its 17% market share in movable asset financing, ČSOB Leasing SK again confirmed its leading market position. The growing number of changes focused on productivity of labour as well as the implementation of customer-oriented changes contributed to the results achieved.

ČSOB market shares in Slovakia

	Market share	Rank
Leasing*	15.8%	2
Building Savings	10.2%	3
Building Loans	4.4%	3
Mutual Funds	11.5%	4
Total AUM	8.4%	4
Bank Deposits	7.8%	4
Total Loans and Leases	7.7%	5
Factoring*	8.9%	5
Bank Loans	7.9%	5
Life premiums*	4.4%	7
Non-life premiums*	2.4%	8

* Market share by volumes of new business.

Featured mainly by significant flexibility of interior premises, the new ČSOB headquarters is nearly as large as one third of the Wenceslas Square in Prague.

About us

Company profile

ČSOB Profile

Československá obchodní banka, a. s. is a universal bank operating in the Czech Republic. ČSOB was established by the state in 1964 as a bank to provide foreign trade financing and convertible currency operations. It was privatized in 1999 when KBC Bank, a member of the Belgium's KBC Group, became the majority owner. ČSOB took over Investiční a Poštovní banka, a.s. in 2000. ČSOB had been active in both Czech and Slovak markets until 2007; the Slovak branch was separated as at 1 January 2008.

ČSOB's business profile comprises the following segments: retail (individuals), SMEs, corporate and non-banking financial institutions, financial markets and private banking. ČSOB operates under two retail brands in the Czech Republic – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB); the latter uses a wide distribution network of Czech Post. To serve their clients, ČSOB has 222 branches in the Czech Republic while PSB uses 29 Financial Centers and approx. 3,330 post offices. In addition to its own products, ČSOB distributes a complete selection of products and services of the whole ČSOB Group. Both ČSOB and PSB also provide their services through various direct-banking channels.

The ČSOB Group is a leading player in Czech financial services industry. Combining the power of its brands – ČSOB (banking, insurance, asset management, pension funds, leasing and factoring), the Postal Savings Bank (banking through the postal distribution network), Hypoteční banka and ČMSS (banks specialized in financing housing needs) – the ČSOB Group holds strong market positions in all segments of the Czech financial market. The ČSOB Group is a long-term number 1 in financing housing needs, leasing and total assets under management. Services related to trading on financial markets are provided by Patria, a sister company of ČSOB.

The ČSOB Group builds a strong, long-term partnership with each client, whether in personal and family finance, financing SMEs or corporate finance. The ČSOB Group is a good listener who offers suitable solutions, rather than mere products.

KBC Group Profile

The 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 three direct subsidiaries: KBC Bank, KBC Insurance and Kredietbank Luxembourgeoise.

The KBC Group is a well capitalized, multi-channel bancassurance group enjoying traditionally a strong market share position in Belgium. As at the end of 2007, its market capitalization reached 34 billion euros. KBC has successfully expanded its geographic reach over the last nine years to include Central and Eastern Europe and now already has a significant to even very strong presence in the Czech Republic, Slovakia, Poland, Hungary, Bulgaria, Romania, Serbia and Russia. Via its minority share in NLB, it also has an indirect presence in Slovenia and other Balkan states. The group caters mainly for retail customers, small and medium-sized enterprises and private banking clientele, but is also active in corporate banking and market activities.

Main Central and Eastern European KBC Group companies and participations
(as at 31 December 2007)

Country	Banks and Insurance companies		Interest percentage (direct and indirect)
Czech Republic	ČSOB	Bank	100
	ČSOB Pojišťovna	Insurance company	100
Hungary	K&H Bank	Bank	100
	K&H Insurance	Insurance company	100
Poland	Kredyt Bank	Bank	80
	Warta	Insurance company	100
Slovakia	ČSOB	Bank	See Czech Republic
	ČSOB Poisťovňa	Insurance company	100
Bulgaria	Economic and Investment Bank	Bank	75
	DZI Insurance	Insurance company	89
Russia	Absolut Bank	Bank	95
Serbia	A Banka	Bank	100
Slovenia	NLB	Bank	34
	NLB Life	Insurance company	67

Some key figures for the KBC Group as at 31 December 2007 are given below.

KBC Group's Key Data
(as at 31 December 2007)

Total assets	EUR bn	355.6
Market capitalization	EUR bn	34.2
Net profit	EUR bn	3.3
Tier 1 ratio, banking activities (Basel II)	%	8.7
Solvency ratio, insurance activities	%	265
Headcount	FTEs	57,000

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	AA-	Aa2	AA-
KBC Insurance	AA	-	AA-

For more information please refer to the KBC's corporate website www.kbc.com.

ČSOB as a controlled and controlling entity

Within the KBC Group and the ČSOB Group, ČSOB acts as both controlled entity and controlling entity as defined in the Commission Regulation (EC) No 809/2004.

As at 1 January 2007, ČSOB was a **controlled entity** by KBC Bank (97.44%). Other shareholders included Česká pojišťovna a.s. (1.13%) and other minority shareholders (totalling 1.43%).

The following changes in the shareholder structure occurred during 2007:

April 2007

KBC Bank purchased the 1.13% stake from Česká pojišťovna a.s.

June 2007

KBC Bank completed the purchase of ČSOB shares from minority shareholders; KBC Bank was registered in the Register of Companies as the sole shareholder of ČSOB on 12 June 2007. The transfer of shares from minority investors to KBC Bank was registered in the Prague Securities Centre on 14 June 2007.

As a result of these transactions, KBC Bank NV (identification number 90029371) was the sole shareholder of ČSOB on 31 December 2007. KBC Group NV (identification number 90031317) is the sole shareholder of KBC Bank. Both KBC Group and KBC Bank have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. The Bank meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January 2007 and 31 December 2007.

Information about the KBC Group as at 31 December 2007 is available in Annex to this part of the Annul Report.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2007 as defined by Section 66a of the Commercial Code and the chart of their relations please refer to chapter Companies of the ČSOB Group.

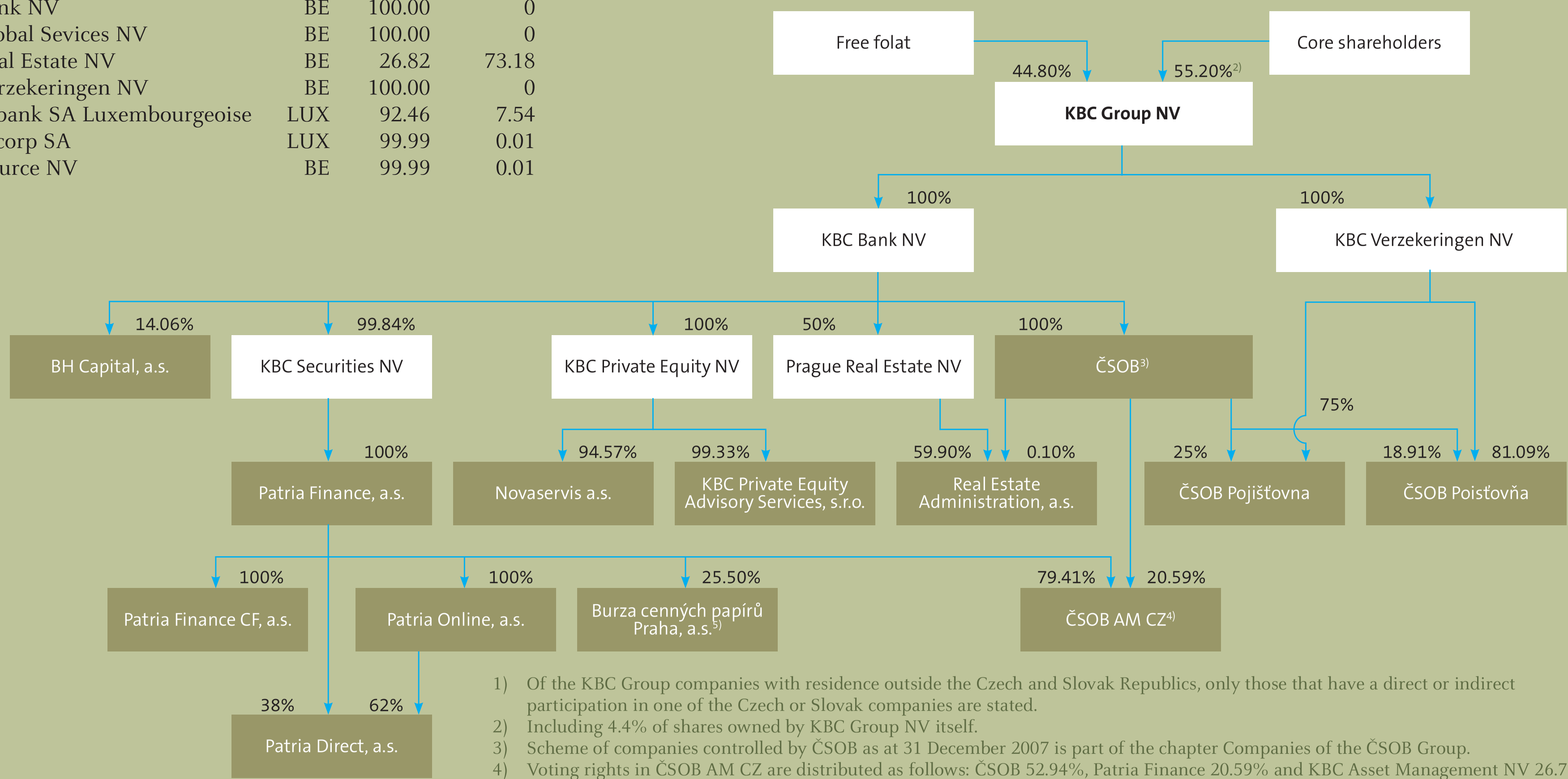
Information about the KBC Group

(as at 31 December 2007)

KBC Group NV

Controlled entities	Country	% property share Direct	Indirect
Fidabel NV	BE	99.20	0.80
Gebema NV	BE	100.00	0
KBC Asset Management NV	BE	48.14	51.86
KBC Bank NV	BE	100.00	0
KBC Global Sevices NV	BE	100.00	0
KBC Real Estate NV	BE	26.82	73.18
KBC Verzekeringen NV	BE	100.00	0
Kredietbank SA Luxembourgeoise	LUX	92.46	7.54
Kredietcorp SA	LUX	99.99	0.01
Valuesource NV	BE	99.99	0.01

The companies of KBC Group on the Czech and Slovak Republics as at 31 December 2007 [1)]



1) Of the KBC Group companies with residence outside the Czech and Slovak Republics, only those that have a direct or indirect participation in one of the Czech or Slovak companies are stated.
2) Including 4.4% of shares owned by KBC Group NV itself.
3) Scheme of companies controlled by ČSOB as at 31 December 2007 is part of the chapter Companies of the ČSOB Group.
4) Voting rights in ČSOB AM CZ are distributed as follows: ČSOB 52.94%, Patria Finance 20.59% and KBC Asset Management NV 26.7%.
5) Patria Finance owns 20% of voting rights in Burza cenných papírů Praha (Prague Stock Exchange).

ČSOB SK in 2008

Business name:	Československá obchodná banka, a. s.
Registered office:	Michalská 18, 815 63 Bratislava
ID No.:	36 854 140
Registration:	Registered in the Commercial Registry of the District Court in Bratislava 1, Section Po, Entry 168/B
Date of registration:	1 January 2008
ČSOB line 24:	+421 850 111 777

Since 1 January 2008, a **separate legal entity** has been active in Slovakia instead of the branch of a foreign bank. Its business name is **Československá obchodná banka, a. s.**

ČSOB SK is authorized to perform all banking activities in Slovakia pursuant to Act No. 483/2001 Coll., Banking Act, on the basis of the banking license No. OPK-2298/2007-PLP issued by the NBS on 19 November 2007 and effective from 20 November 2007.

As at 1 January 2008, ČSOB SK's share capital was SKK 5 bn and shareholders' equity SKK 14 bn.

ČSOB SR is a universal bank and will strive for balanced development of care and services for the following segments: retail, SMEs, corporates, private banking and financial markets. The foundation of an independent bank in Slovakia set a new legal model compatible with the already applied management system within the KBC Group focusing on individual countries in the CEE.

Shareholders of ČSOB SK
(as at 1 January 2008)

Business name	Legal form	ID number	Registered office	Share of voting rights (%)	Owner ship interest (%)
KBC Bank NV	Joint-stock company	90029371	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgie	100.00	39.80
ČSOB	Joint-stock company	00001350	Radlická 333/150, 150 57 Praha 5, Czech Republic	-	56.74
ČSOB Leasing	Joint-stock company	63998980	Na Pankráci 310/60, 140 00 Praha 4, Czech Republic	-	2.02
ČSOB Factoring	Joint-stock company	45794278	Benešovská 40, 101 00 Praha 10 - Vinohrady, Czech Republic	-	1.44
Total				100.00	100.00

ČSOB SK – Board of Directors
(as at 1 January 2008)

First name and surname	Position
Daniel Kollár	Chairman of the Board of Directors and CEO
Branislav Straka	Member of the Board of Directors and Senior Executive Officer, Retail Distribution
Rastislav Murgaš	Member of the Board of Directors and Senior Executive Officer, Finance and Risk Management
Ľuboš Ondrejko	Member of the Board of Directors and Senior Executive Officer, Corporate Banking
Marc Bautmans	Member of the Board of Directors and Senior Executive Officer, Bank and Investment Products
Evert Vandenbussche	Member of the Board of Directors and Senior Executive Officer, Human Resources and Property Management

ČSOB SK – Supervisory Board
(as at 1 January 2008)

First name and surname	Position
Jan Vanhevel	Chairman of the Supervisory Board
John Hollows	Member of the Supervisory Board
Riet Docx	Member of the Supervisory Board
Soňa Ferenčíková	Member of the Supervisory Board
Marek Špak*	Member of the Supervisory Board
Beáta Dorociaková*	Member of the Supervisory Board

* Members of the Supervisory Board appointed by the Memorandum of Association

Election of Supervisory Board Members by employees of ČSOB SK took place on 13 and 14 March 2008. Eva Jančíková and Mária Kučerová were elected as members of the Supervisory Board. The election results are subject to an approval by NBS; thereafter, Eva Jančíková and Mária Kučerová will substitute Marek Špak and Beáta Dorociaková.

Group of ČSOB SK as at 1 January 2008

ČSOB SK is the sole shareholder of member companies of the ČSOB SK Group (except ČSOB Poisťovňa), i.e. ČSOB AM, ČSOB DSS, ČSOB Leasing, ČSOB Stavebná sporiteľňa, ČSOB Distribution, ČSOB Factoring and Business Center. The business names of the subsidiaries remain unchanged after 1 January 2008.

For more information on ČSOB SK please refer to **www.csob.sk**.

Sustainability

Last year, the sustainability programme in the ČSOB Group underwent many considerable changes. **To find and offer solutions for social needs belong to the Group's commercial interests.** This is why issues related to the healthy development of the society became part of everyday decision-making. **Sustainability is not understood as a concept out of touch with our business, but as its integral part.**

A sustainability strategy, including the main priorities and decision-making powers, as it was clearly defined in 2007, aims at coherency and efficiency of each project. Having the rules laid out made it possible to perform numerous new activities attended by employees, customers and public. It is the Group's intent to further develop these activities in the future. Additionally, a first Report on sustainability was issued. The 2007 report will be issued together with the Group's Annual Report. For the first time, the Bank's philanthropy activities were assessed by the Donors Forum pursuant to the internationally recognized London Benchmarking Group methodology.

What do we bring to our customers?

Customers play a key role in the ČSOB Group's operations. They receive only unbiased and true information from well-trained advisors at points of sale. A high quality of the branch and advisory network is guaranteed by a comprehensive system of training courses and customer satisfaction surveys. With its responsible approach to financing the Group always strictly adheres to the principles of ethics in business.

The Group was the first in the Czech Republic to offer its customers Socially Responsible Funds through which the customers make investments in advanced environmental technologies and infrastructures that bring higher quality of life. Issuers must comply with strict economic and social criteria. These SRI funds are no charity activities. Quite the opposite, **their revenues are at least comparable to standard funds and, in some cases, even higher.**

Together with ČSOB, the public had a chance to support projects of non-profit organizations – to buy an image card from the series "We help" or paintings painted by children in the sales exhibition taking place in our Na Poříčí branch in Prague 1, and to vote in the Regional Support Programme.

Our employees are crucial for us

They are a backbone of the ČSOB Group's activities and the employee care programme is one of the most important components of the sustainability strategy. This is why the Group seeks to create an environment where the employees feel comfortably when carrying out their work duties. **When recruited or assessed, each applicant receives full respect regardless of his/her gender, race, religion and belief.** Not only to women does the Group offer suitable conditions to aid reconciliation of professional and private life, including part-time work, flexible working hours, etc. Moreover, a wide range of educational and training courses is available to all employees who can choose among them according to their specialization and needs.

We care for the environment

Moving of nearly 2,600 employees to our new, environmental-friendly new building in Prague - Radlice was one of the crucial events. In its approval process, ČSOB adopted Equators Principles launched by the World Bank and applied by the banking sector to set, assess and manage social and environmental risks in project financing. Furthermore, the Group finances renewable resource projects. Our care for the environment finds expression in our philanthropy projects as well.

Our community

Support of education, especially financial literacy and integration of the socially and physically disadvantaged became the top priorities of our philanthropy support.

More than ten years of co-operation with the Education Fund by Good Will Committee – The Olga Havlová Foundation, make this project a tradition. So far, ČSOB has granted more than CZK 10 million to talented students. Extended co-operation with Ergotep, co-operative associating the physically impaired, enables Ergotep to provide Poštovní spořitelna with marketing and distribution services. To address financial literacy, an independent and specialized advisory project was launched with Citizen Advisory Offices focusing on personal finance, debt trap, the basics of finance etc.

The aim of the pilot Regional Support Programme was to extend the support rendered efficiently to regions. As the region always knows the best what the regional troubles are, the selection committee also listened to a voice of regional experience spoken by a representative of the Regional Authority. Encompassing eleven local projects of regional development, the Programme supported mainly integration of the physically and socially impaired and education.

Unconventional green areas and two ponds – one with aquatic plants and the other with pebble stones – constitute remarkable natural elements of the ground level.

Companies of the ČSOB Group

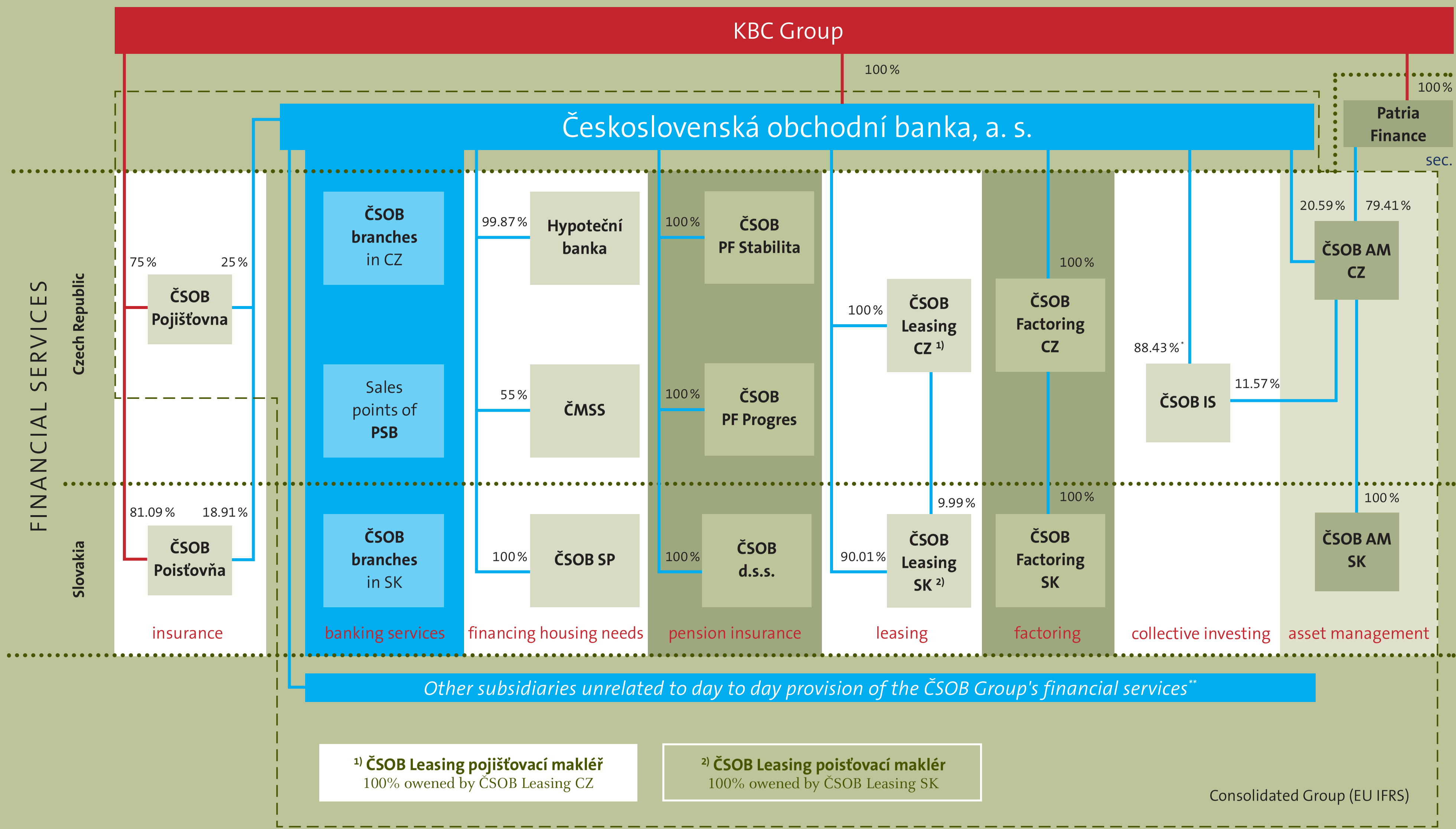
ČSOB Group

The ČSOB Group operated in 2007 in the Czech Republic, but also in Slovakia. As at 31 December 2007, ČSOB had ownership interests in 41 legal entities and, in addition to ČSOB, other 37 companies were included in the group of consolidated companies. There were 13 subsidiaries offering financial services. The scope of financial services rendered by ČSOB would not be complete without three affiliated companies – ČSOB Pojišťovna, ČSOB Poisťovňa and Patria Finance.

In 2007, Zemský PF merged with ČSOB PF Progres.

The ČSOB Group offers its clients the following types of services:

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



As at 31 December 2007

Note: * Direct (73.15%) and indirect (15.28% via subsidiary Auxilium) share of ČSOB on company's equity.

** A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2007.

Hypoteční banka, a.s.

Czech Republic

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Share capital as at 31. 12. 2007:	CZK 3,458,107 ths
Shareholders as at 31. 12. 2007:	99.87% Československá obchodní banka, a. s.
(% in registered capital / % in voting rights)	0.13% other shareholders

Key indicators*:

		2007	2006
Volume of receivables from clients	CZK m	96,375	64,889
Number of newly approved mortgage loans to private individuals	pcs	23,412	18,649
Volume of newly approved mortgage loans to private individuals	CZK m	40,378	26,376
Market share in the Czech Republic (by volume of newly approved mortgage loans for citizens according to MMR's methodology**)	%	27	24

* Based on internal management reporting system
** MMR = Ministry for Regional Development

Comments:
Since January 2007, Hypoteční banka has focused exclusively on offering mortgages and the related services to individuals. Compared to 2006, the volume of loans to individuals granted by Hypoteční banka (including loans offered via ČSOB and other partners) increased by 53%. The number of mortgage loans also increased, namely by 25.5%. In mortgages newly granted to individuals, Hypoteční banka increased the lead over Komerční banka and narrowed the gap behind the leading Česká spořitelna.

Hypoteční banka continued upgrading its product portfolio and introduced numerous innovations that, first of all, brought about simplified and shorter loan approval process. To name just a few, the innovated portfolio includes now Mortgage on-line, interest rate fixation for 20, 25 and 30 years, free information service via e-mail or text messaging, remote access to the Land Register and express appraisals of flats.

A number of awards recived are a proof that Hypoteční banka is doing a great job – 1st place in the "Mortgage of the Year" in MasterCard Bank of the Year 2007 Awards, two 1st places in Zlatá koruna 2007 Awards, an absolute winner in the WebTop 100 contest, 1st place in the Internet Effectiveness Awards 2007 and an appreciation by the editors of Osobní finance and FinExpert.cz magazines.

In the multi-brand strategy, Hypoteční banka deepened co-operation with its current partners (ČSOB, Poštovní spořitelna and Citibank). The volume of approved ČSOB Mortgages grew year-on-year by 82%.

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Českomoravská stavební spořitelna, a.s.

Czech Republic

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Share capital as at 31. 12. 2007:	CZK 1,500,000 ths
Shareholders as at 31. 12. 2007:	55% Československá obchodní banka, a. s.
(% in registered capital / % in voting rights)	45% Bausparkasse Schwäbisch Hall A/G

Key indicators*:

		2007	2006
Loans and bridging loans	CZK m	79,502	61,879
Volume of client deposits	CZK m	138,048	127,921
Number of valid contracts	pcs	2,149,970	2,201,796
Volume of target amounts of newly concluded contracts	CZK m	104,756	79,694
Market share (by volume of target amounts of newly concluded contracts)**	%	43.5	43.0

* Based on internal management reporting system
** 2006 and 2007 market shares are expert estimates

Comments:
In 2007, Českomoravská stavební spořitelna achieved several record business results, and, compared to the market, reached unique performance in other areas as well. The company provided loans totalling more than CZK 30 bn, which is a new record of both ČMSS and the whole building savings sector in the Czech Republic. Since its foundation, ČMSS has granted building loans amounting to CZK 150 bn, which represents yet another historical milestone. The company can also boast of the best performance in the loan-deposit ratio among all Czech building savings banks; as of 31 December 2007, it reached nearly 60%.

The year 2007 was further characterized by excellent new deals in building savings. The total target amount of nearly CZK 105 bn represents the second best result in the company's history. So far, no other building savings bank in the Czech Republic has achieved a result similar to that. An average target amount of contracts also set up a new record in 2007, as it exceeded CZK 322,000.

The building savings bank has successfully introduced a new financial program for the old age provision called Liška Plus, which effectively combines advantages of the ČMSS building savings and the ČSOB pension funds Progres and Stabilita.

The record performance in building savings and loans was matched by no less excellent results in cross-selling products. The total of 135,000 concluded contracts represent both unique performance and a new historical record. The product range includes collective investment funds, pension funds, life risk insurance, and current accounts. With just one exception, no other building savings bank in the Czech Republic even managed to conclude the same number of building savings contracts.

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

Czech Republic

Date of establishment:	26. 10. 1994
Business activities:	Supplementary pension insurance with state contribution
Identification number:	61859265
Share capital as at 31. 12. 2007:	CZK 97,167 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	100% Československá obchodní banka, a. s.

Key indicators*:

		2007	2006
Number of concluded contracts	pcs	62,855	61,763
Funds registered in favour of participants	CZK m	14,216	12,247
of which contributions of participants	CZK m	11,015	9,447
Market value of the investment portfolio	CZK m	14,152	12,714
Appreciation of participants' funds	%	2.4**	2.8*
Market share in the Czech Republic (by the number of participants)	%	9.7	9.9

* Based on internal management reporting system
** Proposed appreciation, which is to be approved by the shareholder.

Comments:

In 2006, ČSOB PF Stabilita achieved 2.8% appreciation of the participants' funds. Long-term good economic results were positively reflected in the growing number of contracts concluded in 2007, when ČSOB PF Stabilita acquired approx. 63 ths new clients and the total number of participants grew by 7.4% Y/Y.

In 2007, just as in 2006, co-operation within the ČSOB Group was further deepened and approx. 63% of new contracts were concluded through distribution networks of other companies of the ČSOB Group (ČMSS, ČSOB and ČSOB Pojišťovna). In 2005, their share was 54%.

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

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Internet:	www.csobpf.cz

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

Czech Republic

Date of establishment:	14. 2. 1995
Business activities:	Supplementary pension insurance with state contribution
Identification number:	60917776
Share capital as at 31. 12. 2007:	CZK 120,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	100% Československá obchodní banka, a. s.

Key indicators*:

		2007	2006
Number of concluded contracts	pcs	62,738	64,649
Funds registered in favour of participants	CZK m	5,466	3,383
of which contributions of participants	CZK m	4,432	2,786
Market value of the investment portfolio	CZK m	5,393	3,437
Appreciation of participants' funds	%	2.4**	2.3
Market share in the Czech Republic (by the number of participants)	%	5.7	4.4

* Based on internal management reporting system
** Proposed appreciation, which is to be approved by the shareholder.

Comments:

For the period of years 2002 to 2006, ČSOB PF Progres achieved the highest average appreciation of the clients' funds in the supplementary pension insurance market. This performance also resulted in the growth of contracts concluded in 2007. ČSOB PF Progres acquired approx. 63 ths new clients (mainly thanks to co-operation with ČMSS) and increased its market share by 1.3% measured by the number of participants, which ranks ČSOB PF Progres among the fastest growing pension funds in the market.

As in previous years, when ČSOB PF Progres won a number of prestigious awards (1st place in Zlatá koruna 2006 award, 2nd place in the Zlatý Měšec 2006 poll), last year ČSOB PF Progres took 1st place in Zlatá koruna 2007 award for the best pension fund.

During 2007, Zemský PF merged with ČSOB PF Progres. The merger was successfully completed with registration in the Register of Companies on 31 December 2007. As at the date of the merger, Zemský PF had 13,737 clients and managed funds registered in favour of participants in the amount of CZK 631 m.

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

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ČSOB Leasing, a.s.

Czech Republic

Date of establishment:	31. 10. 1995
Business activities:	Financial services (financial and operational leasing, customer credits, hire-purchase)
Identification number:	63998980
Share capital as at 31. 12. 2007:	CZK 3,000,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	100% Československá obchodní banka, a. s.

Key indicators*:

		2007	2006
Volume of new leasing turnover in the Czech Republic	CZK m	25,450	21,625
Number of concluded contracts in the Czech Republic	pcs	39,280	32,431
Relevant market share in the Czech Republic measured by volume of transactions**	%	15.51	15.72

* Based on internal management reporting system
** The overall market includes the leasing market of movables and the relevant market of hire-purchase and consumer loans.

Comments:
ČSOB Leasing CZ is the most significant leasing company with a nation wide branch network. Since 2001, ČSOB Leasing CZ has been a stable leader of the leasing market with the highest market share. In 2007, the company increased again its lead over the main peers in the leasing market.

ČSOB Leasing CZ provides financing of all types of new and used cars (passenger cars, utility cars and lorries), motorcycles and machines, equipment, capital equipment and information technologies.

ČSOB Leasing CZ provides its clients from the group of both private individuals and corporate entities with a complete range of financial products: financial leasing, consumer loan, hire purchase and operating leasing (including Full service leasing, Fleet management and LeaseBack). All ČSOB Leasing's products are offered with corresponding services, in particular complete insurance.

ČSOB Leasing CZ is the only universal leasing company in the Czech leasing market to hold the internationally recognized ISO 9001:2000 certificate.

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Internet: www.csobleasing.cz

ČSOB Factoring, a.s.

Czech Republic

Date of establishment: 16. 7. 1992
Business activities: Factoring
Identification number: 45794278
Share capital as at 31. 12. 2007: CZK 70,800 ths
Shareholders as at 31. 12. 2007: 100% Československá obchodní banka, a. s.
(% in registered capital / % in voting rights)

Key indicators*:

		2007	2006
Turnover of receivables	CZK bn	27.1	19.5
Market share in the Czech Republic (by turnover of factoring receivables)	%	21.3	18.6

* Based on internal management reporting system

Comments:
In 2007, ČSOB Factoring CZ succeeded in accelerating the rise of turnover and, compared to 2006, increased this basic indicator by almost 40%. The outstanding business result is positively reflected in the income statement and the achieved profit of CZK 145.34 m (according to CAS) is record-breaking in the company's history. The reported turnover was a comeback to the leading position on the market made after ages. The increase of market share combined with traditional profitability maintained shows the ability to keep high standard of services provided, take the advantage of synergy within the Group and have a good control of risk at the same time.

At the end of 2007, ČSOB Factoring CZ financed approximately 300 clients with almost CZK 4 bn. Within the ČSOB Group, ČSOB Factoring CZ serves entrepreneurs who look for a suitable alternative to standard banking products or use additional services in the area of management of receivables and securing of risk . Traditional factoring financing provided on the basis of assignation of receivables is often combined with additional sources and ČSOB Factoring CZ, therefore, offers its clients comprehensive financial solutions.

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

Czech Republic

Date of establishment:	31. 12. 1995
Business activities:	Client asset management
Identification number:	63999463
Share capital as at 31. 12. 2007:	CZK 34,000 ths
Shareholders as at 31. 12. 2007:	
(% in registered capital)	79.41% Patria Finance, a.s.
	20.59% Československá obchodní banka, a. s.
(% in voting rights)	20.59% Patria Finance, a.s.
	52.94% Československá obchodní banka, a. s.
	26.47% KBC Asset Management NV

Key indicators:

		2007	2006
Assets under management*	CZK bn	105.5	85.8

* Volume of assets according to AKAT methodology (institutions, private individuals and foreign funds)

Comments:

ČSOB AM CZ provides its clients with investment services of securities management and is one of the leading companies in this market. Among clients of the company are insurance companies, pension funds, municipalities, trading, production and energy companies, trade unions, foundations and other non-profit companies and also private individuals. The company also manages assets of specific foreign funds from the KBC Group.

In 2007, the volume of managed assets grew in all segments mainly thanks to the ability to offer clients sophisticated “tailor-made” services. The highest growth dynamics of assets under management was recorded in the segment of small and medium enterprises with annual growth over 50%.

ČSOB AM CZ also established ČSOB Property fund, a fund of qualified investors, with a strategy of direct investments in first-class commercial real estate in Central and Eastern Europe. The first investment made by the fund was the PWC Business Community Center in Prague worth approximately EUR 35 m.

In 2007, the company paid out dividends to shareholders amounting to CZK 95 m.

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Investiční
ČSOB společnost

ČSOB Investiční společnost, a.s., a member of the ČSOB Group

Czech Republic

Date of establishment:	3. 7. 1998 (transformed from O.B. INVEST, investiční společnost, spol. s r.o.)
Business activities:	Collective investment
Identification number:	25677888
Share capital as at 31. 12. 2007:	CZK 216,000 ths
Shareholders as at 31. 12. 2007:	
(% in registered capital)	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
(% in voting rights)	84.72% ČSOB Asset Management, a.s., a member of the ČSOB Group 15.28% Auxilium, a.s.

Key indicators*:

		2007	2006
Volume of assets under management**	CZK bn	12.4	12.6
Volume of assets in foreign funds***	CZK bn	79.6	61.3

* Based on internal management reporting system
** Incl. local (Czech) open ended funds offered by ČSOB IS
*** Incl. foreign funds distributed by ČSOB Group in the Czech Republic

Comments:

ČSOB IS is a significant company managing open ended funds. Since 1 January 2007, the company has been a distributor of KBC funds for the Czech Republic and has participated in product development for the whole ČSOB Group CZ. This also enables to strengthen synergies throughout the KBC Group.

In 2007, ČSOB IS continued strengthening its position in the market of open ended funds and confirmed its role of the main innovator especially in guaranteed funds. The company introduced two new funds: ČSOB akciový fond – Střední a Východní Evropa and ČSOB korporátní fond. ČSOB IS in cooperation with KBC AM introduced 8 new funds and 66 guaranteed funds.

In 2007, the company paid out dividends to shareholders in the amount of CZK 150 m.

A list of funds managed by ČSOB IS as at 31 December 2007: ČSOB bond mix, ČSOB akciový mix, ČSOB bohatství, ČSOB středoevropský, ČSOB nadační, ČSOB dluhopisových příležitostí, ČSOB realitní mix, ČSOB bytových družstev, ČSOB korporátní, ČSOB akciový fond – Střední a Východní Evropa, ČSOB Property fund.

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Internet:	www.csobinvest.cz

Patria Finance, a.s.

Czech Republic

Date of establishment:	23. 5. 1994
Business activities:	Securities trading and consultancy services in the field of corporate finance
Identification number:	60197226
Share capital as at 31. 12. 2007:	CZK 100,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	100% KBC Securities NV

Comments:

The scope of business performed by Patria Finance, a.s. and its subsidiaries (Patria Online, a.s., Patria Direct, a.s. and Patria Finance CF, a.s.) comprises investment banking, including securities trading and consultancy in management and financing of companies. Broker services for clients are offered via an Internet portal. The Patria Group conducts its own financial research and provides information from the financial market through the Internet portal at www.patria.cz .

In 2007, security trading focused exclusively on stock markets. Patria Finance maintained a leading position in the volume of shares trades carried out on the Prague Stock Exchange and further increased the volume of trading in foreign securities.

Income from advisory services for mergers and acquisitions increased significantly in 2007. Patria was a lead manager for several IPOs on domestic and foreign capital markets.

In 2007, consolidated net profit of the Patria Group exceeded CZK 230 m. The number of clients for whom securities trading is mediated via Internet exceeded 7,800.

Contact:

Address:	Jungmannova 24, 110 00 Praha 1
Telephone:	+420 221 424 111
Fax:	+420 221 424 222
E-mail:	into@patria.cz
Internet:	www.patria.cz

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

Czech Republic

Date of establishment:	17. 4. 1992
Business activities:	Insurance of citizens and entrepreneurs in the area of life and non-life insurance
Identification number:	45534306
Share capital as at 31. 12. 2007:	CZK 1,536,400 ths
Shareholders as at 31. 12. 2007:	75% KBC Verzekeringen NV
(% in registered capital / % in voting rights)	25% Československá obchodní banka, a. s.

Key indicators*:

		2007	2006
Number of insurance contracts	pcs	615,528	437,256
Volume of written premium	CZK m	9,056	7,674
Number of claims settled	pcs	139,320	141,247
Market share in the non-life insurance market	%	4.8	4.5
Market share in the life insurance market	%	10.1	9.4

* Based on internal management reporting system

Comments:

ČSOB Pojišťovna is a universal insurance company offering a wide range of life and non-life insurance products to private individuals, small and medium enterprises and also corporate clients. Currently, the company administers almost one million insurance contracts. Measured by written premium the company ranks No. 4 in the local insurance market.

Standard & Poors Ratings Services (S&P), prominent rating agency, once again increased the ČSOB Pojišťovna’s rating. In the new rating, ČSOB Pojišťovna achieved a long-term loan rating (ICR) and rating of financial strength (FSR) on the A- level with a stable outlook, which is one of the best ratings ever granted to a Czech company.

The process of further cooperation in bancassurance deepened. What the clients appreciated most were new innovative saving products within the investment life insurance.

One of the main tasks of the commercial service of ČSOB Pojišťovna in 2007 was to renegotiate old life-insurance contracts and replace them by more variable and far more advanced products of the Universal life series.

Contact:

Address:	Masarykovo nám. 1458, 532 18 Pardubice, Zelené předměstí
Telephone:	+420 467 007 111, +420 800 100 777
Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

ČSOB stavebná sporiteľňa, a.s.

Slovak Republic

Date of establishment: 8. 11. 2000
Business activities: Building savings and loans
Identification number: 35799200
Share capital as at 31. 12. 2007: SKK 720,000 ths
Shareholders as at 31. 12. 2007: 100% Československá obchodní banka, a. s. (Czech Republic)
(% in registered capital / % in voting rights)
Shareholders as at 1. 1. 2008: 100% Československá obchodná banka, a. s. (Slovak Republic)
(% in registered capital / % in voting rights)

Key indicators*:

		2007	2006
Loans and bridging loans	SKK m	2,580	2,386
Volume of client deposits	SKK m	5,678	6,212
Number of valid contracts	pcs	102,797	115,535
Volume of target amounts of newly concluded contracts	SKK m	3,985	1,195

* Based on internal management reporting system

Comments:
In 2007, ČSOB SP set on the journey to implement the strategy established in late 2006. ČSOB SP has recorded 2007 net profit of SKK 22.99 m according to EU IFRS. The bank managed to improve in all key performance indicators compared to the previous period. Saving contracts recorded growth of more than 41%. The amount of confirmed loans increased by 16% from the previous period. These increases were achieved despite the wide transformation of sales network in 2007. By the end of 2007, the internal distribution network of the ČSOB Group, which is the main distribution channel of ČSOB SP, had 240% more sales representatives than in the beginning of the year. The impact of the first ended 6-year cycle of saving clients on funding was 62% better than planned, thanks to i.a. improved quality of sales and enhanced processes and products offered by ČSOB SP. As for loans, the quality of the loan portfolio improved significantly which was reflected in the default indicators. Changes in loan processes and tightening of the credit policy improved the quality of newly granted loans in 2007 (0.2% classified loans from the 2007 production).

In 2008, ČSOB SP plans to continue the successful implementation of the strategy adopted, to complete reorganization of all processes, to increase sales (i.a. through significant expansion of distribution channels) and to continue its cautious credit policy.

Contact:
Address: Radlinského 10, 813 23 Bratislava
Telephone: +421 259 667 899
Fax: +421 259 667 920
E-mail: csobsp@csobsp.sk
Internet: www.csobps.sk

ČSOB Leasing, a.s.

Slovak Republic

Date of establishment:		10. 12. 1996
Business activities:		Financial services
Identification number:		35704713
Share capital as at 31. 12. 2007:		SKK 1,500,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	90.01%	Československá obchodní banka, a. s. (Czech Republic)
	9.99%	ČSOB Leasing, a.s. (Czech Republic)
Shareholders as at 1. 1. 2008: (% in registered capital / % in voting rights)	100%	Československá obchodná banka, a. s. (Slovak Republic)

Key indicators*:

		2007	2006
Volume of leasing turnover in the Slovak Republic	SKK m	12,314	12,120
Number of contracts in the Slovak Republic	pcs	16,150	14,053
Market share in the Slovak Republic by volume of transactions	%	15.8	16.7

* Based on internal management reporting system

Comments:

ČSOB Leasing SK financed movables and immovables in total financed amount of SKK 12.3 bn in 2007. The number of contracts concluded in 2007 reached 16,150 and the entire living portfolio consisted of total 39,814 contracts as at 31 December 2007.

As for the market position, ČSOB Leasing SK confirmed its leading position in financing of movables with a 16.5% market share. The company remains number one in the following segments: machinery and equipment (market share of 16.4%), trucks (market share of 19.7%) and used cars (market share of 21.2%).

ČSOB Leasing SK was also successful in 2007 with regards to implementing changes aimed at increasing work productivity (launch and implementation of the SAP and EURO projects, procedures redesign in brand leasing services and launch of factoring for wholesale clients in brand leasing, simplifying of contract documentation) as well as at the customers (EUR financing launched through the operative leasing product in the machinery and equipment category, enhanced options for financing from the EIB funds, launch of SMS communication with the customers etc.)

Contact:

Address: Panónska cesta 11, 852 01 Bratislava 5

Telephone: +421 268 202 111

Fax: +421 263 815 248

E-mail: info@csobleasing.sk

Internet: www.csobleasing.sk

ČSOB Factoring

ČSOB Factoring a.s.

Slovak Republic

Date of establishment:	24. 2. 1997
Business activities:	Factoring
Identification number:	35710063
Share capital as at 31. 12. 2007:	SKK 30,000 ths
Struktura vlastníků k 31. 12. 2007: (% in registered capital / % in voting rights)	100% ČSOB Factoring, a.s. (Czech Republic)
Shareholders as at 1. 1. 2008: (% in registered capital / % in voting rights)	100% Československá obchodná banka, a. s. (Slovak Republic)

Key indicators*:

		2007	2006
Turnover of receivables	SKK m	4,123	4,270
Market share in the Slovak Republic (by total turnover of receivables)	%	8.9	9.5

* Based on internal management reporting system

Comments:

ČSOB Factoring SK provides its clients with modern financial services relating to financing and comprehensive management of receivables. Domestic recourse factoring remains the main product. The services provided as a standard also include export factoring, services connected with taking over risk of customer insolvency and solutions tailored to clients' needs.

In 2007, the company reported turnover of assigned receivables from factoring transactions in the amount of SKK 4,123 m. The company ranked fifth in the Slovak factoring market with a 8.9% share.

The company is using a highly sophisticated information system FACTORLINK, which allows clients to have on-line access to open receivables, surveys of payments etc.

Contact:

Address:	Gagarinova 7/a, 821 03 Bratislava
Telephone:	+421 248 208 001 (operator)
Fax:	+421 243 415 590
E-mail:	obchod@csobfactoring.sk
Internet:	www.csobfactoring.sk

ČSOB d.s.s., a.s.

Slovak Republic

Date of establishment:	20. 10. 2004
Business activities:	Pension savings
Identification number:	35904305
Share capital as at 31. 12. 2007:	SKK 360,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	100% Československá obchodní banka, a. s. (Czech Republic)
Shareholders as at 1. 1. 2008: (% in registered capital / % in voting rights)	100% Československá obchodná banka, a. s. (Slovak Republic)

Key indicators*:

		2007	2006
Assets under management	SKK m	2,874	1,590

* Based on internal management reporting system

Comments:

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 Act No. 43/2004 Coll. on Retirement Pension Savings. As at 31 December 2007, the company had more than 104,000 clients.

In compliance with the Act, ČSOB d.s.s. offers three pension funds: a conservative fund, a balanced fund and a growth fund. To sell its products, it is primarily using the distribution network of the ČSOB Group.

The AUM increased considerably in 2007 along with a slight growth in the number of clients. The latter was due to the distribution of market in the previous period; nonetheless, the company kept its market share. The pension savings legislation was amended in 2007 which also concerns the clients of ČSOB d.s.s.; these changes will be in force during 2008.

Contact:

Address:	Kolárska 6, 815 63 Bratislava
Telephone:	+421 800 123 723
Fax:	+421 252 962 769
E-mail:	dss@csob.sk
Internet:	www.csobdss.sk

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

Slovak Republic

Date of establishment: 10. 6. 2004
Business activities: Client asset management
Identification number: 35889446
Share capital as at 31. 12. 2007: SKK 60,000 ths
Shareholders as at 31. 12. 2007: 100% Československá obchodní banka, a. s. (Czech Republic)
(% in registered capital / % in voting rights)
Shareholders as at 1. 1. 2008: 100% Československá obchodná banka, a. s. (Slovak Republic)
(% in registered capital / % in voting rights)

Key indicators*:

		2007	2006
Individual asset management	SKK m	5,866	4,077
Mutual funds	SKK m	18,507	14,057

* Based on internal management reporting system

Comments:
ČSOB AM SK provides its clients with services in the area of individual asset management and collective investing. In 2005, the company received a license for distribution of KBC mutual funds sold in the Slovak Republic. Since 2005, the company has been managing the portfolio of ČSOB Poisťovňa and portfolios of clients of the private bank in Slovakia.

In 2007, ČSOB AM SK offered its clients nine local funds, of which three for clients of the private bank. Eight of them were launched in 2006. At the end of the year, the company started to manage the KBC Renta Slovakrenta fund registered in Luxemburg. In 2007, the company further strengthened its fourth place on the Slovak market of mutual funds and its market share in Slovakia exceeded 11%.

Contact:
Address: Kolárska 6, 815 63 Bratislava
Telephone: +421 259 667 465
Fax: +421 252 962 769
E-mail: investicie@csob.sk
Internet: www.csobinvesticie.sk

ČSOB Poisťovňa, a. s.

Slovak Republic

Date of establishment:	1. 1. 1992*
Business activities:	Insurance of citizens and entrepreneurs in the area of life and non-life insurance
Identification number:	31325416
Share capital as at 31. 12. 2007:	SKK 838,000 ths
Shareholders as at 31. 12. 2007: (% in registered capital / % in voting rights)	81.09% KBC Insurance NV 18.91% Československá obchodní banka, a. s. (Czech Republic)
Shareholders as at 1. 1. 2008: (% in registered capital / % in voting rights)	81.09% KBC Insurance NV 18.91% Československá obchodní banka, a. s. (Czech Republic)

*Date of certificate of incorporation 9 June,1992.

Key indicators*:

		2007	2006
Number of new insurance contracts	pcs	84,075	77,773
Volume of written premium	SKK m	1,955	1,914
Number of claims settled	pcs	38,555	18,672
Market share of the non-life insurance market	%	2.43	3.14
Market share of the life insurance market	%	4.35	4.03

* Based on internal management reporting system

Comments:
ČSOB Poisťovňa is a universal insurance company providing a wide range of life and non-life insurance products and insurance of citizens' property. In addition, it offers insurance of entrepreneurs and their property, insurance covering risk 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 BBB-), which safely cover the writing capacity of the company. ČSOB Poisťovňa itself was awarded a rating by CRA RATING Agency (second highest possible degree of international rating awarded to companies in Slovakia, expressing the solvency 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.

Contact:

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Telephone:	+421 248 248 200
Fax:	+421 248 248 400
E-mail:	infolinka@csobpoistovna.sk
Internet:	www.csobpoistovna.sk

Companies of the ČSOB Group

(as at 31 December 2007)

ID No.	Business name of legal entity (according to the Commercial Register)	Registered office (according to the Commercial Register)	Business activities	Registered capital	Total direct or indirect share of ČSOB in: registered capital	voting rights	Consolidated EU IFRS[1)]
				CZK	%	%	Y/N
Controlled companies							
25636855	Auxilium, a.s.	Praha 5, Radlická 333/150	Advisory services	1,000,000,000	100.00	100.00	Y
63987686	Bankovní informační technologie, s.r.o.	Praha 5, Radlická 333/150	Automated data processing and software development; creation of a network of payment card reading terminals	20,000,000	100.00	100.00	Y
63080451	BESEDA a.s. Praha in liquidation[3)]	Praha 1, Školská 3	Intermediary activities in the area of investment, trade and industry; market research; publishing house	1,000,000	100.00	100.00	Y
31324363	Business Center, s.r.o.[2)]	Bratislava, Nám. SNP 29, Slovak Republic	Real estate agency	237,537,000	100.00	100.00	Y
26760401	Centrum Radlická a.s.	Praha 5, Radlická 333/150	Real estate activity; rent of flats and non-residential spaces	500,000,000	100.00	100.00	Y
63999463	ČSOB Asset Management, a.s., a member of the ČSOB Group	Praha 5, Radlická 333/150	Securities trader	34,000,000	20.59	52.94	Y
35889446	ČSOB Asset Management, správ. spol., a.s.[2)]	Bratislava, Kolárska 6, Slovak Republic	Collective investment, creation and management of mutual funds	47,507,000	100.00	100.00	Y
35904305	ČSOB d.s.s., a.s.[2)]	Bratislava, Kolárska 6, Slovak Republic	Management of pension funds	285,044,000	100.00	100.00	Y
35899433	ČSOB distribution, a.s.[2)]	Bratislava, Kolárska 6, Slovak Republic	Advisory and intermediary services	31,671,600	100.00	100.00	Y
45794278	ČSOB Factoring, a.s.	Praha 10, Benešovská 2538/40	Factoring	70,800,000	100.00	100.00	Y
35710063	ČSOB Factoring a.s.[2)]	Bratislava, Gagarinova 7/a, Slovak Republic	Factoring	23,753,700	100.00	100.00	Y
25677888	ČSOB Investiční společnost, a.s., a member of the ČSOB Group	Praha 5, Radlická 333/150	Management of investmenst and mutual funds	216,000,000	90.81	100.00	Y
27081907	ČSOB Investment Banking Services, a.s., a member of the ČSOB Group	Praha 5, Radlická 333/150	Activity of entrepreneurial, financial, economic and organisation advisors	2,000,000,000	100.00	100.00	Y
35887222	ČSOB Leasing poisťovací maklér, s.r.o.[2)]	Bratislava, Panónska cesta 11, Slovak Republic	Insurance broker	158,358	100.00	100.00	Y

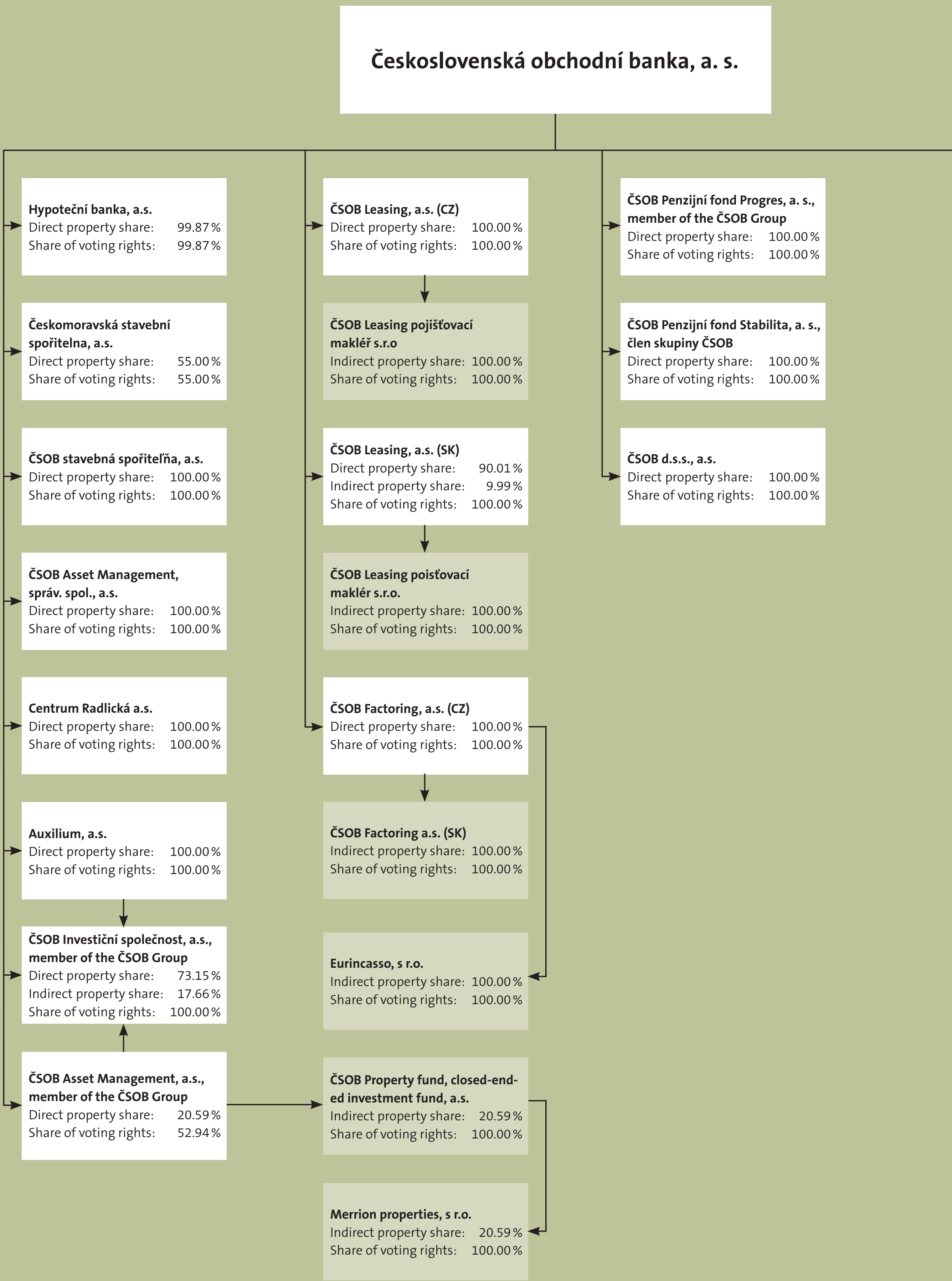
27151221	ČSOB Leasing pojišťovací makléř, s.r.o.	Praha 4, Na Pankráci 60/310	Insurance broker	2,000,000	100.00	100.00	Y
63998980	ČSOB Leasing, a.s.	Praha 4, Na Pankráci 310/60	Leasing	3,000,000,000	100.00	100.00	Y
35704713	ČSOB Leasing, a.s.[2)]	Bratislava, Panónska cesta 11, Slovak Republic	Leasing	1,187,685,000	100.00	100.00	Y
60917776	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB Group	Praha 5, Radlická 333/150	Pension insurance	120,000,000	100.00	100.00	Y
61859265	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB Group	Praha 5, Radlická 333/150	Pension insurance	97,167,000	100.00	100.00	Y
27924068	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB Group[4)]	Praha 5, Radlická 333/150	Collective investment	50,000,000	20.59	100.00	Y
35799200	ČSOB stavebná sporiteľňa, a.s.[2)]	Bratislava, Radlinského 10, Slovak Republic	Building savings bank	570,088,800	100.00	100.00	Y
61251950	Eurincasso, s.r.o.	Praha 10, Benešovská 2538/40	Activity of economic and organisation advisors; recovery of receivables	1,000,000	100.00	100.00	Y
99999999	FAP invest S.A.	2 rue de l'Avenir, L-1147 Luxemburg, Lucembursko	Holding of financial investmenst assets	825,220	94.91	100.00	Y
13584324	Hypoteční banka a.s.	Praha 5, Radlická 333/150	Mortgage banking	3,458,107,000	99.87	99.87	Y
25617184	Merrion Properties, s.r.o.[5)]	Praha 1, Na Příkopě 19/1096, PSČ 117 19	Real estate activity	100,000	20.59	100.00	Y
00000949	MOTOKOV a.s., in liquidation	Praha 8, Thámova 181/20	Wholesale of machines and technical equipment	62,000,000	69.09	69.09	Y
00548219	MOTOKOV International a.s.	Praha 8, Thámova 181/20	Other financial intermediary activity	430,000,000	94.91	94.91	Y
99999999	Semex Metall und Maschinen GmbH	Dr. Georg Schäfer Strasse 17, 93437 Furth im Wald, SRN	Sale and purchase of goods, import, distribution and sale of tractors, farm machinary and tyres	77,570,680	94.91	100.00	Y
99999999	Tee Square Limited, Ltd.	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	Advisory services for investment funds in the Caribbean area	7,413,860	100.00	100.00	Y
Joint venture							
49241397	Českomoravská stavební spořitelna, a.s.	Praha 10, Vinohradská 3218/169	Building savings bank	1,500,000,000	55.00	55.00	Y

ID No.	Business name of legal entity (according to the Commercial Register)	Registered office (according to the Commercial Register)	Business activities	Registered capital	Total direct or indirect share of ČSOB in: registered capital	voting rights	Conso-lidated EU IFRS[1)]
				CZK	%	%	Y/N
Others							
26199696	CBCB – Czech Banking Credit Bureau, a.s.	Praha 1, Na Příkopě 1096/21	Software development, IT advisory, data processing, network administration	1,200,000	20.00	20.00	Y
25677888	ČSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	Praha 5, Radlická 333/150	Collective investment	X	100.0	N/A	Y
31325416	ČSOB Poisťovňa, a.s.	Bratislava, Vajnorská 100/B, Slovak Republic	Insurance company	663,520,020	18.91	18.91	N
45534306	ČSOB Pojišťovna, a.s, a member of the ČSOB Holding	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	Insurance company	1,536,400,000	25.00	25.00	Y
27479714	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB Holding	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	Insurance brokerage	400,000	25.00	25.00	Y
60736682	E.T.I., a.s. in liquidation	Ratíškovice 502	Operation of electricity stations	45,000,000	10.00	10.00	N
45316619	IP Exit, a.s	Praha 1, Senovážné náměstí 32	No activity	13,382,866,400	27.43	27.43	Y
45276129	Koruna palace management akciová společnost	Praha 1, Václavské nám. 1	Real estate agency, purchase and sale of goods	37,500,000	10.00	10.00	N
63078104	Premiéra TV, a.s.	Praha 8, Pod Hájkem 1	No activity	29,000,000	29.00	29.00	Y
26439395	První certifikační autorita, a.s	Praha 9, Libeň, Podvinný mlýn 2178/6	Certification services and administration	20,000,000	23.25	23.25	Y
9999999	VAT MOLOKO	2000 Purchase Street, Purchase, NY 10577-2509, USA	No activity	136,000	18.92	18.92	N

Notes:
ID No. 99999999 – a foreign entity
1) A list of entities belonging to the ČSOB consolidated group according to EU IFRS as at 31 December 2007.
2) The company was contributed to new legal entity in the Slovak Republic (CSOB SK) on 1 January 2008.
3) The company was deleted from the Commercial Register on 27 February 2008.
4) Share capital increased from CZK 50,000,000 to CZK 968,000,000 on 25 February 2008.
5) The company's registered address moved to Radlická 333/150, Praha 5, 157 00 on 15 February 2008.

Scheme of companies controlled by ČSOB

(as at 31 December 2007)



Bankovní informační technologie, s.r.o.
Direct property share: 100.00 %
Share of voting rights: 100.00 %

Business Center, s.r.o.
Direct property share: 100.00 %
Share of voting rights: 100.00 %

ČSOB distribution, a.s.
Direct property share: 100.00 %
Share of voting rights: 100.00 %

ČSOB Investment Banking Services, a.s., member of the ČSOB Group
Direct property share: 100.00 %
Share of voting rights: 100.00 %

MOTOKOV a.s.
Direct property share: 0.50 %
Indirect property share: 68.59 %
Share of voting rights: 69.09 %

Tee Square Limited, Ltd.
Direct property share: 100.00 %
Share of voting rights: 100.00 %

BESEDA a.s. Praha in liquidation
Direct property share: 100.00 %
Share of voting rights: 100.00 %

MOTOKOV International a.s.
Indirect property share: 94.91 %
Share of voting rights: 94.91 %

FAP invest S.A.
Indirect property share: 94.91 %
Share of voting rights: 100.00 %

Semex Metall und Maschinen GmbH
Indirect property share: 94.91 %
Share of voting rights: 100.00 %

The size of the roof is 7,000 m^2. There are six similar landscape gardens with hills and monticules covered with meadow and wooded with groves of multi-trunk trees and shrubs. Directions in which they face cardinal points determine their concepts. The northern gardens follow up the character of the Radlice Valley while gardens facing the south are planted with a variety of woods resembling the sunny Mediterranean.

Corporate Governance

Managing and Supervisory Bodies

ČSOB's Board of Directors

(as at 31 December 2007)

ČSOB's Board of Directors functions as the Bank's statutory and supreme executive body and has five members.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Pavel Kavánek	chairman[1] and chief executive officer	17 October 1990	19 March 2004
Petr Knapp	member and senior executive officer	20 May 1996	19 May 2004
Jan Lamser	member and senior executive officer	26 May 1997	19 May 2004
Philippe Moreels	member and senior executive officer	1 March 2002[2]	21 April 2007
Hendrik Scheerlinck	member and senior executive officer	27 September 2006[2]	21 April 2007

1) Chairman since 26 May 2004
2) Co-opted

Since 27 February 2008, the ČSOB's Board of Directors has had six members – Petr Hutla was elected a member of the Board of Directors by the sole shareholder on the aforementioned date.

ČSOB's Top Management

The ČSOB's Top Management reports directly to the Board of Directors. The ČSOB's Top Management consists of the Chairman of the Board of Directors, who is also the Chief Executive Officer, other members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officers – in 2007: Petr Hutla, Geert DeKegel (until 30 September 2007) and Daniel Kollár (until 31 December 2007).

On 27 February 2008, Petr Hutla was elected a member of the Board of Directors. Henceforth, only Board members are in the Top Management.

Introducing Members of the Board of Directors and Members of the ČSOB's Top Management

Pavel Kavánek

Petr Knapp

Jan Lamser

Philippe Moreels

Hendrik Scheerlinck

Pavel Kavánek

(Born on 8 December 1948)

Chairman of the Board of Directors and Chief Executive Officer

Education: University of Economics, Prague, 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 1990 and its Chairman and CEO since 1993.

Membership in bodies of other companies:
Member of the Supervisory Board of ČSOB AM CZ and ČSOB IS, member of the Executive Board of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation VIZE 97.

Petr Knapp

(Born on 7 May 1956)

Member of the Board of Directors and Senior Executive Officer, Corporate Banking

Education: University of Economics, Prague. He joined ČSOB in 1979. He had worked in Teplotechna Praha as Deputy Managing Director since 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996.

Membership in bodies of other companies:
Chairman of the Supervisory Board of ČSOB Factoring CZ, member of the Board of Directors of Hospodářská komora Hlavního města Prahy (Prague Economic Chamber).

Jan Lamser

(Born on 8 December 1966)

Member of the Board of Directors and Senior Executive Officer, PSB and Direct Banking Business

Education: studied mathematical statistics at Charles University; also graduated from University of Economics, Prague, and École des Hautes Études Commerciales, 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 bodies of other companies:
Member of the Supervisory Board of ČMSS.

Philippe Moreels

(Born on 25 February 1959)

Member of the Board of Directors and Senior Executive Officer, Distribution

Education: studied computer and social sciences in Belgium and graduated in business management studies at Solvay Business School. He worked as a pension fund analyst and internal auditor with the Unilever Group. Afterwards, he worked for seven years as the Back Office Manager in the Standard Chartered Bank/Westdeutsche Landesbank group, followed by Slovakia's Tatra Banka as the Operations Manager since 1993 and as a member of the Board of Directors since 1998. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1 March 2002.

Membership in bodies of other companies:
Chairman of the Supervisory Board of Hypoteční banka.

Hendrik Scheerlinck

(Born on 6 January 1956)

Member of the Board of Directors and Senior Executive Officer, Finance and Risk Management

Education: law and economics at the Catholic University in Leuven, Belgium (graduated in 1979 and 1980, respectively). He practiced law at a law office in Leuven. He has been working for the Kredietbank/KBC Group since 1984: he started at the international credit department in Brussels and held various positions in the United States (Senior Credit Adviser in the New York branch; Regional Manager in Atlanta), Taiwan (manager of the Kredietbank representative office in Taipei), Germany (General Manager of KBC Bank operations; Member of the Management Board of Merca Lease) and became General Manager of KBC North America in 1999. He joined ČSOB in the second half of 2006 and has been a member of the Board of Directors and Senior Executive Officer since 2006.

Petr Hutla
(Born on 24 August 1959)
Senior Executive Officer, Human Resources and Facilities

Education: Graduated from the Czech Technical University, Faculty of Electrical Engineering. Petr Hutla worked for Tesla Pardubice in 1983 – 1993, as Economic Associate Director of Tesla Pardubice – RSD since 1991. He has been working for ČSOB since 1993: first as branch manager in Pardubice and main branch manager in Hradec Králové, then as branch manager in Prague 1 in 1997 – 2000. He then served as Senior Director, Corporate Accounts (2001 – 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (2005 – 2006), Human Resources and Facilities (since 2006). Since 27 February 2008, Petr Hutla has been a member of the Board of Directors.

Membership in bodies of other companies:
Member of the Board of Trustees of Czech Technical University in Prague and member of the Board of Directors of the Nadace Karla Pavlíka (foundation).

Geert DeKegel
(Born on 22 May 1962)
Senior Executive Officer, Banking & Investment Products (until 30 September 2007)

Graduated from the Catholic University at Leuven, School of Sociology, in 1985. Since 1988 Geert had worked for Kredietbank – retail-branch manager in 1988 – 1996; KBC retail-branch manager since 1996. In 1999 he joined ČSOB. Geert DeKegel worked in the position of Senior Executive Officer, Banking & Investment Products, from 1 May 2006 to 30 September 2007.

Daniel Kollár
(Born on 1 December 1969)
Senior Executive Officer of ČSOB SK, a foreign branch (until 31 December 2007)

Graduated from Slovak Technical and Economic University in Bratislava. In 1993 – 1994, he worked in ELV.S.Senec as export manager. In 1994 – 1996, he worked in OPUS Trading a.s. as a member of the Board of Directors and chief executive officer. In 1997 – 2004, he worked in ČSOB Leasing SK as chairman of the Board of Directors and chief executive officer. Daniel Kollár worked in ČSOB in the position Senior Executive Officer of ČSOB SK, a Slovak branch, from 1 June 2004 to 31 December 2007. Since 1 January 2008 he has been a Chairman of the Board of Directors and Chief Executive Officer of Československá obchodná banka, a. s., residing at Michalská 18, Bratislava, Postal Code 815 63, Slovak Republic.

Membership in bodies of other companies:
Chairman of the Supervisory Boards of ČSOB Leasing SK, ČSOB SP a Business Center, member of the Supervisory Board of ČSOB AM SK and the Deposit Protection Fund.

ČSOB's Supervisory Board
(as at 31 December 2007)

ČSOB's Supervisory Board has nine members and oversees the performance of the Board of Directors.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Jan Švejnar	chairman[1]	9 October 2003[2]	19 May 2004
Jan Oscar Cyriel Vanhevel	member	22 April 2006	22 April 2006
John Arthur Hollows	member	22 April 2006	22 April 2006
Patrick Roland Vanden Avenne	member	22 April 2006	22 April 2006
Riet Docx	member	1 December 2004[2]	20 April 2005
Hendrik George Adolphe Gerard Soete	member	24 February 2007[2]	21 April 2007
František Hupka	member[3]	23 June 2005	23 June 2005
Libuše Gregorová	member[3]	23 June 2005	23 June 2005
Martina Kopecká	member[3]	23 June 2005	23 June 2005

1) Chairman since 9 June 2004
2) Co-opted
3) Elected by employees

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 USA. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He is a Professor at the University of Michigan Business School.

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

Jan Vanhevel
(Born on 10 September 1948)
Member of the Supervisory Board

Education: The Catholic University in Leuven, with a degree in law, and the Flemish University of Economics VLECHO, with a degree in financial management. From 1971 until now, he has worked in various managerial positions in the sector of financial services. He has acquired wide experience in legal services departments, in the credits area and in the area of corporate banking management and process management. In April 1996, he became a member of the Executive Committee of Kredietbank and, after its merger with other entities giving birth to KBC, he became (in June 1998) Managing Director and member of the Executive Committee of the KBC Group. In 2006, he was appointed CEO Central and Eastern Europe supervising and responsible for banking and insurance activities for KBC Group. In 2007 he was appointed CEO Central and Eastern Europe and Russia for KBC Group in eight countries in Central and Eastern Europe.

Membership in bodies of other companies:
Chairman of the Board of Directors of A Banka (Serbia); member of the Board of Directors in: KBC Verzekeringen (Belgium), K&H Bank (Hungary) and Absolut Bank (Russia); President/Chairman of the Supervisory Board in: Warta TuiR (Poland), Warta TunZ (Poland), K&H Insurance (Hungary), ČSOB Pojišťovna and ČSOB Poisťovňa; member of the Supervisory Board in: KredytBank (Poland), NLB Bank (Slovenia), DZI Insurance (Bulgaria), DZI Health Insurance (Bulgaria) and ČSOB SK (since 1 January 2008). Chairman of the Board of Directors of FEBELFIN (Belgian Banking Federation) and member of the European Banking Federation, member of the Board of Directors of Flanders-China Chamber of Commerce.

John Hollows
(Born on 12 April 1956)
Member of the Supervisory Board

Education: Sydney Sussex College at the University in Cambridge, with a degree in economics and law. His professional career is connected with banking and with work in Industrial and Commercial Chambers. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai, Singapore and Budapest. He held senior managerial positions in credits departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was general manager of K&H Bank (KBC Group) in Budapest. He came to the Supervisory Board of ČSOB as manager of the Central and Eastern Europe Business Unit of KBC.

Membership in bodies of other companies:
Member of the Board of Directors in: K&H (Hungary) and A Banka (Serbia); member of the Supervisory Board in: ČSOB AM CZ, ČSOB PF Stabilita, ČSOB PF Progres, ČSOB AM SK, KredytBank (Poland), NLB (Slovenia) and ČSOB SK (since 1 January 2008).

Patrick Vanden Avenne
(Born on 15 February 1954)
Member of the Supervisory Board

Education: The Catholic University in Leuven (Belgium), with a degree in economics and law, and Stanford University (USA), with a degree in business administration. He owns and manages a number of companies in the food processing industries and in logistics. As an outstanding shareholder of KBC, he has participated in the corporate governance of KBC Group since 1993. He has also been in managerial positions in Almanij (a parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. After the merger of Almanij and KBC in 2005, he was appointed to the position of Director of KBC Bank and became a member of the Audit Committee at KBC Bank.

Membership in bodies of other companies:
Member of the Supervisory Boards at the Catholic Universities in Leuven and Kortrijk, member of the managing committees of the Flemish Employers Union (VOKA) and the Belgian Federation of Food Industry (Bemefa).

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 the 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 coordination of banking activities in Central European countries at the KBC Directorate for Central Europe.

Membership in bodies of other companies:
Member of the Board of Directors of A Banka (Serbia); member of the Supervisory Board in: K&H (Hungary), NLB (Slovenia) and ČSOB SK (since 1 January 2008).

Hendrik Soete
(Born on 9 November 1950)
Member of the Supervisory Board

Education: The Catholic University in Leuven. In 1977, he started working as Production Manager for Procter & Gamble and he worked as Production Manager for Lacsoons Diary from 1980. At present, Hendrik G. Soete is working as Chief Executive Officer of the Belgian Group AVEVE. He became a member of the Supervisory Board of ČSOB in 2007.

Membership in bodies of other companies:
Member of the Board of Directors of several companies, namely of: the KBC Group, affiliates of the AVEVE Group, Boerenbond and its Financial Holding; Chairman of the Board of Directors of Intercoop Europe (Switzerland).

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 Chairman of the Working Committee of Trade Unions.

Membership in bodies of other companies:
Member of the Board of Directors of the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry (OZP).

Libuše Gregorová
(Born on 25 July 1959)
Member of the Supervisory Board elected by employees

Education: She graduated from the University of Economics, Prague. She joined ČSOB in 1989 and worked as IT manager from 1996 to 1998. Since 1998, she has been an analyst and application developer. Since 1 January 2006 she has been manager of Credits and Deposits Products – Analysis.

Membership in bodies of other companies:
Member of the Board of Directors of Bytové družstvo Vojáčkova 612 (housing cooperative).

Martina Kopecká
(Born on 19 September 1969)
Member of the Supervisory Board elected by employees

Education: She graduated from the University of Economics, Prague. She has been working at the ČSOB Pardubice branch since 1994, and in the position of Corporate Banker for Retail / SME clients since 2002.

Changes in the Supervisory Board in 2007
On their meeting held on 23 February 2007, the Supervisory Board co-opted its new member Hendrik Georges Adolphe Gerard Soete to replace Anne Fossemalle who had represented EBRD. The General Meeting of ČSOB, held on 20 April 2007, approved the election of Hendrik Soete as a regular member of the Supervisory Board.

The work address of all members of the Board of Directors and the members of the ČSOB's Top Management as well as all the members of the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
Praha 5
Postal Code 150 57, Czech Republic

Conflict of Interests
under Commission Regulation (EC) No 809/2004

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, the ČSOB's Top Management and the Supervisory Board to ČSOB and their private interests and / or other duties.

Note: ČSOB, pursuant to the applicable Czech legal principles, does not regard entering into banking transactions by the members of the Board of Directors, the members of the ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and / or other duties..

Emoluments and benefits of Members of the Top Management and the Supervisory Board

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 3, provisions c), d) and e).

Remuneration and Income in Kind

(Section 118, paragraph 3, provision c)

In 2007, members of the Top Management and the Supervisory Board received the following remuneration and income in kind from both ČSOB and persons controlled by ČSOB:

		Monetary Income Received from		Income in Kind Received from	
		ČSOB	Persons controlled by ČSOB	ČSOB	Persons controlled by ČSOB
Members of the Board of Directors	CZK ths	322,322	-	7,447	-
Other Members of the Top Management	CZK ths	25,481	-	3,616	-
Members of the Supervisory Board	CZK ths	2,496	-	-	-

The Chairman of the Board of Directors, who is also the Chief Executive Officer, other Members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officers constitute the ČSOB's Top Management (see Managing and Supervisory Bodies).

The income of the Chairman and Members of the Board of Directors in 2007 included: CZK 34,711 ths under the Contract on the Performance of the Line Management Function, a bonus of CZK 18,841 ths under the Contract on the Performance of the Function of the Chairman / Member of the Board of Directors and an extra bonus of CZK 268,770 ths for the ČSOB Net Consolidated Profit growth in the period from 1 January 2004 to 31 December 2006. The bonus and the extra bonus were approved by the General Meeting on 20 April 2007.

Shares issued by ČSOB

(Section 118, paragraph 3, provision d)

As at 31 December 2007, the Members of the Board of Directors did not own any shares issued by ČSOB. The Members of the Board of Directors do not have any purchase option on ČSOB shares.

The members of the Board of Directors, their next of kin, other Members of the Top Management and their next of kin own neither shares, nor purchase options on ČSOB shares.

Principles of Remuneration

(Section 118, Paragraph 3, provision e)

Members of the Board of Directors

Remuneration of the Members of the ČSOB's Board of Directors consists of a fixed component, pursuant to the Contract on the Performance of the Line Management Function, and a variable (bonus) component applicable under the Contract on the Performance of the Function of the Member of the Board of Directors. The variable component is approximately half of the total income. The Remuneration Rules were set by the Compensation Committee of the Supervisory Board, whose Members in 2007 were Jan Švejnar, Jan Vanhevel and John Hollows. The relative change of earnings per share (EPS), i.e. the change in net consolidated profit per share between 1 January and 31 December of the reported year, is the main KPI to determine the variable component.

The amount of the variable component is calculated by the Compensation Committee using the audited accounts. Final approval is given by the General Meeting.

Other Members of the Top Management

Other Members of the Top Management receive their remuneration based on the ČSOB Remuneration Rules. The variable component is calculated in accordance with the main KPIs achieved. Remuneration of a KBC expatriate is based on the KBC Expatriation Remuneration Principles and also includes the KPIs criterion.

Note: KBC expatriates are originally KBC employees who were seconded to ČSOB within the KBC expatriation programme for selected managers, and became regular employees of ČSOB and tax residents of the Czech Republic.

Members of the Supervisory Board

The Chairman of the Supervisory Board is contracted for a fix income per year that is set and confirmed by the Compensation Committee and approved by the General Meeting. Members elected by employees are compensated for the function that they discharge in the Bank in accordance with the ČSOB Remuneration Rules and do not receive any extra remuneration for their Supervisory Board membership. Other members (KBC employees) receive neither income from ČSOB for their Supervisory Board membership, nor any extra remuneration from KBC.

Contingent emoluments due to members of the company bodies or to employees

Information pursuant to Section 20, Clause 7, Slovak Act N. 431/2002 Coll., Accounting Act

Information on all agreements entered by and between ČSOB and members of the company bodies or employees based on which an emolument is due to them should their employment or membership be terminated by resignation, letter of resignation submitted by an employee, discharge from position, notice of dismissal served by employer without cause, or should their membership or employment be terminated in consequence of an offer for takeover:

Pursuant to Section 20, Clause 7, Act No. 431/2002 Coll., Accounting Act, as amended, any emoluments are stipulated by the Collective Agreement compliant with the Labour Code and the said emoluments increase with the length of the employment contract with the employer. Members of the top management, including members of the ČSOB Board of Directors and the ČSOB Supervisory Board, have no emoluments established in addition to the framework set out by the applicable provisions of the Labour Code and the Collective Agreement.

Corporate Governance Policy

Corporate governance and administration

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, ČSOB's shareholder, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

The members of the Board of Directors are elected by the company's General Meeting. They went through mandatory assessment by the Czech National Bank, where their professional qualifications were thoroughly examined. In compliance with the Banking Act, the Bank's Board of Directors composes of executive members only. To combine the position of Chairman of the Board of Directors with that of the Chief Executive Officer corresponds with this requirement. Shareholders and clients of the Bank receive regular reports including all relevant data on the members of the Board of Directors and their professional and personal qualifications as required by the by applicable laws.

The ČSOB's Board of Directors performs its tasks within the framework of competencies defined for the statutory body by the Articles of Association and relevant management documents of the company. 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 remained unchanged in 2007.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational a nature submitted for discussion individually by the Board members. 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. Discussions of this top body are attended by the director of the Bank's corporate office, who acts as secretary of the Board and is responsible for preparing the meetings and taking their minutes.

Pursuant to the Bank's Articles of Association, the Supervisory Board of Československá obchodní banka, a. s. has nine members. Six of them are elected by the General Meeting and three of them are elected by the employees of the Bank.

In compliance with its plan of work, the Supervisory Board held four meetings in 2007, where it discussed issues falling under its competence according to the Bank's Articles of Association. Background materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors, who personally presented materials to be discussed. During its meetings, the Supervisory Board raised requirements for additional materials, and these requirements were always satisfied at the next session.

Both working bodies of the Supervisory Board, the Audit Committee and the Compensation Committee, held regular meetings and informed the Supervisory Board about their activities. The Supervisory Board approved recommendations of the two Committees regarding some matters discussed.

In compliance with its competencies, the Supervisory Board selected an external auditor for the Bank. The auditor regularly attends meetings of the Audit Committee, thus providing for an independent, comprehensive and qualified opinion of whether the Bank's financial statements express the situation and performance of the Bank correctly in all material respects. Pursuant to the Rules of Conduct of the Supervisory Board, administrative and organizational support is provided by the Bank's corporate office, whose director is responsible for taking the minutes of the meetings.

In 2007, a significant change occurred in ČSOB altering the ČSOB's shareholder structure: KBC Bank NV became the only shareholder of ČSOB. On 12 June 2007 this change was entered in the Register of Companies and on 14 June 2007 the transfer of the Bank's securities held by minor ČSOB shareholders to KBS was registered in the Securities Centre. Thus, KBC met its long-term objective to control 100% of ČSOB shares.

Rules for appointing and removing members of the statutory bodies and for amending the Articles of Association

Information pursuant to Section 20, Clause 7, Slovak Act No. 431/2002 Coll., Accounting Act

Members of the Board of Directors are elected and removed by the General Meeting. Re-election of a member of the Board of Directors shall be possible.

Should any member of the Board of Directors die, resign, be removed, or should any member's term be otherwise terminated, the General Meeting shall elect a new member of the Board of Directors, except as stated in the clause below. In case that the number of the Board members decreases, but not below one half of the prescribed number, the Board of Directors may appoint substitute members to fill the vacancies until the next General Meeting session.

The term of a Board member is 5 years.

The term of a Board member expires when a new member of the Board of Directors is elected, but no later than after the lapse of three months from the termination of such member's term, except for cases when a member of the Board of Directors dies, resigns or is removed, upon the occurrence of which the expiration may happen on other times.

A member of the Board of Directors can resign by giving a written notice delivered to the Board of Directors or to the General Meeting. The Board of Directors is obliged to discuss the resignation at the nearest meeting held after the notice has been delivered. The term expires on the day when the Board of Directors discussed, or should have discussed, the resignation. If a member of the Board of Directors announces his/her resignation on a Board meeting then his/her term expires within two months after such notification, unless the Board of Directors approves another time of expiration upon the resigning member's request.

ČSOB's Articles of Association may be amended by no less than two thirds of shareholders present at a General Meeting, unless the amendment is in consequence of the increase of share capital by the Board of Directors, or an amendment is induced by other legal facts.

Should a General Meeting adopt a resolution inducing a change of the Articles of Association then such resolution replaces a resolution on an amendment of the Articles of Association. If the resolution of a General Meeting fails to indicate whether, or how the Articles of Association are amended, then upon such failure to indicate it is the Board of Directors who amends the Articles of Association. A notary record of the amendment of the Articles of Association will contain the approved wording of the amendment. After having the approval of the General Meeting, the Board of Directors will have the full wording of the ČSOB's Articles of Association drafted and submit it without unnecessary delay to the applicable registration court.

Should ČSOB decide to increase or decrease the share capital, split shares or merge several shares into one share, change the type or class of shares, or restrict the transferability of shares, or change it whatsoever, the amendment of the Articles of Association becomes effective as of the day of entry of such facts in the Register of Companies. Other amendments of the Articles of Association become effective when decided by the General Meeting, unless the General Meeting's decision to amend the Articles of Association or the applicable law provides for a later effective day.

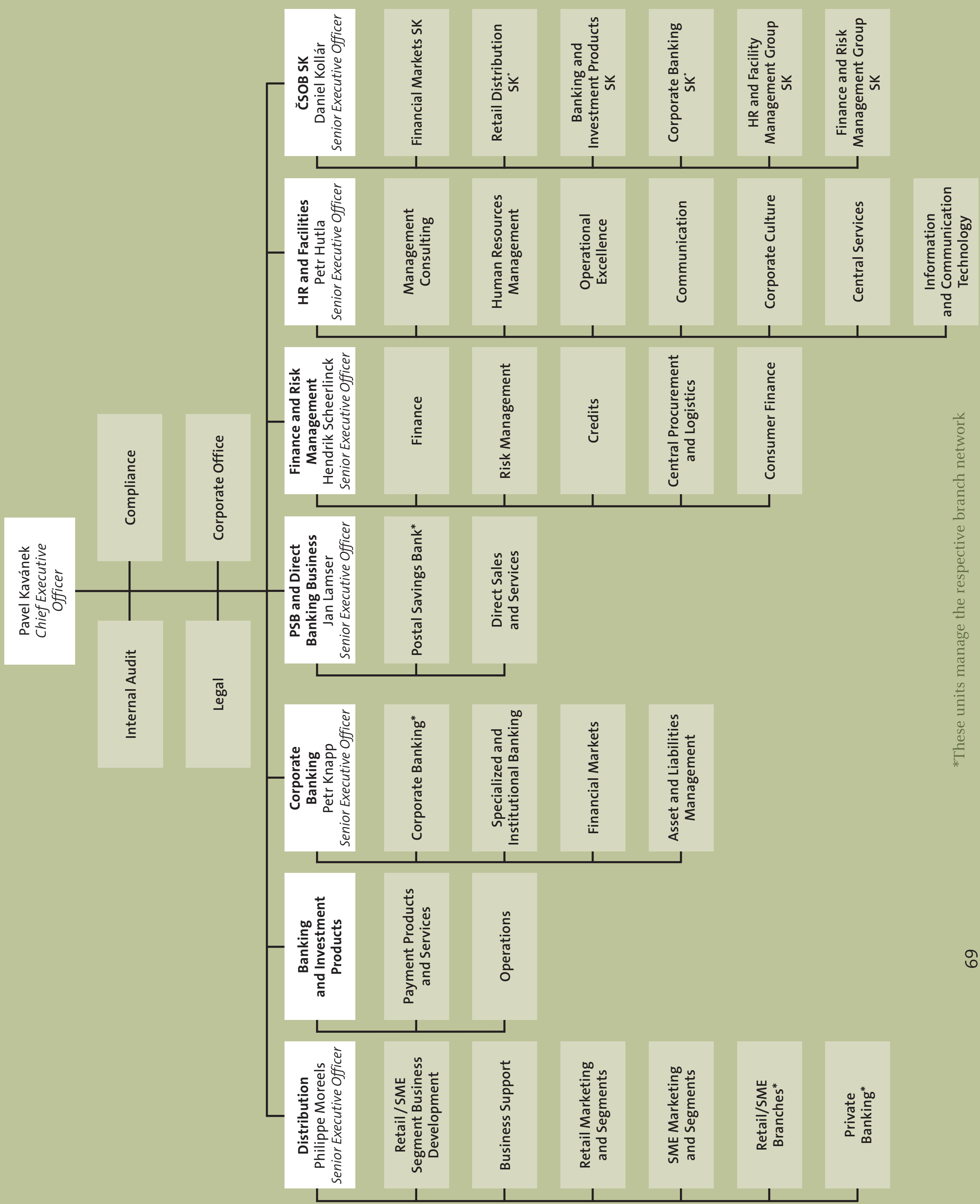
Power of the statutory body, specifically the power to decide on the issuance or re-purchase of shares

Information pursuant to Section 20, Clause 7, Slovak Act No. 431/2002 Coll., Accounting Act

The Board of Directors is a statutory body to manage ČSOB's activities and act on ČSOB's behalf. The Board of Directors decides on all company matters, unless these fall within the powers of the General Meeting or the Supervisory Board pursuant to the applicable law or the Articles of Association. The Board of Directors is not entitled to decide on the issuance or re-purchase of shares should such issuance or re-purchase exceed the scope stipulated by the applicable legal regulations.

ČSOB Organisation Chart

(as at 31 December 2007)



*These units manage the respective branch network

The new ČSOB building offers modern and friendly workspace. Spots and corners for rest and relaxation are a commonplace here.

Financial part

ERNST & YOUNG

Independent Auditor's Report to the Shareholders of Československá obchodní banka, a. s.

We have audited the accompanying consolidated financial statements of Československá obchodní banka, a. s. and its subsidiaries ("the ČSOB Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of the ČSOB Group, see Note 1 to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ČSOB Group as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
Licence No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

9 April 2008
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit & Advisory, s.r.o., člen koncernu with its registered office at Karlovo náměstí 10, 120 00 Prague 2, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

Consolidated Financial Statements Year Ended 31 December 2007

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

Consolidated statement of income for the year ended 31 December 2007

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

(CZKm)	Note	2007	Reclassified 2006
Interest income	5	37,537	30,191
Interest expense	6	(16,339)	(11,971)
Net interest income		**21,198**	**18,220**
Fee and commission income		9,433	8,726
Fee and commission expense		(2,124)	(1,836)
Net fee and commission income	7	**7,309**	**6,890**
Dividend income		40	62
Net gains from financial instruments at fair value through profit or loss	8	2,253	2,499
Net realised gains on available-for-sale financial assets		11	113
Other net income	9	1,279	1,991
Operating income		**32,090**	**29,775**
Staff expenses	10	(7,597)	(7,806)
General administrative expenses	11	(7,663)	(7,355)
Depreciation and amortisation	23, 24	(1,939)	(1,879)
Provisions	29	234	372
Operating expenses		**(16,965)**	**(16,668)**
Impairment losses	12	(1,439)	(710)
Share of profit of associates	19	181	45
Profit before tax		**13,867**	**12,442**
Income tax expense	13	(2,993)	(2,797)
Profit for the year		**10,874**	**9,645**
Attributable to:			
Equity holders of the Bank		10,837	9,543
Minority interest		37	102

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

Consolidated balance sheet as at 31 December 2007

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

(CZKm)	Note	31.12.2007	Reclassified 31.12.2006
ASSETS			
Cash and balances with central banks	15	33,830	33,386
Financial assets held for trading	16	224,488	149,647
Financial assets designated at fair value through profit or loss	16	24,153	23,880
Available-for-sale financial assets	17	75,956	66,166
Held-to-maturity investments	17	114,089	108,772
Loans and receivables	18	411,129	340,279
Derivatives used for hedging	20	5,587	5,124
Accrued interest income	21	7,641	6,574
Current tax assets		697	1,351
Deferred tax assets	13	722	414
Investments in associates	19	703	658
Investment property	22	875	-
Property and equipment	23	11,936	11,024
Goodwill and other intangible assets	24	4,710	4,503
Non-current assets held-for-sale		27	63
Other assets	25	8,881	10,460
Total assets		**925,424**	**762,301**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	26	15,985	13,958
Financial liabilities designated at fair value through profit or loss	26	145,789	84,163
Financial liabilities at amortised cost	27	681,882	586,855
Derivatives used for hedging	20	1,385	386
Accrued interest expenses	21	1,624	2,020
Current tax liabilities		298	104
Deferred tax liabilities	13	367	93
Other liabilities	28	19,674	20,578
Provisions	29	1,219	1,611
Total liabilities		**868,223**	**709,768**
Share capital	30	5,855	5,105
Share premium		7,509	2,259
Statutory reserve		18,687	18,687
Retained earnings		25,959	24,685
Available-for-sale reserve	30	(363)	604
Cash flow hedge reserve	30	(649)	946
Foreign currency translation reserve	30	(133)	(147)
Parent shareholders' equity		56,865	52,139
Minority interest		336	394
Total equity		**57,201**	**52,533**
Total liabilities and equity		**925,424**	**762,301**

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 9 April 2008 and signed on its behalf by:

Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

Consolidated statement of changes in equity for the year ended 31 December 2007

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

(CZKm)	Attributable to equity holders of the Bank: Share capital (Note: 30)	Share premium account	Statutory reserve[1]	Retained earnings	Other reserves (Note: 30)	Minority interest	Total Equity
At 1 January 2006	**5,105**	**2,259**	**18,687**	**25,441**	**1,458**	**527**	**53,477**
Net losses on available-for-sale securities	-	-	-	-	(489)	-	(489)
Net gains on cash flow hedges	-	-	-	-	443	-	443
Foreign currency translation	-	-	-	-	131	-	131
Net change on hedge of net investment	-	-	-	-	(148)	-	(148)
Share of changes recognised directly in associate's equity	-	-	-	-	8	-	8
Total income and expense for the year recognised directly in equity	-	-	-	-	(55)	-	(55)
Profit for the year	-	-	-	9,543	-	102	9,645
Total income and expense for the year	-	-	-	9,543	(55)	102	9,590
Change in consolidation scope	-	-	-	28	-	(102)	(74)
Dividends paid (Note: 14)	-	-	-	(10,327)	-	-	(10,327)
Dividends of subsidiaries	-	-	-	-	-	(133)	(133)
At 31 December 2006	**5,105**	**2,259**	**18,687**	**24,685**	**1,403**	**394**	**52,533**
At 1 January 2007	**5,105**	**2,259**	**18,687**	**24,685**	**1,403**	**394**	**52,533**
Net losses on available-for-sale securities	-	-	-	-	(959)	-	(959)
Net losses on cash flow hedges	-	-	-	-	(1,595)	-	(1,595)
Foreign currency translation	-	-	-	-	(39)	-	(39)
Net change on hedge of net investment	-	-	-	-	53	-	53
Share of changes recognised directly in associate's equity	-	-	-	-	(8)	-	(8)
Total income and expense for the year recognised directly in equity	-	-	-	-	(2,548)	-	(2,548)
Profit for the year	-	-	-	10,837	-	37	10,874
Total income and expense for the year	-	-	-	10,837	(2,548)	37	8,326
Capital increase	750	5,250	-	-	-	-	6,000
Change in consolidation scope	-	-	-	(21)	-	(27)	(48)
Dividends paid (Note: 14)	-	-	-	(9,542)	-	-	(9,542)
Dividends of subsidiaries	-	-	-	-	-	(68)	(68)
At 31 December 2007	**5,855**	**7,509**	**18,687**	**25,959**	**(1,145)**	**336**	**57,201**

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

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

Consolidated statement of cash flows for the year ended 31 December 2007

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

(CZKm)	Note	2007	2006
OPERATING ACTIVITIES			
Profit before tax		13,867	12,442
Adjustments for:			
Change in operating assets	32	(167,093)	(57,450)
Change in operating liabilities	32	143,289	7,531
Non-cash items included in profit before tax	32	3,589	2,556
Net gain from investing activities		(56)	(1,128)
Income tax paid		(1,307)	(4,464)
Net cash flows (used in) operating activities		**(7,711)**	**(40,513)**
INVESTING ACTIVITIES			
Purchase of investment securities		(23,056)	(20,982)
Maturity / disposal of securities		17,100	21,681
Purchase of property, equipment and intangible assets		(3,784)	(4,731)
Purchase of investment property	22	(875)	-
Disposal of property, equipment, intangible assets and assets held-for-sale		812	3,051
Dividends from associates		128	-
(Acquisition) / disposal of subsidiary, associate and joint venture companies	3	1,709	(528)
Net cash flows (used in) investing activities		**(7,966)**	**(1,509)**
FINANCING ACTIVITIES			
Issue of bonds		6,197	6,157
Repayment of bonds		(3,036)	(242)
Issue of subordinated liability		6,975	4,982
Capital increase		6,000	-
Decrease in minority interests		(31)	(132)
Dividends paid		(9,542)	(10,327)
Net cash flows from financing activities		**6,563**	**438**
Net (decrease) in cash and cash equivalents		**(9,114)**	**(41,584)**
Cash and cash equivalents at the beginning of the year	32	28,031	69,428
Net (decrease) in cash and cash equivalents		(9,114)	(41,584)
Net foreign exchange differences		(25)	187
Cash and cash equivalents at the end of the year	32	**18,892**	**28,031**
Additional information			
Interest paid		(16,734)	(12,432)
Interest received		36,470	31,006
Dividends received		40	62

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

Notes to the consolidated financial statements for the year ended 31 December 2007

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

1. Corporate information

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150 Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and the Slovak Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies.

Furthermore, the ČSOB Group (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. Accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The consolidated financial statements are presented in millions of Czech Crowns (CZKm).

Statement of compliance

The ČSOB Group's (Group) consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

Joint ventures included in the Group consolidation are proportionally consolidated, which requires that a venturer's share of assets, liabilities, income and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis. Joint control exists when two or more venturers are bound by a contractual arrangement whereby joint control is established.

2.2 Significant accounting judgements and estimates

While applying the Group's accounting policies, the management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The mostly used significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish the fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on loans and advances

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the management is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Doing this, the Group takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) 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 Group'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, which 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 the Foreign currency translation reserve.

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 the Foreign currency translation reserve. 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.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a 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 gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(3) Financial instruments - initial recognition and subsequent measurement

Classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains from financial instruments at fair value through profit or loss.

The Group occasionally purchases or issues financial instruments containing embedded derivatives. An 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 a 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 in the balance sheet with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in Net gains from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

– the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

– the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net gains from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income.

(iii) Held-to-maturity investments

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.

After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the financial asset.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve 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 is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain on the balance sheet. The corresponding cash received is recognised in the balance sheet in Financial liabilities designated at fair value through profit of loss or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the balance sheet. The corresponding cash paid is recognised in the balance sheet in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale prices is treated as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

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 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.

(6) Impairment of financial assets

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. 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 a 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 principal 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.

(i) Assets carried at amortised cost

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 are recorded in the statement of income in Impairment losses.

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.

(ii) 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.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Hedge accounting

(i) Cash flow hedges

The Group uses derivatives, designated as hedging on the date a contract is entered into, as cash flow hedges to manage the Group's interest rate risk. Cash flow hedges are used to minimise the variability in cash flows of interest-earning assets or interest-earning 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 to be 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 the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve 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 the related remaining amounts in the Cash flow hedge reserve 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 the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(ii) Hedge of a net investment in foreign operations

The hedge of a net investment in foreign operations is accounted for on a similar basis to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Foreign currency translation reserve. The 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.

(8) Offsetting financial instruments

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.

(9) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group company as a 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.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the balance sheet in Loans and receivables. A receivable is recognized over the leasing period in an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, where the Group does not transfer substantially all the risk and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(10) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate 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 amounts 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.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans that 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 the 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 accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

(iv) Net gains from financial instruments at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(11) 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), loans and advances to credit institutions and deposits from credit institutions.

(12) Investment property

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. 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.

(13) Investments in associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method. The Group's share of associates' post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in equity is recognised in Retained earnings or in the Available-for-sale reserve.

(14) Property and equipment

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

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or 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.

When it is highly probable that an asset will be sold, such an asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

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.

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 the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Amortisation of the software and other intangible assets 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:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated under the diminishing balance method during the economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

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

(17) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. The fee is recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(18) 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 and Slovak Republic. Contributions are charged to the statement of income as they are made.

(19) 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.

(20) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts 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 in the financial statements where a right of set-off exists.

Deferred tax related to the 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 Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(21) Fiduciary activities

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

(22) 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.

2.4 Future changes in accounting policies

Certain new standards, amendments and interpretations have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted. The Group is expecting to adopt them in accordance with the effective date of the standards:

IFRS 8, Operating Segments (effective from 1 January 2009)

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the operating segments would be the same as the business segments currently identified under IAS 14, Segment Reporting.

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

– IAS 23, Borrowing Costs (effective for periods beginning on or after 1 January 2009).

– IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007).

– IFRIC 12, Service Concession Arrangements (effective for periods beginning on or after 1 January 2008).

– IFRIC 13, Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008).

– IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2008).

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

2.5 Comparatives

Based on the implementation of IFRS 7 Financial Instruments: Disclosures, the Group has changed the structure of the financial statements in 2007. Since the Group is a part of the consolidation scope of the KBC Bank NV (KBC Bank), which prepares financial statements according to EU IFRS, the Group has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank. Therefore certain items were presented in the consolidated financial statements at 31 December 2007 differently from the presentation in the consolidated financial statements at 31 December 2006. To conform with the changes in presentation in the current year, some balances have been reclassified.

The following reconciliation shows the changes in the structure of the statement of income for the year 2006 (CZKm):

Structure as reported	2006	Changes in the structure Explanation		2006	Structure as amended
Interest income	30,211		-	30,211	Interest income
Interest expense	(12,253)		-	(12,253)	Interest expense
Net interest income	**17,958**		-	**17,958**	**Net interest income**
		1	8,800	8,800	Fee and commission income
		1	(1,910)	(1,910)	Fee and commission expense
Net fee and commission income	**6,890**		-	**6,890**	**Net fee and commission income**
		2	62	62	Dividend income
Net trading income	2,761		-	2,761	Net gains from financial instruments at fair value through profit or loss
		3	113	113	Net realised gains on available-for-sale financial assets
Other operating income	2,774	2, 3	(175)	2,600	Other net income
		4	(7,575)	(7,575)	Staff expenses
General administrative expenses	(16,802)	4, 5, 6, 7	8,839	(7,964)	General administrative expenses
Other operating expenses	(231)	5	231		
		6	(1,879)	(1,879)	Depreciation and amortisation
Provisions	261		-	261	Provisions
Impairment losses on loans and advances	(830)		-	(830)	Impairment losses
Contribution to pension fund clients	(384)	7	384		
Share of profit of associates	45		-	45	Share of profit of associates
Profit before income tax	**12,442**		-	**12,442**	**Profit before tax**
Income tax expense	(2,797)		-	(2,797)	Income tax expense
Profit for the year	**9,645**		-	**9,645**	**Profit for the period**
Attributable to:					**Attributable to:**
Equity holders of the parent	9,543		-	9,543	Equity holders of the parent
Minority interest	102		-	102	Minority interest

The explanation for changes in the structure of the statements of income is as follows:

1. Net fee and commission income has been allocated to Fee and commission income and Fee and commission expense
2. Dividend income has been excluded from Other operating income
3. Net realised gains on available-for-sale financial assets have been excluded from Other operating income
4. Staff expenses have been excluded from General administrative expenses
5. Other operating expenses have been classified under General administrative expenses
6. Depreciation and amortisation have been excluded from General administrative expenses
7. Contribution to pension fund clients have been classified under General administrative expenses

The following reconciliation shows the changes in the structure of the balance sheet as at 31 December 2006 (CZKm):

Structure as reported	2006	Explanation	Changes in the structure	2006	Structure as amended
Cash and balances with central banks	18,394		-	18,394	Cash and balances with central banks
Due from banks	46,676	8	(46,676)		
		9, 11	150,098	150,098	Financial assets held for trading
Financial assets at fair value through profit or loss	173,562	9	(149,316)	24,246	Financial assets designated at fair value through profit or loss
Investment securities	172,171	10	(172,171)		
		10	67,479	67,479	Available-for-sale financial assets
		10, 11	108,773	108,773	Held-to-maturity investments
Loans	308,596	8	46,676	355,272	Loans and receivables
Pledged assets	4,863	11	(4,863)		
		12	5,572	5,572	Derivatives used for hedging
Investments in associated undertakings	658		-	658	Investment in associates
Property and equipment	11,024		-	11,024	Property and equipment
Goodwill and other intangible assets	4,503		-	4,503	Goodwill and other intangible assets
		13	1,332	1,332	Current tax assets
		13	414	414	Deferred tax assets
		14	63	63	Non-current assets held-for-sale
Other assets, including tax assets	16,480	12, 13, 14	(7,381)	9,099	Other assets
Prepayments and accrued income	5,374		-	5,374	Accrued interest income
Total assets	**762,301**		**-**	**762,301**	**Total assets**
Due to banks	32,002	15	(32,002)		
		16	13,956	13,956	Financial liabilities held for trading
Financial liabilities at fair value through profit or loss	98,651	16	(13,956)	84,695	Financial liabilities at fair value through profit or loss
Due to customers	504,294	17	(504,294)		
Debt securities in issue	40,086	19	(40,086)		
		15, 17, 19, 20	581,564	581,564	Financial liabilities at amortised cost
		12	486	486	Derivatives used for hedging
Other liabilities, including tax liabilities	26,816	12, 18	(683)	26,133	Other liabilities
Accruals and deferred income	1,813			1,813	Accrued interest expenses
		18	104	104	Current tax liabilities
		18	93	93	Deferred tax liabilities
Provisions	924		-	924	Provisions
Subordinated liabilities	5,182	20	(5,182)		
Total liabilities	**709,768**		**-**	**709,768**	**Total liabilities**
Share capital	5,105		-	5,105	Share capital
Share premium account	2,259		-	2,259	Share premium
Statutory reserve	18,687		-	18,687	Statutory reserve
Cumulative gains not recognised in the statement of income	1,403	21	(1,403)		
		21	604	604	Available-for-sale reserve
		21	946	946	Cash flow hedge reserve
		21	(147)	(147)	Foreign currency translation reserve
Retained earnings	24,685		-	24,685	Retained earnings
Equity attributable to equity holders of the Bank	52,139		-	52,139	Parent shareholders equity
Minority interests	394		-	394	Minority interests
Total equity	**52,533**		**-**	**52,533**	**Total equity**
Total liabilities and equity	**762,301**		**-**	**762,301**	**Total liabilities and equity**

The explanation for changes in the structure of the balance sheet is as follows:

8. Due from banks have been classified under Loans and receivables,
9. Financial assets held for trading have been excluded from Financial assets at fair value through profit or loss
10. Investment securities have been allocated to Available-for-sale financial assets and Held-to-maturity investments
11. Pledged assets have been added to Financial assets held for trading and Held-to-maturity investments
12. Derivatives used for hedging have been excluded from Other assets, including tax assets and Other liabilities, including tax liabilities
13. Current and deferred tax assets have been excluded from Other assets, including tax assets
14. Non-current assets held-for-sale have been excluded from Other assets, including tax assets
15. Due to banks have been classified under Financial liabilities at amortised cost
16. Financial liabilities held for trading have been excluded from Financial liabilities at fair value through profit or loss
17. Due to customers have been classified under Financial liabilities at amortised cost
18. Current and deferred tax liabilities have been excluded from Other liabilities, including tax liabilities
19. Debt securities in issue have been classified under Financial liabilities at amortised cost
20. Subordinated liabilities have been classified under Financial liabilities at amortised cost
21. Cumulative gains not recognised in the statement of income have been allocated to Available-for-sale reserve, Cash flow hedge reserve and Foreign currency translation reserve

The following reconciliations provide a quantification of the effect of changes in the recognition of selected items in the structure of the consolidated financial statements:

A reconciliation of the selected items of the statement of income for the year ended 31 December 2006 is provided below:

(CZKm)	After changes of the 2006 structure	Reclassifications						Reclassified 2006
		1	2	3	4	5	6	
Interest income	30,211	(20)						30,191
Interest expense	(12,253)	282						(11,971)
Fee and commission income	8,800			(74)				8,726
Fee and commission expense	(1,910)			74				(1,836)
Net gains from financial instruments at fair value through profit or loss	2,761	(262)						2,499
Other net income	2,600			(76)	(149)	(384)		1,991
Staff expenses	(7,575)		(159)				(72)	(7,806)
General administrative expenses	(7,964)		159	76	29	384	(39)	(7,355)
Provisions	261						111	372
Impairment losses	(830)				120			(710)

The explanation for the reclassifications is as follows:

Reclassification resulting from IFRS 7 implementation:

1. Interest income and interest expense accrued on interest rate swaps, which are used to hedge interest rate risk from an economical point of view, but which do not fulfill the requirements of IFRS to apply the hedge accounting were reclassified from Interest income and expenses to Net gains from financial instruments at fair value through profit or loss

Reclassifications resulting from changes in the structure of the financial statements consistent with the parent company:

2. Expenses on employees training and education were reclassified from General administrative expenses to Staff expenses
3. Netting of the operating lease expense with Other net income and netting insurance fee expense with fee income
4. Amounts of charge and reversal of impairment on property and equipment were reclassified from General administrative expenses and Other net income to Impairment losses
5. Contribution to pension fund clients were reclassified from General administrative expenses to Other net income
6. Provisions utilised to cover the respective expenses were reclassified from Staff and General administrative expenses to Provisions

A reconciliation of the selected items of the balance sheet as at 31 December 2006 is provided below:

(CZKm)	After changes of the 2006 structure	Reclassification						Reclassified 2006
		1	2	3	4	5	6	
Cash and balances with central banks	18,394		14,993				(1)	33,386
Financial assets held for trading	150,098			(481)			30	149,647
Financial assets designated at fair value through profit or loss	24,246			(366)				23,880
Available-for-sale financial assets	67,479			(1,313)				66,166
Loans and receivables	355,272		(14,993)					340,279
Derivatives used for hedging	5,572			(448)				5,124
Accrued interest income	5,374			2,608	(1,416)		8	6,574
Current tax assets	1,332						19	1,351
Other assets	9,099				1,416		(55)	10,460
Financial liabilities held for trading	13,956						2	13,958
Financial liabilities designated at fair value through profit or loss	84,695			(538)			6	84,163
Financial liabilities at amortised cost	581,564	5,292					(1)	586,855
Derivatives used for hedging	486			(100)				386
Accrued interest expenses	1,813			636	(423)		(6)	2,020
Other liabilities	26,133	(5,292)		2	423	(688)		20,578
Provisions	924					688	(1)	1,611

The explanation for the adjustments is as follows:

Reclassification resulting from IFRS 7 implementation:

1. Other deposits received from clients previously reported within Other liabilities were reclassified to Financial liabilities at amortised cost due to the financial character of the liabilities.

Reclassifications resulting from changes in the structure of the financial statements consistent with the parent company:

2. The loans advanced to the central bank in a reverse repo operation were reclassified from Loans and receivables to Cash and balances with central banks
3. Interest income and interest expense accrued on financial assets and financial liabilities reported at fair value were reclassified to separate balance sheet captions Accrued interest income and expenses
4. Prepaid charges and non-interest accrued income were reclassified from Accrued interest income to Other assets and, at the same time, deferred income and non-interest accrued charges were reclassified from Accrued interest expenses to Other liabilities
5. Provisions for loan commitments and guarantees were reclassified from Other liabilities to Provisions
6. Other reclassifications

A reconciliation of cash and cash equivalents as at 31 December is follows:

(CZKm)	2006	2005
Cash and cash equivalents – as reported	30,705	26,066
Inclusion of the reverse repo operation with central bank	14,993	48,197
Exclusion of trading portfolio assets	(18,328)	(5,401)
Exclusion of investment securities	(5,772)	(10,078)
Inclusion of loans and advances to credit institutions	11,898	15,341
Inclusion of deposits from credit institutions	(5,465)	(4,697)
Cash and cash equivalents – reclassified	28,031	69,428

3. Scope of consolidation and business combination

The scope of consolidation includes 38 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	2007	2006
Subsidiaries				
Auxilium, a.s.	Auxilium	Czech Republic	100	100
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100	100
Business Center, s.r.o.	Business Center	Slovak Republic	100	100
Centrum Radlická, a.s.	Centrum Radlická	Czech Republic	100	-
ČSOB Asset Management, a.s., a member of the ČSOB Group	ČSOB AM CZ	Czech Republic	21	21
ČSOB Asset Management, správ. spol., a.s.	ČSOB AM SK	Slovak Republic	100	100
ČSOB distribution, a.s.	ČSOB distribution	Slovak Republic	100	100
ČSOB d.s.s., a.s.	ČSOB d.s.s.	Slovak Republic	100	100
ČSOB Factoring, a.s.; former O.B. HELLER a.s.	ČSOB Factoring CZ; former OB HELLER CZ	Czech Republic	100	100
ČSOB Factoring a.s.; former OB HELLER Factoring a.s.	ČSOB Factoring SK; former OB HELLER SK	Slovak Republic	100	100
ČSOB Investiční společnost, a.s., a member of the ČSOB Group	ČSOB IS	Czech Republic	91	91
ČSOB Investment Banking Services, a.s., a member of the ČSOB Group	ČSOB IBS	Czech Republic	100	100
CSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	ČSOB korporátní	Czech Republic	100	-
ČSOB Leasing, a.s.	ČSOB Leasing CZ	Czech Republic	100	100
ČSOB Leasing, a.s. SR	ČSOB Leasing SK	Slovak Republic	100	100
ČSOB Leasing poisťovací maklér, s.r.o.	ČSOB Leasing poisťovací maklér	Slovak Republic	100	100
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100	100
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB Group	ČSOB PF Progres	Czech Republic	100	100
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB Group	ČSOB PF Stabilita	Czech Republic	100	100
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB Group	ČSOB Property fund	Czech republic	21	-
ČSOB stavebná sporiteľňa, a.s.	ČSOB SP	Slovak Republic	100	100
ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	ČSOB výnosový	Czech Republic	-	100
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100	100
Zemský penzijní fond, a.s.	Zemský PF	Czech Republic	-	100
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55	55
Associate				
ČSOB Pojišťovna, a.s., a member of the ČSOB Holding	ČSOB Pojišťovna	Czech Republic	25	25

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 53% of the voting rights in the ČSOB AM CZ, therefore the company is considered to be a subsidiary.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in the ČSOB Property fund, therefore the company is considered to be a subsidiary.

In March 2007, ČSOB purchased Centrum Radlická. The entity was established for the purpose of the construction and operation of the new headquarters building for the Bank and has no other activities. In 2006, Centrum Radlická was included in the consolidation scope, although the Bank was not the legal owner of the entity at the balance sheet date. This was due to the existence of specific rights provided by the contractual agreement with the owner of Centrum Radlická at that time that enabled the Bank to exercise control over the entity.

Based on the Shareholders Agreement, the Bank controls ČMSS jointly with the other owner of remaining 45%. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

In 2007, Group included ČSOB korporátní and ČSOB Property fund in the consolidation scope for the first time. No goodwill arose on consolidation.

In 2007, IPB Leasing, a.s. merged with ČSOB IBS.

The activities of ČSOB výnosový were terminated in 2007. The Group as a sole participant of the mutual fund called for a buy-out of all its collective investment units. This buy-out, including a settlement of all liabilities to the sole participant, was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB IS decided to terminate the activities of the mutual fund. The Czech National Bank (CNB) decision on the withdrawal of the permission came into effect on 21 March 2007. Based on the facts described above, the entity was excluded from the scope of consolidation.

On 1 January 2008, the Group contributed shares of all the subsidiaries incorporated in the Slovak Republic in the new legal entity (Note: 37).

In 2006, ČSOB included Zemský PF in the consolidation scope for the first time. The purchase consideration paid represented CZK 160 m. A customer relationship intangible asset was recognized in the amount of CZK 47 m and the related goodwill was CZK 43 m. In 2007, Zemský PF merged with ČSOB PF Progres.

In 2006, Hornický penzijní fond Ostrava, a.s. merged with ČSOB PF Progres.

In 2006, ČSOB included ČSOB Pojišťovna in the consolidation scope for the first time. The associate was acquired by ČSOB in 2000, but ČSOB had no influence over the financial and operating policies of the entity. In May 2006, ČSOB obtained significant influence over the entity due to changes in the management structure in KBC Group NV (KBC Group).

In April 2006, ČSOB purchased the remaining 50% of shares in joint venture OB HELLER CZ and became the sole shareholder of the company. Subsequently the entity was renamed ČSOB Factoring CZ. The purchase consideration paid was CZK 375 m. Due to this acquisition the share in the joint venture OB HELLER SK in the Slovak Republic increased and was later also renamed to CSOB Factoring SK The purchase consideration paid was CZK 11 m. The goodwill related to the acquisition of both entities was CZK 28 m.

Details of the fair value of the assets and liabilities acquired and the goodwill arising are as follows:

(CZKm)	Fair value recognised on acquisition 2007	Carrying value 2007	Fair value recognised on acquisition 2006	Carrying value 2006
Available-for-sale financial assets	-	-	585	585
Loans and receivables	-	-	1,396	1,396
Accrued interest income	-	-	2	2
Property and equipment	-	-	7	7
Goodwill and other intangible assets	-	-	47	-
Other assets	-	-	33	33
	-	**-**	**2,070**	**2,023**
Financial liabilities at amortised cost	-	-	1,568	1,568
Accrued interest expenses	-	-	2	2
Other liabilities	-	-	43	43
	-	**-**	**1,613**	**1,613**
Fair value of net assets	-	-	457	410
Goodwill arising on acquisition	-		71	
Cost of acquisition	**-**		**528**	

The goodwill has been allocated to subsidiaries acquired and is attributable to the high profitability of the acquired business and the significant synergies expected to arise.

In 2007, there were not acquired any companies.

In 2006, the acquired companies contributed to net profit in the amount of CZK Nil m in the period following their acquisition. If the acquisitions had occurred on 1 January 2006, Profit for the year would have been CZK 9,660 m.

Details of the assets and liabilities disposed and the disposal consideration are as follows:

(CZKm)	Carrying value 2007	Carrying value 2006
Available-for-sale financial assets	24	-
Loans and receivables	1,768	-
Accrued interest income	3	-
Property and equipment	3	-
Other assets	1	-
	1,799	**-**
Financial liabilities at amortised cost	-	-
Other liabilities	47	-
Provisions	16	-
	63	**-**
Net assets	1,736	-
Minority interests	(27)	-
Proceeds from sale	**1,709**	**-**

4. Segment information

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

Segment reporting information by customer segments for 2007

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Net interest income	14,395	2,516	2,024	2,263	21,198
Net fee and commission income	6,066	1,248	(139)	134	7,309
Dividend income	18	1	39	(18)	40
Net gains from financial instruments at fair value through profit or loss	1,630	1,074	358	(809)	2,253
Net realised gains on available-for-sale financial assets	(1)	-	(133)	145	11
Other operating income	462	27	(15)	805	1,279
Operating income	**22,570**	**4,866**	**2,134**	**2,520**	**32,090**
Depreciation and amortisation	(478)	(8)	(1)	(1,452)	(1,939)
Other operating expenses	(9,522)	(951)	(490)	(4,063)	(15,026)
Operating expenses	**(10,000)**	**(959)**	**(491)**	**(5,515)**	**(16,965)**
Impairment losses	(1,502)	109	-	(46)	(1,439)
Share of profit of associates	-	-	-	181	181
Profit before tax	**11,068**	**4,016**	**1,643**	**(2,860)**	**13,867**
Income tax expense	(2,477)	(982)	(195)	661	(2,993)
Segment profit	**8,591**	**3,034**	**1,448**	**(2,199)**	**10,874**
Attributable to:					
Equity holders of the Bank	8,591	3,034	1,448	(2,236)	10,837
Minority interest	-	-	-	37	37
Assets and liabilities					
Segment assets	266,509	115,528	462,571	80,113	924,721
Investment in associates	-	-	-	703	703
Total assets	**266,509**	**115,528**	**462,571**	**80,816**	**925,424**
Total liabilities	**459,668**	**105,457**	**228,317**	**74,781**	**868,223**

Segment reporting information by customer segments for 2006

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Net interest income	11,794	2,069	1,943	2,414	18,220
Net fee and commission income	5,345	1,183	(62)	424	6,890
Dividend income	-	-	50	12	62
Net gains from financial instruments at fair value through profit or loss	2	-	(90)	2,587	2,499
Net realised gains on available-for-sale financial assets	1,269	1,021	1,211	(3,388)	113
Other operating income	386	8	(21)	1,618	1,991
Operating income	**18,796**	**4,281**	**3,031**	**3,667**	**29,775**
Depreciation and amortisation	(461)	(10)	(1)	(1,407)	(1,879)
Other operating expenses	(8,751)	(817)	(404)	(4,817)	(14,789)
Operating expenses	**(9,212)**	**(827)**	**(405)**	**(6,224)**	**(16,668)**
Impairment losses	(979)	(235)	(7)	511	(710)
Share of profit of associates	-	-	-	45	45
Profit before tax	**8,605**	**3,219**	**2,619**	**(2,001)**	**12,442**
Income tax expense	(2,053)	(780)	(497)	533	(2,797)
Segment profit	**6,552**	**2,439**	**2,122**	**(1,468)**	**9,645**
Attributable to:					
Equity holders of the Bank	6,552	2,439	2,122	(1,570)	9,543
Minority interest	-	-	-	102	102
Assets and liabilities					
Segment assets	205,802	116,424	306,949	132,468	761,643
Investment in associate	-	-	-	658	658
Total assets	**205,802**	**116,424**	**306,949**	**133,126**	**762,301**
Total liabilities	**441,453**	**104,594**	**85,488**	**78,233**	**709,768**

Definitions of customer segments:

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

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

Financial markets and ALM: 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 118 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 operated in the Czech Republic and the Slovak Republic. The Group's secondary segment reporting by geographical segment for 2007 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	778,552	107,079	27,814	3,523
Slovak Republic	146,872	19,764	4,276	261
Total	**925,424**	**126,843**	**32,090**	**3,784**

The geographical segment reporting for 2006 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	643,380	92,568	26,111	4,439
Slovak Republic	118,921	25,680	3,664	417
Total	**762,301**	**118,248**	**29,775**	**4,856**

Balances in the segment reporting are net of inter-segment transactions.

5. Interest income

(CZKm)	2007	2006
Cash balances with central banks	1,070	199
Loans and receivables		
Credit institutions	958	2,196
Other than credit institutions	19,397	15,175
Available-for-sale financial assets	2,705	2,341
Held-to-maturity investments	4,912	4,709
Financial assets held for trading	7,459	4,886
Financial assets designated at fair value through profit or loss	1,036	685
	37,537	**30,191**

Included within interest income is accrued interest income of CZK 494 m (2006: CZK 322 m) related to impaired financial assets.

6. Interest expense

(CZKm)	2007	2006
Financial liabilities at amortised cost		
Credit institutions	1,040	801
Other than credit institutions	7,988	6,452
Debt instruments in issue	1,535	1,082
Subordinated liabilities	371	58
Discount amortisation on other provisions (Note: 29)	6	8
Financial liabilities designated at fair value through profit or loss	5,399	3,570
	16,339	**11,971**

7. Net fee and commission income

(CZKm)	2007	2006
Fee and commission income		
Payment services	5,070	4,886
Credit commitments	778	808
Collective investments	730	503
Asset management	462	441
Securities	209	147
Custody	150	111
Other	2,034	1,830
	9,433	**8,726**
Fee and commission expense		
Payment services	649	663
Contribution to Deposit Insurance Fund	416	343
Commissions to agents	334	305
Clearing and settlement	22	21
Custody	17	11
Other	686	493
	2,124	**1,836**
Net fee and commission income	**7,309**	**6,890**

8. Net gains from financial instruments at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2007	2006
Net gains from financial instruments at fair value through profit or loss - as reported	2,253	2,499
Net interest income (Notes: 5, 6)	3,096	2,001
	5,349	**4,500**
Financial instruments held for trading		
Interest rate contracts	7,931	4,985
Foreign exchange	203	(518)
Equity contracts	31	13
Commodity contracts	(14)	16
	8,151	4,496
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(340)	360
Financial liabilities designated at fair value through profit or loss	(5,422)	(3,567)
	(5,762)	(3,207)
Exchange differences revaluations	2,960	3,211
Financial instruments at fair value through profit or loss	**5,349**	**4,500**

9. Other net income

(CZKm)	2007	2006
Operating leasing and rental income	595	534
Net gain on disposal of property and equipment	66	27
Net gain on disposal of associates, joint ventures and subsidiaries	58	-
Net gain on disposal of loans and receivables	51	119
Net gain on disposal of non-current assets held-for-sale	-	1,103
Contributions to pension fund clients	(428)	(383)
Other	937	591
	1,279	**1,991**

10. Staff expenses

(CZKm)	2007	2006
Wages and salaries	5,274	5,184
Salaries and other short-term benefits of senior management	99	338
Social security charges	1,667	1,823
Pension and similar expense	139	133
Other	418	328
	7,597	**7,806**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board.

In 2006, wages and other short-term benefits of senior management included also a compensation of CZK 269 m as an equivalent to a cancelled Share Purchase Programme.

Only the Chairman is remunerated for his membership of the Supervisory Board.

Retirement benefits

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

11. General administrative expenses

(CZKm)	2007	2006
Marketing	1,237	1,205
Retail service fees	953	1,009
Communication	905	854
Information technology	903	877
Rental expenses	771	801
Other building expenses	560	613
Administration	452	377
Professional fees	405	283
Travel and transportation	175	154
Car expenses	112	115
Insurance	60	70
Operating taxes	19	56
Other	1,111	941
	7,663	**7,355**

12. Impairment losses

(CZKm)	2007	2006
Impairment on loans and receivables (Note: 18)	(1,579)	(763)
Provisions for loan commitments and guarantees (Note: 29)	140	(67)
Impairment on property and equipment (Note: 23)	-	120
	(1,439)	**(710)**

13. Taxation

The components of income tax expense for the years ended 31 December 2007 and 2006 are as follows:

(CZKm)	2007	2006
Current tax expense	2,296	2,236
Previous year (over) / under accrual	(17)	286
Deferred tax expense relating to the origination and reversal of temporary differences	604	275
Deferred tax expense resulting from reduction in tax rate	110	-
	2,993	**2,797**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2007 and 2006 is as follows:

(CZKm)	2007	2006
Profit before taxation	13,867	12,442
Applicable tax rates	24 %	24 %
Taxation at applicable tax rates	3,328	2,986
Previous year (over) / under accrual	(17)	286
Tax effect of non-taxable income	(1,052)	(1,271)
Tax effect of non-deductible expenses	580	779
Effect of foreign taxes	(16)	1
Effect on opening deferred taxes due to reduction in tax rate	110	-
Other	60	16
	2,993	**2,797**

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2007 was 24% (2006: 24%) and for future periods it will be 21% for 2008, 20% for 2009 and 19% for 2010 onwards.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 20% enacted for 2009 as the management expects that the majority of temporary differences will be reversed in 2009.

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

(CZKm)	2007	2006
At 1 January	321	570
Statement of income charge	(714)	(275)
Available-for-sale securities		
Fair value remeasurement (Note: 30)	319	166
Transfer to net profit	(22)	(9)
Cash-flow hedges		
Fair value remeasurement (Note: 30)	388	(276)
Transfer to net profit	73	138
Net investment hedges		
Fair value remeasurement (Note: 30)	7	-
Change of consolidation scope	-	(4)
Exchange differences	(17)	11
At 31 December	**355**	**321**

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

(CZKm)	2007	2006
Deferred income tax asset		
Provisions	169	253
Cash flow hedges	166	(299)
Available-for-sale securities	140	(111)
Interest rate bonus	127	161
Legal claim	97	293
Allowances for credit losses	78	29
Impairment of occupied properties	39	61
Tax loss carry forward	4	-
Accelerated tax depreciation	(13)	(21)
Trading financial instruments	(90)	3
Amortisation of goodwill	(102)	(71)
Other temporary differences	107	116
	722	**414**
Deferred income tax liability		
Finance lease valuation	299	207
Accelerated tax depreciation	294	94
Trading financial instruments	-	6
Provisions	(7)	-
Allowances for credit losses	(77)	(144)
Tax loss carry forward	(87)	-
Other temporary differences	(55)	(70)
	367	**93**

The deferred tax charge in the statement of income comprises the following temporary differences:

(CZKm)	2007	2006
Tax loss carry forward	91	-
Interest rate bonus	(5)	(5)
Impairment of occupied properties	(14)	(163)
Available-for-sale securities	(16)	6
Allowances for credit losses	(24)	(129)
Amortisation of goodwill	(44)	(52)
Provisions	(49)	62
Trading financial instruments	(88)	(9)
Finance lease valuation	(92)	(59)
Legal claim	(147)	-
Accelerated tax depreciation	(195)	(15)
Other temporary differences	(21)	89
Deferred tax expense resulting from reduction in tax rate	(110)	-
	(714)	**(275)**

The Group'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.

14. Dividends paid

Final dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. Based on the decision from 14 November 2007, a dividend of CZK 1,869 per share was approved for 2006, representing a total dividend of CZK 9,542 m.

At the Annual General Meeting on 21 April 2006, a dividend of CZK 2,023 m per share was approved in respect of 2005 net profit, representing a total dividend of CZK 10,327 m.

15. Cash and balances with central banks

(CZKm)	2007	2006
Cash	9,382	9,298
Mandatory minimum reserves	4,828	8,022
Other balances with central banks	19,620	16,066
	33,830	**33,386**

Mandatory minimum reserves are not available for use in the Group's day-to-day operations.

The CNB pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5% in both 2007 and 2006.

16. Financial assets at fair value through profit or loss

(CZKm)	2007	2006
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 35)	47,138	66,853
Money market placements	105,517	36,606
Debt instruments	53,375	34,258
Debt securities pledged as collateral	3,923	766
Derivative contracts (Note: 20)	14,535	11,164
	224,488	**149,647**
Financial assets designated at fair value through profit or loss		
Equity instruments	117	-
Debt instruments	22,672	23,880
Debt securities pledged as collateral	1,364	-
	24,153	**23,880**
Financial assets at fair value through profit or loss	**248,641**	**173,527**

17. Financial investments

(CZKm)	2007	2006
Available-for-sale financial assets		
Debt securities	73,012	64,042
Equity securities	2,983	2,163
Provisions for impairment	(39)	(39)
	75,956	**66,166**
Held-to-maturity investments		
Debt securities	114,089	108,772
Financial investments	**190,045**	**174,938**

Included within Financial investments are debt securities of CZK 55,080 m (2006: CZK 4,081 m) pledged as collateral in repo transactions.

18. Loans and receivables

(CZKm)	2007	2006
Analysed by category of borrower		
Central government	11,298	11,486
Non credit institutions	4,754	5,178
Credit institutions	19,382	31,002
Corporate	204,790	169,750
Retail	178,204	129,868
Gross loans	418,428	347,284
Allowance for impairment losses	(7,299)	(7,005)
	411,129	**340,279**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2007	2006
Gross investment in finance leases, receivable	**45,968**	**36,269**
At not more than one year	20,643	18,512
At more than one but not more than five years	24,751	17,317
At more than five years	574	440
Unearned future finance income on finance leases	(4,403)	(1,515)
Net investment in finance leases	**41,565**	**34,754**
At not more than one year	18,355	17,691
At more than one but not more than five years	22,701	16,665
At more than five years	509	398
Accumulated allowance for uncollectible minimum lease payments receivable	424	842

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

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and receivables for 2006 and 2007:

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2006	**5,420**	**945**	**6,365**
Additions through business combinations	(5)	1	(4)
Net increase in allowances for credit losses	701	62	763
Write-offs	(845)	-	(845)
Recoveries	700	-	700
Foreign currency translation	20	6	26
At 31 December 2006	**5,991**	**1,014**	**7,005**
Net increase / (decrease) in allowances for credit losses	1,919	(340)	1,579
Write-offs	(1,193)	-	(1,193)
Transfers	(5)	5	-
Foreign currency translation	(87)	(5)	(92)
At 31 December 2007	**6,625**	**674**	**7,299**

The gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2007 amounts to CZK 9,925 m (31 December 2006: CZK 9,245 m).

The fair value of collateral held by the Group relating to loans individually determined to be impaired at 31 December 2007 amounts to CZK 3,730 m (31 December 2006: CZK 3,455 m). The collateral consists of cash, securities, guarantees received, properties and equipments.

19. Investment in associate and joint venture

The Group has a 25% interest (2006: 25%) in ČSOB Pojišťovna (Note: 3). The following table illustrates the summarised financial information of the investment in this associate:

(CZKm)	2007	2006
Share of the associate's balance sheet		
Assets	7,225	6,664
Liabilities	6,522	6,006
Net assets	**703**	**658**
Carrying amount of the investment	**703**	**658**
Share of the associate's revenue and profit		
Revenue	1,516	1,122
Profit for the year	181	45

The Group has a 55% interest (2006: 55%) in ČMSS (Note: 3). For 2007 and 2006, the Group's interest in this joint venture is as follows:

(CZKm)	2007	2006
Condensed assets and liabilities		
Cash and balances with central banks	856	463
Available-for-sale financial assets	15,358	14,145
Loans and receivables	47,898	37,863
Held-to-maturity investments	15,162	20,601
Accrued interest income	608	753
Tax assets	124	100
Property and equipment	459	486
Goodwill and other intangible assets	70	74
Other assets	111	217
Total assets	**80,646**	**74,702**
Financial liabilities at amortised cost	76,423	70,822
Accrued interest expenses	647	672
Tax liabilities	44	1
Other liabilities	324	336
Provisions	6	11
Total liabilities	**77,444**	**71,842**
Condensed statement of income		
Net interest income	1,195	845
Net fee and commission income	399	463
Other operating income	(7)	18
Operating income	**1,587**	**1,326**
Operating expenses	(658)	(580)
Impairment losses	(58)	(47)
Profit before tax	**871**	**699**
Income tax expense	(160)	(115)
Profit for the year	**711**	**584**

20. Derivative financial instruments

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. Furthermore, 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 also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book and which do not meet the criteria of hedge accounting. The Group used single currency interest rate 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 2007 and 2006 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.

	2007			2006		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Interest rate related contracts						
Swaps	857,681	7,382	7,527	507,405	4,274	4,711
Forwards	143,834	89	71	113,088	65	68
Options	21,668	82	41	12,129	25	-
	1,023,183	**7,553**	**7,639**	**632,622**	**4,364**	**4,779**
Foreign exchange contracts						
Swaps/Forwards	212,989	1,917	3,358	188,557	3,452	3,997
Cross currency interest rate swaps	110,591	3,498	1,472	76,173	2,223	2,238
Options	129,211	1,071	1,071	115,153	1,037	1,037
	452,791	**6,486**	**5,901**	**379,883**	**6,712**	**7,272**
Equity contracts						
Forwards	100	80	20	100	40	20
Commodity contracts						
Swaps	3,368	416	436	1,521	48	42
Total derivatives held for trading (Notes: 16, 26)	**1,479,442**	**14,535**	**13,996**	**1,014,126**	**11,164**	**12,113**

Hedging derivatives

The Group's ALM function 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 the 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 2007 and 2006.

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 659 m (31 December 2006: CZK 489 m) were designated as hedges and gave rise to currency gains for the year of CZK 21 m (31 December 2006: losses CZK 58 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 2007 and 2006 are set out as follows:

	2007			2006		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	48,053	1	779	27,726	133	162
Cross currency interest rate swaps	43,259	5,578	484	33,906	4,991	76
Swaps/Forwards	181	8	-	-	-	-
	91,493	**5,587**	**1,263**	**61,632**	**5,124**	**238**
Net investment hedges						
Cross currency interest rate swaps	3,105	-	122	2,970	-	148
Total hedging derivatives	**94,598**	**5,587**	**1,385**	**64,602**	**5,124**	**386**

Net gains on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2007	2006
Interest income	306	574
Taxation	(73)	(138)
Net gains (Note: 30)	**233**	**436**

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from reverse repo operations with the Czech National Bank earning 14-days interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is highly effective due to the strong correlation between 14-days interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and float interest income earning securities are included in Available-for-sale financial assets and Held-to-maturity investments of the Group's balance sheet.

Since the cash-flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notionals instead of expected future cash-flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notionals remaining maturity is more relevant.

The following table shows an analysis of notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2007	2006
Less than 3 months	3,389	2,650
More than 3 months but not more than 6 months	2,352	2,262
More than 6 months but not more than 1 year	1,200	6,257
More than 1 year but not more than 2 years	4,757	1,746
More than 2 years but not more than 5 years	43,406	22,429
More than 5 years	36,389	26,288
	91,493	**61,632**

21. Accrued interest income and expenses

(CZKm)	2007	2006
Accrued interest income		
Cash balances with central banks	51	-
Financial assets held for trading	1,196	481
Financial assets designated at fair value through profit or loss	367	367
Available-for-sale financial assets	1,316	1,313
Loans and receivables	1,479	1,259
Held-to-maturity investments	2,876	2,704
Derivatives used for hedging	356	447
Other	-	3
	7,641	**6,574**
Accrued interest expenses		
Financial liabilities designated at fair value through profit or loss	401	538
Financial liabilities at amortised cost	1,369	1,383
Derivatives used for hedging	(146)	99
	1,624	**2,020**

22. Investment property

(CZKm)	2007	2006
Net book value at 1 January	**-**	**-**
Additions	875	-
Net book value at 31 December	**875**	**-**
Fair value at 31 December	**875**	**-**

The Group purchased an investment property on 21 December 2007. The fair value of the investment property is equal to the cost of the investment property and there were no amounts related to investment property recognised in the statement of income for the year ended 31 December 2007.

23. Property and equipment

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2006	8,883	2,966	984	4,468	17,301
Depreciation and impairment at 1 January 2006	(2,842)	(2,546)	(795)	(2,573)	(8,756)
Net book value at 1 January 2006	**6,041**	**420**	**189**	**1,895**	**8,545**
Additions	2,079	278	23	1,598	3,978
Additions through business combinations	-	-	7	-	7
Disposals	(95)	(18)	(2)	(226)	(341)
Net transfers from assets held-for-sale	65	-	-	-	65
Depreciation and amortisation	(288)	(298)	(44)	(815)	(1,445)
Impairment charge (Note: 12)	(7)	-	-	(21)	(28)
Impairment release (Note: 12)	113	-	-	35	148
Foreign exchange adjustments	58	6	3	28	95
Net book value at 31 December 2006	**7,966**	**388**	**176**	**2,494**	**11,024**

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2007	9,792	3,003	987	5,445	19,227
Depreciation and impairment at 1 January 2007	(1,826)	(2,615)	(811)	(2,951)	(8,203)
Net book value at 1 January 2007	**7,966**	**388**	**176**	**2,494**	**11,024**
Additions	558	299	118	2,058	3,033
Disposals	(12)	(8)	(3)	(585)	(608)
Disposals through business combination	(1)	-	(2)	-	(3)
Depreciation and amortisation	(357)	(230)	(44)	(870)	(1,501)
Foreign exchange adjustments	(13)	-	-	4	(9)
Net book value at 31 December 2007	**8,141**	**449**	**245**	**3,101**	**11,936**
of which					
Cost	10,295	2,864	865	6,321	20,345
Depreciation and impairment	(2,154)	(2,415)	(620)	(3,220)	(8,409)

The Net book value of the Construction in progress, included in Property and equipment, amounted to CZK 463 m at 31 December 2007 (31 December 2006: CZK 2,944 m).

The value of the pledge to secure the loan as at 31 December 2007 was CZK Nil m (31 December 2006: CZK 2,787 m).

24. Goodwill and other intangible assets

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2006	3,572	2,982	631	7,185
Depreciation and impairment at 1 January 2006	(63)	(2,471)	(345)	(2,879)
Net book value at 1 January 2006	**3,509**	**511**	**286**	**4,306**
Additions	-	361	392	753
Additions through business combinations	71	-	47	118
Disposals	-	(19)	(223)	(242)
Amortization and impairment	-	(389)	(45)	(434)
Foreign exchange adjustments	-	2	-	2
Net book value at 31 December 2006	**3,580**	**466**	**457**	**4,503**

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2007	3,643	3,300	842	7,785
Depreciation and impairment at 1 January 2007	(63)	(2,834)	(385)	(3,282)
Net book value at 1 January 2007	**3,580**	**466**	**457**	**4,503**
Additions	-	557	194	751
Disposals	-	(90)	(12)	(102)
Amortization and impairment	-	(376)	(62)	(438)
Foreign exchange adjustments	(4)	-	-	(4)
Net book value at 31 December 2007	**3,576**	**557**	**577**	**4,710**
of which				
Cost	3,639	3,735	989	8,363
Amortization and impairment	(63)	(3,178)	(412)	(3,653)

Goodwill has been allocated to acquired subsidiaries (CZK 887 m) and the Retail / SME segment (CZK 2,689 m), each representing a cash-generating unit (Note: 4). 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 the management covering a period 2008 - 2010. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. Cash flows are represented by net profit generated by the cash-generating unit above the required capital calculated as 8% of its risk weighted assets and a terminal value of the business. The first ten-year period future cash flows were discounted using a risk free rate of 4.5% adjusted by a market risk premium of 6.5%. For the calculation of the terminal value a sustainable discount rate of 9.5% was used. The management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

25. Other assets

(CZKm)	2007	2006
Other debtors, net of provisions (Note: 38.2)	6,622	4,144
Prepaid charges	1,052	1,339
Accrued income (Note: 38.2)	667	213
VAT and other tax receivables	232	323
Receivables from securities clearing entities (Note: 38.2)	78	2,287
Other receivables from clients (Note: 38.2)	68	1,458
Other	162	696
	8,881	**10,460**

Included within Other debtors, net of provisions is a receivable from the Czech Ministry of Finance (MF CZ) in the amount of CZK 1,687 m at 31 December 2007 (31 December 2006: CZK 1,789 m) related to the ex-IPB assets originally transferred to the Czech Consolidation Agency. The Group believes that the amount is fully covered by guarantee agreements issued by the institutions of the Czech state (Note: 34).

26. Financial liabilities at fair value through profit or loss

(CZKm)	2007	2006
Financial liabilities held for trading		
Short positions	1,989	1,845
Derivative contracts (Note: 20)	13,996	12,113
	15,985	**13,958**
Financial liabilities designated at fair value through profit or loss		
Term deposits	117,293	69,135
Repo transactions	21,937	9,810
Promissory notes	5,299	3,870
Bonds issued	1,260	1,348
	145,789	**84,163**
Financial liabilities at fair value through profit or loss	**161,774**	**98,121**

The amount that the Group would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 2 m more than the carrying amount at 31 December 2007 (31 December 2006: CZK 30 m).

27. Financial liabilities at amortised cost

(CZKm)	2007	2006
Deposits received from credit institutions		
Current accounts	16,783	11,810
Term deposits	31,415	31,208
Repo transactions	12,723	3,931
	60,921	**46,949**
Deposits received from other than credit institutions		
Current accounts	291,102	249,695
Term deposits with agreed maturity	127,904	109,725
Term deposits at notice	36,594	37,739
Special deposits	100,582	91,919
Other deposits	5,779	5,559
	561,961	**494,637**
Debt securities in issue		
Bonds issued	24,866	21,705
Certificates of deposit	21,973	18,382
	46,839	**40,087**
Subordinated liabilities		
Subordinated debt	**12,161**	**5,182**
Financial liabilities at amortised cost	**681,882**	**586,855**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amount of CZK 5,000 m and CZK 7,000 m to KBC Bank. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

In June 2000, Hypoteční banka issued subordinated debt in the nominal amount of CZK 200 m to ČSOB Pojišťovna, which is repayable in June 2008. Its coupon rate is 9.5%. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of Hypoteční banka.

28. Other liabilities

(CZKm)	2007	2006
Other clearing accounts	9,934	9,878
Other creditors	4,617	5,193
Accrued charges	1,934	1,412
Payables to securities clearing entities	1,561	690
Payables to employees including social security charges	684	1,826
VAT and other tax payables	288	287
Income received in advance	104	72
Other debts to clients	90	77
Other	462	1,143
	19,674	**20,578**

29. Provisions

(CZKm)	Pending legal issues and other	Restructuring	Contractual engagements	Loans commitments and guarantees	Total
At 1 January 2007	577	188	159	687	1,611
Additions	61	-	-	267	328
Disposals through business combinations	(16)	-	-	-	(16)
Amounts utilised	(163)	(57)	(24)	-	(244)
Unused amounts reversed	(52)	-	-	(406)	(458)
Discount amortisation (Note: 6)	-	-	6	-	6
Foreign currency translation	16	-	-	(24)	(8)
At 31 December 2007	**423**	**131**	**141**	**524**	**1,219**

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Restructuring

In 2004 and 2005, the Bank announced programs to reduce the total number of personnel by approximately 850. Total charges of CZK 343 m were recorded in 2004 and 2005 to cover the related costs. In accordance with these programs, the number of personnel had been reduced by 337 by the end of 2006 and by a further 251 by the end of 2007. The Bank expects to use the remaining provision of CZK 131 m to cover the costs related to further reductions in the number of personnel by approximately 280 in 2008.

Contractual engagements

The Bank assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise.

30. Share capital and other reserves

As at 31 December 2007, the total authorised share capital as at 31 December 2007 was CZK 5,855 m (31 December 2006: CZK 5,105 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

In December 2007, KBC Bank increased the regulatory capital of ČSOB by CZK 6,000 m in order to maintain the capital structure of the Group to reflect changes in economic conditions and the risk characteristics of its activities. This increase was effected through share capital by CZK 750 m and share premium by CZK 5,250 m.

No Treasury shares were held by the Group at 31 December 2007 and 2006.

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

(%)	2007	2006
KBC Bank	100.00	97.44
Others	-	2.56
Total	**100.00**	**100.00**

In 2006, KBC Bank exercised its call option and purchased the 7.47% share of ČSOB, which was previously owned by the European Bank for Reconstruction and Development. This purchase enabled KBC Bank, in compliance with Czech legislation, to perform a buy-out of minority shareholders of the Bank. Based on the formal consent to the proposed consideration given by the CNB on 8 March 2007, a proposal for the buy-out of the minority shareholders submitted by KBC Bank was approved by the Annual General Meeting, which took place on 20 April 2007. In June 2007, KBC Bank became the sole shareholder of the Bank after the remaining shares held by the minority shareholders of ČSOB had been transferred to KBC Bank.

On 31 December 2007, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB represented 100% (31 December 2006: 97.44%). On the same date, KBC Bank was controlled by KBC Group and therefore KBC Group was the company indirectly exercising ultimate control over ČSOB.

The movement of Other reserves in 2006 and 2007 are as follows:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2006	**1,085**	**503**	**(130)**	**1,458**
Net unrealised gains on available-for-sale financial investments	(657)	-	-	(657)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	2	-	-	2
Tax effect of net gains on available-for-sale financial investments (Note: 13)	166	-	-	166
Net unrealised gains on cash flow hedges	-	1,155	-	1,155
Net gain on cash flow hedges reclassified to the statement of income (Note: 20)	-	(436)	-	(436)
Tax effect of net gain on cash flow hedges (Note: 13)	-	(276)	-	(276)
Foreign currency translation	-	-	131	131
Net change on hedge of net investment	-	-	(148)	(148)
Share of changes recognised directly in associate's equity	8	-	-	8
At 31 December 2006	**604**	**946**	**(147)**	**1,403**
Net unrealised gains on available-for-sale financial investments	(1,377)	-	-	(1,377)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	99	-	-	99
Tax effect of net gains on available-for-sale financial investments (Note: 13)	319	-	-	319
Net unrealised gains on cash flow hedges	-	(1,750)	-	(1,750)
Net gain on cash flow hedges reclassified to the statement of income (Note: 20)	-	(233)	-	(233)
Tax effect of net gain on cash flow hedges (Note: 13)	-	388	-	388
Foreign currency translation	-	-	(39)	(39)
Net change on hedge of net investment	-	-	46	46
Tax effect of net change on hedge of net investment (Note: 13)	-	-	7	7
Share of changes recognised directly in associate's equity	(8)	-	-	(8)
At 31 December 2007	**(363)**	**(649)**	**(133)**	**(1,145)**

31. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

(CZKm)	2007 Carrying value	2007 Fair value	2006 Carrying value	2006 Fair value
Financial assets				
Cash and balances with central banks	33,830	33,830	33,386	33,386
Financial assets held for trading	224,488	224,488	149,647	149,647
Financial assets designated at fair value through profit or loss	24,153	24,153	23,880	23,880
Available-for-sale financial assets	75,956	75,956	66,166	66,166
Loans and receivables	411,129	418,002	340,279	348,717
Held-to-maturity investments	114,089	112,436	108,772	110,610
Derivatives used for hedging	5,587	5,587	5,124	5,124
Financial liabilities				
Financial liabilities held for trading	15,985	15,985	13,958	13,958
Financial liabilities designated at fair value through profit or loss	145,789	145,789	84,163	84,163
Financial liabilities at amortised cost	681,882	680,982	586,855	587,173
Derivatives used for hedging	1,385	1,385	386	386

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

Held-to-maturity investments

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 receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; 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.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to credit institutions 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 credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and 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.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices and those involving valuation techniques:

	2007		
(CZKm)	Quoted market price	Valuation techniques (market observable inputs)	Total
Financial assets			
Financial assets held for trading	17,854	206,634	224,488
Financial assets designated at fair value through profit or loss	19,616	4,537	24,153
Available-for-sale financial assets	51,814	24,142	75,956
Derivatives used for hedging	-	5,587	5,587
Financial liabilities			
Financial liabilities held for trading	1,989	13,996	15,985
Financial liabilities designated at fair value through profit or loss	-	145,789	145,789
Derivatives used for hedging	-	1,385	1,385

	2006		
(CZKm)	Quoted market price	Valuation techniques (market observable inputs)	Total
Financial assets			
Financial assets held for trading	9,354	140,293	149,647
Financial assets designated at fair value through profit or loss	18,092	5,788	23,880
Available-for-sale financial assets	53,551	12,615	66,166
Derivatives used for hedging	-	5,124	5,124
Financial liabilities			
Financial liabilities held for trading	1,845	12,113	13,958
Financial liabilities designated at fair value through profit or loss	-	84,163	84,163
Derivatives used for hedging	-	386	386

32. Additional cash flow information

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

(CZKm)	2007	2006
Cash and balances with central banks	29,002	25,364
Loans and advances to credit institutions	6,714	14,492
Deposits from credit institutions	(16,824)	(11,825)
Cash and cash equivalents	**18,892**	**28,031**

Change in operating assets

(CZKm)	2007	2006
Net change in financial assets held for trading	(74,841)	24,506
Net change in financial assets designated at fair value through profit or loss	(273)	(6,778)
Net change in available-for-sale financial assets	(11,079)	(697)
Net change in loans and receivables	(78,781)	(74,055)
Net change in derivatives used for hedging	(2,520)	(915)
Net change in accrued interest income	(1,070)	792
Net change in other assets	1,471	(303)
	(167,093)	**(57,450)**

Change in operating liabilities

(CZKm)	2007	2006
Net change in financial liabilities held for trading	2,028	4,572
Net change in financial liabilities designated at fair value through profit or loss	61,626	(30,909)
Net change in financial liabilities at amortised cost	79,888	26,577
Net change in derivatives used for hedging	999	(711)
Net change in accrued interest expenses	(396)	(438)
Net change in other liabilities	(856)	8,440
	143,289	**7,531**

Non-cash items included in profit before tax

(CZKm)	2007	2006
Depreciation and amortisation	1,939	1,879
Allowances and provisions for credit losses	1,439	830
Amortisation of discounts and premiums	641	787
Net property impairment (release)	-	(120)
Share of profit of associate	(181)	(45)
Provisions	(234)	(372)
Other	(15)	(403)
	3,589	**2,556**

33. Maturity analysis of assets and liabilities

The following table sets out the financial assets and liabilities of the Group by remaining expected maturity as at 31 December 2007.

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	189,500	7,482	12,967	14,539	**224,488**
Financial assets designated at fair value through profit or loss	734	2,973	20,329	117	**24,153**
Available-for-sale financial assets	8,544	28,511	35,957	2,944	**75,956**
Loans and receivables	144,229	122,361	139,556	4,983	**411,129**
Held-to-maturity investments	15,133	43,315	55,641	-	**114,089**
Total carrying value	**358,140**	**204,642**	**264,450**	**22,583**	**849,815**
LIABILITIES					
Financial liabilities held for trading	1,449	470	25	14,041	**15,985**
Financial liabilities designated at fair value through profit or loss	141,085	4,630	50	24	**145,789**
Financial liabilities at amortised cost	280,454	124,396	276,998	34	**681,882**
Total carrying value	**422,988**	**129,496**	**277,073**	**14,099**	**843,656**

The following table sets out the financial assets and liabilities of the Group by remaining expected maturity as at 31 December 2006.

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	127,143	4,405	6,917	11,182	**149,647**
Financial assets designated at fair value through profit or loss	601	2,911	20,368	-	**23,880**
Available-for-sale financial assets	9,096	34,255	20,658	2,157	**66,166**
Loans and receivables	119,344	74,884	87,288	58,763	**340,279**
Held-to-maturity investments	13,603	49,959	45,210	-	**108,772**
Total carrying value	**269,787**	**166,414**	**180,441**	**72,102**	**688,744**
LIABILITIES					
Financial liabilities held for trading	3	752	1,003	12,200	**13,958**
Financial liabilities designated at fair value through profit or loss	83,011	893	50	209	**84,163**
Financial liabilities at amortised cost	227,597	165,893	192,939	426	**586,855**
Total carrying value	**310,611**	**167,538**	**193,992**	**12,835**	**684,976**

34. Contingent assets, liabilitiest and commitments

Contingent assets

Based on a court ruling, the Group has recovered a written-off loan amounting to CZK 485 m. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Group will not recognise this amount in the statement of income until the final court ruling regarding the Group's claim is known.

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2007	2006
Loan commitments	114,336	118,248
Financial guarantees	29,783	22,479
Other commitments	2,423	2,641
	146,542	**143,368**
Provisions for loan commitments and guarantees (Note: 29)	524	688

The above contractual amounts represent the maximum credit risk that 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.

Litigation

Other than the litigation for which provisions have already been made (Note: 29), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of 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 the Group is not able to reliably estimate the total effective claim, since the claims are interdependent. The Group believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by the institutions of the Czech state and thus they have no risk of material impact on the financial position of the Group.

In June 2007 the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 25). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by the opinions of external lawyers.

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

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 that 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.

Operating lease commitments (Group is the lessee)

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2007	2006
Not later than 1 year	38	97
Later than 1 year and not later than 5 years	290	233
Later than 5 years	93	137
	421	**467**

These 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.

Operating lease receivables (Group is the lessor)

Future minimum lease payments under operating leases related to movables are as follows:

(CZKm)	2007	2006
Not later than 1 year	628	292
Later than 1 year and not later than 5 years	1,253	585
Later than 5 years	23	25
	1,904	**902**

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

35. Repurchase agreements and collateral

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the balance sheet in which they are included:

(CZKm)	2007	2006
Assets		
Cash and balances with central banks	18,854	14,993
Financial assets held for trading	47,138	66,853
Loans and receivables	4,265	9,894
	70,257	**91,740**

Under reverse repurchase agreements, 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.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the same collateral. The Group has no obligations to deliver back collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2007 was CZK 113,650 m, of which CZK 14,737 m has been either sold or repledged (31 December 2006: CZK 91,850 m and CZK 8,388 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2007	2006
Liabilities		
Financial liabilities designated at fair value through profit or loss	21,937	9,810
Financial liabilities at amortised cost	13,010	4,324
	34,947	**14,134**

36. Related party disclosures

A number of banking transactions are executed with related parties in the normal course of business. In the opinion of the 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 of assets from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial	Loans and receivables	Accrued interest income	Other assets
KBC Bank NV	16,116	-	-	96	-	3
Entities under common control	569	9,156	436	408	131	135
Associates	22	-	-	-	-	5
Joint ventures	-	-	-	428	3	-

The outstanding balances of liabilities from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortized cost	Accrued interest expences	Other liabilities
Directors / Senior management personnel	-	-	95	-	-
KBC Bank NV	4,541	77,048	31,490	6	-
Entities under common control	66	2,470	3,451	-	20
Associates	48	51	1,654	39	14
Joint ventures	-	-	3,463	48	1

The outstanding balances of assets from related party transactions as at 31 December 2006 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial	Loans and receivables	Accrued interest income	Other assets
KBC Bank NV	9,457	-	-	2,706	-	1
Entities under common control	221	10,736	-	596	110	142
Associates	-	-	-	-	-	5
Joint ventures	-	-	-	428	2	-

The outstanding balances of liabilities from related party transactions as at 31 December 2006 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortized cost	Accrued interest expences	Other liabilities
Directors / Senior management personnel	-	-	3	-	-
KBC Bank NV	3,817	35,155	5,642	1	-
Entities under common control	7	80	14,825	-	2
Associates	4	-	1,292	9	-
Joint ventures	-	-	1,937	43	-

The outstanding balances of interest income and expense from related party transactions at 31 December are as follows:

	2007		2006	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank NV	142	(2,505)	206	(1,506)
Entities under common control	23	(614)	29	(383)
Associates	-	(55)	-	(51)
Joint ventures	18	(69)	11	(49)

The outstanding balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2007		2006	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	432	73	-	224
Entities under common control	-	20	-	20

37. Events after the balance sheet date

MF CZ receivable

As described in Notes 25 and 34, ČSOB has initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable in the amount of CZK 1,656 m plus related accrued interest in the amount of CZK 122 m from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency.

On 21 March 2008, the CNB has instructed the Bank to derecognize the receivable. Although the Bank's management believe, on the basis of legal opinions received, that the receivable is fully recoverable, in order to comply with the requirements of the regulator the intention of the Bank's management is to derecognize this receivable in 2008.

Transformation of business in Slovakia

In 2007, KBC Bank, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic, for KBC Group strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) reporting directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders of ČSOB SK is as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank	39.80	8,000
ČSOB Leasing CZ	2.02	407
ČSOB Factoring CZ	1.44	289
Total	**100.00**	**20,104**

The share of ČSOB is represented by non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic (Note: 3).

The KBC Bank share is represented by a cash deposit.

The ČSOB Leasing CZ and ČSOB Factoring CZ shares are represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank. Therefore, form 1 January 2008, ČSOB SK has been controlled by KBC Bank.

The transaction is held between entities under common control and is treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the ČSOB Group's subsidiaries in the Slovak Republic are excluded from the ČSOB Group consolidation scope. These shares as well as the deposited assets and liabilities are replaced by the share in ČSOB SK.

The net assets contributed by ČSOB Group to ČSOB SK represent CZK 5,161 m. The main effects on the ČSOB consolidated financial statements are shown below.

The following table shows the Consolidated statement of income of the ČSOB Group for the year ended 31 December 2007, excluding the results of the operations in the Slovak Republic:

(CZKm)	2007
Interest income	31,309
Interest expense	(12,476)
Net interest income	**18,833**
Fee and commission income	8,332
Fee and commission expense	(1,840)
Net fee and commission income	**6,492**
Dividend income	40
Net gains from financial instruments at fair value through profit or loss	1,483
Net realised gains on available-for-sale financial assets	2
Other net income	964
Operating income	**27,814**
Staff expenses	(6,446)
General administrative expenses	(6,553)
Depreciation and amortisation	(1,633)
Provisions	235
Operating expenses	**(14,397)**
Impairment losses	(960)
Share of profit of associates	181
Profit before tax	**12,638**
Income tax expense	(2,699)
Profit for the year	**9,939**
Attributable to:	
Equity holders of the Bank	9,902
Minority interest	37

The following table shows the Consolidated balance sheet of the ČSOB Group as at 31 December 2007, excluding balances in the Slovak Republic:

(CZKm)	31.12.2007
ASSETS	
Cash and balances with central banks	29,563
Financial assets held for trading	147,656
Financial assets designated at fair value through profit or loss	24,153
Available-for-sale financial assets	77,477
Loans and receivables	355,367
Held-to-maturity investments	110,361
Derivatives used for hedging	5,587
Accrued interest income	7,263
Current tax assets	686
Deferred tax assets	638
Investments in associates	703
Investment property	875
Property and equipment	10,135
Goodwill and other intangible assets	4,642
Non-current assets held-for-sale	27
Other assets	7,765
Total assets	**782,898**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	12,602
Financial liabilities designated at fair value through profit or loss	75,878
Financial liabilities at amortised cost	615,964
Derivatives used for hedging	1,385
Accrued interest expenses	1,391
Current tax liabilities	98
Deferred tax liabilities	365
Other liabilities	18,709
Provisions	1,061
Total liabilities	**727,453**
Share capital	5,855
Share premium	7,509
Statutory reserve	18,687
Retained earnings	24,184
Available-for-sale reserve	(344)
Cash flow hedge reserve	(649)
Foreign currency translation reserve	(133)
Parent shareholders' equity	55,109
Minority interest	336
Total equity	**55,445**
Total liabilities and equity	**782,898**

Profit for the year of the operations in the Slovak Republic of CZK 935 m and post acquisition retained earnings of Slovak entities of CZK 658 m were allocated to the Slovak entities and were not included in the Retained earnings figure above.

38. Risk management

38.1 Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. Each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal Capital Adequacy Assessment Process (ICAAP).

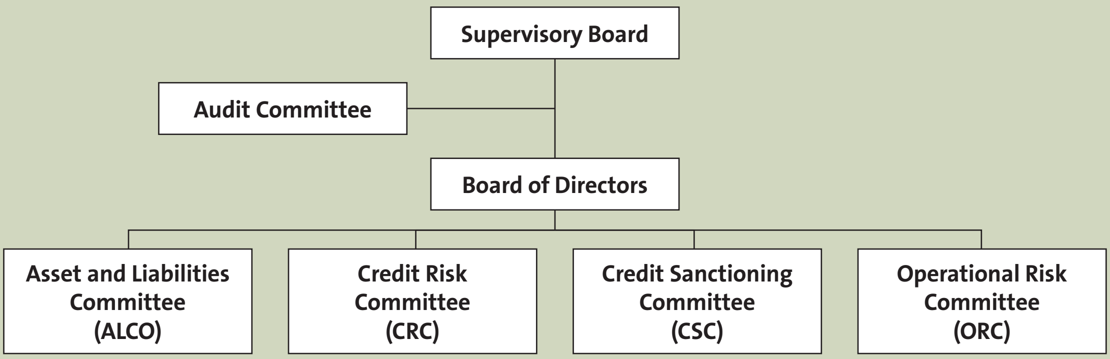
Risk management structure

The Board of Directors (BoD) is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Group's top bodies in the process of value and risk management;
- The activities of specialized committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and the
- Primary risk management within departments and organizational units of individual companies.



Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Group.

Risk committees

Asset and liability committee

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Group's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk committee

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk sanctioning committee

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the ČSOB Group.

Operational risk committee

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

Senior Executive Officers (SEO) responsible for Financial Markets and Risk Management

These two SEOs have overall responsibility for the development of the market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the Group. They are responsible for fundamental risk issues and manage and monitor relevant risk decisions.

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Group.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Group's ALM unit is responsible for managing assets and liabilities of the Group's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Group.

Financial Markets unit (FM)

The Group's FM unit is responsible for managing assets and liabilities of the Group's trading portfolio

Internal audit

Risk management processes throughout the Group are audited annually by the Internal Audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is given to the senior management and all other relevant members of the Group on the use of market limits and analysis of VaR in trading book. A weekly report is given to the senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, that are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

Basel II

The new rules according the Basel Committee on Banking Supervision (Basel II) came into force in the Czech Republic in the middle of 2007. The new banking law significantly changed the requirements for risk management and added other options for the calculation of capital requirements. Among others, the Group implemented the Internal Rating Based Foundation (IRBF) approach during 2007. From that moment on the Group calculates its regulatory capital requirements for credit risk using this approach. Credit risk regulatory capital requirements for the previous year (2006) are reported according to Basel I (Standard method). As a consequence the figures for the credit risk requirements are not fully comparable for the years 2007 and 2006.

38.2 Credit risk

Credit risk is a potential shortfall relative to the value expected as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction, or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as 'country risk'.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, The Group monitors exposures in relation to these limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating (Probability of Default, PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Corporate and large SME credits

The Group has developed and implemented internal rating models / tools within credit process for Corporates, SMEs, municipalities, housing cooperatives and other clients. The models were built in compliance with Basel II regulations, that allow using their output (Probability of Default) for capital adequacy calculations. The non-retail models produce rating grades on a unified KBC "PD master scale". Rating grades 1-9 are used for non-default/normal clients while rating grades 10-12 are used for clients in default. Each rating grade is associated with a predefined range of probability of default (e.g. a client carrying PD rating 3 has a probability of default between 0.20% - 0.40%). Clients with PD rating 8, 9 are considered as "weak normal" and the management of such files is monitored by the Bad Debts unit.

Validation of the model is performed by an independent person from the Value and Risk Management unit and finally approved by the KBC Group Model Committee. The whole "model lifecycle" is defined in the KBC Model Management Framework unified for the KBC Group.

The Group expects to further improve predictive power of the models in line with increasing number of available data.

The Group applies models developed by the KBC Group to assess the quality of sovereign and banking counterparts. These models are validated in KBC as well.

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In a second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only limited expected loss can be approved by a Head of a Corporate Branch. 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 newly created rating models that assign to each client a specific probability of default enable determining the level of potential risk and adapt the acceptance process accordingly. Thus, the Group can modify the acceptance authority, follow a simpler framework in cases with lower risk, adjust price policy, set more precisely monitoring rules, implement advanced risk control based on the portfolio system, etc. The new rating models were integrated into specialized rating tools, that can be used also for pricing purposes.

Retail and small SME credits

The Group has implemented the Internal Rating Based (IRB) approach to calculate a capital requirement. This includes the development of scorecards for retail portfolios within the Group, estimates of key parameters such as PD, Exposure at Default (EAD) and Loss Given Default (LGD) within defined homogenous sets of exposures (so called pools) and a process of regular recalculation, validation and monitoring. Basel II scorecards are used in the application process so that they influence the incoming population. All models have to follow standards maintained within the KBC Group via the Model management framework and have to be approved by local the Credit Risk committee and the Group Model committee.

Acceptance process

The retail acceptance process is based on a number of internally developed scorecards and uses access to external data sources (Credit Bureaus) that bring additional information about a client's risk profile. 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. The acceptance process also covers pre-approved limits for existing clients.

Portfolio risk management

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risk

The Group grants its customers guarantees that may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of a letter of credit. They expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	2007	2006
Cash and balances with central banks	15	24,448	24,088
Financial assets held for trading	16	224,488	149,647
Financial assets designated at fair value through profit or loss	16	24,153	23,880
Available-for-sale financial assets	17	75,956	66,166
Loans and receivables	18	411,129	340,279
Held-to-maturity investments	17	114,089	108,772
Derivatives used for hedging	20	5,587	5,124
Accrued interest income	21	7,641	6,574
Other assets	25	7,435	8,102
Total		**894,926**	**732,632**
Contingent liabilities	34	32,206	25,120
Commitments	34	114,336	118,248
Total		**146,542**	**143,368**
Total credit risk exposure		**1,041,468**	**876,000**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2007 was CZK 13,400 m (2006: CZK 13,745 m) before taking account of collateral or other credit enhancements and CZK 13,400 m (2006: CZK 13,745 m) net of such protection.

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2007	2006
Czech Republic	681,032	598,581
Slovak Republic	171,944	146,073
Other Europe	173,688	113,397
Other	14,804	17,949
Total	**1,041,468**	**876,000**

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2007	2006
Central government	271,015	200,060
Non-credit institutions	9,487	9,131
Credit institutions	227,014	212,618
Insurance companies	1,063	923
Financial services	2,578	4,941
Other non-financial companies	329,131	298,553
Retail customers	201,180	149,774
Total	**1,041,468**	**876,000**

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counterparties.

Quality of credit portfolio

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Group's credit rating system at 31 December 2007 and 2006.

	2007			
		Impaired assets		
(CZKm)	Unimpaired assets PD rating 1-7	Collectively PD rating 8-9	Individually PD rating 10-12	Total
Financial assets designated at fair value through profit or loss	24,036	-	-	24,036
Available-for-sale financial assets	73,012	-	-	73,012
Loans and receivables				
Central government	11,298	-	-	11,298
Non-credit institutions	4,732	-	22	4,754
Credit institutions	18,889	485	8	19,382
Corporate	195,660	3,648	5,482	204,790
Retail	171,562	2,229	4,413	178,204
	402,141	6,362	9,925	418,428
Held-to-maturity investments	114,089	-	-	114,089
Total	**613,278**	**6,362**	**9,925**	**629,565**

(CZKm)	2006			
Financial assets designated at fair value through profit or loss	23,880	-	-	23,880
Available-for-sale financial assets	64,042	-	-	64,042
Loans and receivables				
Central government	11,486	-	-	11,486
Non-credit institutions	5,170	-	8	5,178
Credit institutions	30,976	-	26	31,002
Corporate	155,396	8,367	6,048	169,811
Retail	124,634	2,009	3,163	129,806
	327,662	10,376	9,245	347,283
Held-to-maturity investments	108,772	-	-	108,772
Total	**524,356**	**10,376**	**9,245**	**543,977**

The table below shows an ageing analysis of gross past due but individually not impaired financial assets of the Group:

(CZKm)	2007 Less than 30 days	2007 More than 30 days but less than 90 days	2006 Less than 30 days	2006 More than 30 days but less than 90 days
Non credit institutions	8	1	-	-
Corporates	7,124	1,746	5,872	1,537
Retail	7,172	2,120	6,874	2,083
Total	**14,304**	**3,867**	**12,746**	**3,620**

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2007 Gross amount	2007 Impairment	2006 Gross amount	2006 Impairment
Available-for-sale financial assets				
Equity securities	39	(39)	39	(39)
Loans and receivables				
Non credit institutions	22	(9)	8	(1)
Credit institutions	8	(5)	26	(24)
Corporates	5,482	(4,175)	6,048	(4,028)
Retail	4,413	(2,436)	3,163	(1,938)
	9,925	(6,625)	9,245	(5,991)
Total	**9,964**	**(6,664)**	**9,284**	**(6,030)**

Carrying amount of the financial assets whose terms have been renegotiated was CZK 2,790 m at 31 December 2007 (31 December 2006: CZK 2,466 m) (Note: 2.3(6)(iii)).

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio subject to separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairments in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The local management is responsible for deciding the length of this period that can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

38.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral that could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains a statutory deposit with the CNB equal to 2% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the Stock liquidity ratio (SLR). This is the ratio of a Group's liquid assets (cash, short-term Group's deposits and securities available for immediate sale) and its short term liabilities (cash outflow within 7 days, above CZK 10 m term deposits due to mature within 7 days, 5% of non-term deposits and term deposits due to mature within 7 days, 10% of credit commitments).

The ratio during the year was as follows:

(%)	2007	2006
31 December	220	503
Average during the period	255	561
Highest	521	1,028
Lowest	191	285

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
FINANCIAL LIABILITIES					
Financial liabilities held for trading	1,449	470	25	14,041	**15,985**
Financial liabilities designated at fair value through profit or loss	141,085	4,630	50	24	**145,789**
Financial liabilities at amortised cost	584,357	41,489	41,343	14,693	**681,882**
Total carrying value	**726,891**	**46,589**	**41,418**	**28,758**	**843,656**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2006:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
FINANCIAL LIABILITIES					
Financial liabilities held for trading	3	752	1,003	12,200	**13,958**
Financial liabilities designated at fair value through profit or loss	83,011	893	50	209	**84,163**
Financial liabilities at amortised cost	477,572	60,770	40,896	7,617	**586,855**
Total carrying value	**560,586**	**62,415**	**41,949**	**20,026**	**684,976**

38.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basic Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analyses. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Market risk – Trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The BoD has set limits on the level of risk that may be accepted. The Group applies a VaR methodology to assess the market risk positions held and to estimate potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses a full linear VaR model for interest rate and foreign exchange rates risk. These calculations are based on historic scenarios derived from a two-year history. The Group has neither any significant position in equity nor FX options. A small nominal technical limit is set for interest rate options; the position in this product, however, is not material.

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

To enhance the system of risk management, the Group also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Group applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The Group received regulatory approval to use an internal VaR model for calculating of capital requirements for interest rate and foreign exchange risks in June 2007.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2007	176	24	(27)	173
Average during the period	159	10	(10)	159
Highest	228	36	(36)	228
Lowest	68	1	-	69

Daily losses were never greater than the 1 day VaR in 2007.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2006	78	5	(3)	80
Average during the period	77	8	(6)	79
Highest	141	34	(36)	139
Lowest	50	2	-	52

Daily losses were never greater than the 1 day VaR in 2006.

Market risk – Non-trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BoD has established limits on the BPV sensitivity. The BoD has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's statement of income.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2007 and 31 December 2006, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The table below shows the sensitivity of the statement of income and equity as at 31 December 2007:

			Sensitivity of equity				
(CZKm)	Increase in basis points	Sensitivity of net interest income	0 to 6 months	6 months to1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(6)	1	2	(39)	(341)	(377)
EUR	+ 10	(2)	(1)	-	25	70	94
SKK	+ 10	(4)	-	-	-	2	2
USD	+ 10	-	-	-	4	(1)	3

			Sensitivity of equity				
(CZKm)	Decrease in basis points	Sensitivity of net interest income	0 to 6 months	6 months to1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	6	(1)	(2)	39	343	379
EUR	- 10	2	1	-	(25)	(70)	(94)
SKK	- 10	4	-	-	-	(2)	(2)
USD	- 10	-	-	-	(4)	1	(3)

The table below shows the sensitivity of the statement of income and equity as at 31 December 2006:

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(4)	4	(6)	(123)	(250)	(375)
EUR	+ 10	(1)	(1)	1	21	69	90
SKK	+ 10	-	-	-	(2)	(4)	(6)
USD	+ 10	(1)	-	-	-	4	4

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	4	(4)	6	123	252	377
EUR	- 10	1	1	(1)	(21)	(69)	(90)
SKK	- 10	-	-	-	2	4	6
USD	- 10	1	-	-	-	(4)	(4)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group adopted a strategy that within the banking book there are open positions in foreign currency. Therefore the Group has not set any limit for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are closed. Technical minimum open positions in foreign currencies are allowed; the Group set a technical maximum position for each currency.

Equity price risk

The Group has no significant equity risk in investment (non-trading) portfolio.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Group's products is negligible, however it is regularly monitored.

38.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

39. Capital

The Group actively manages capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision (Basel II) and adopted by the CNB in the Regulation No. 123/2007 Coll., on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

During the past year, the Group complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2007	2006
Tier 1 capital	37,751	36,755
Tier 2 capital	12,007	5,063
Deductible items of Tier 1 and Tier 2	(1,127)	(815)
Total capital	**48,631**	**41,003**
Risk weighted assets	**453,551**	**450,044**
Capital adequacy ratio	10.7 %	9.1 %

In order to keep a long-term target for the capital adequacy ratio and to cover its new business activities the Group received a subordinated loan provided by KBC Bank. This subordinated debt is a part of Tier 2 capital.

In December 2007, the Group's Tier 1 capital was increased by CZK 6,000 m (Note: 30).

Parts of facades are adjusted for climbing plants to enhance integration in the green surroundings. This is further bolstered by interior green systems which have a psychological function but also enhance shading and zoning and improve the quality of air.

ERNST & YOUNG

Independent Auditor's Report to the Shareholders of Československá obchodní banka, a. s.

We have audited the accompanying financial statements of Československá obchodní banka, a. s. ("the Bank"), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of the Bank, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
Licence No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

9 April 2008
Prague, Czech Republic

Separate Financial Statements
Year Ended 31 December 2007

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

Separate statement of income for the year ended 31 December 2007

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

(mil. Kč)	Note	2007	Reclassified 2006
Interest income	4	28,280	22,279
Interest expense	5	(12,770)	(8,846)
Net interest income		**15,510**	**13,433**
Fee and commission income	6	7,659	7,039
Fee and commission expense	6	(1,760)	(1,495)
Net fee and commission income		**5,899**	**5,544**
Dividend income		4,208	446
Net gains from financial instruments at fair value through profit or loss	7	1,854	2,248
Net realised gains on available-for-sale financial assets		(133)	(52)
Other net income	8	617	1,603
Operating income		**27,955**	**23,222**
Staff expenses	9	(6,076)	(6,433)
General administrative expenses	10	(6,621)	(6,205)
Depreciation and amortisation	21, 22	(1,031)	(1,187)
Provisions	27	229	400
Operating expenses		**(13,499)**	**(13,425)**
Impairment losses	11	(1,119)	(117)
Profit before tax		**13,337**	**9,680**
Income tax expense	12	(1,994)	(2,103)
Profit for the year		**11,343**	**7,577**

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

Separate balance sheet as at 31 December 2007

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

(CZKm)	Note	31. 12. 2007	Reclassified 31. 12. 2006
ASSETS			
Cash and balances with central banks	14	31,909	31,850
Financial assets held for trading	15	232,282	152,828
Financial assets designated at fair value through profit or loss	15	29,078	28,482
Available-for-sale financial assets	16	92,450	54,984
Held-to-maturity investments	16	90,174	81,234
Loans and receivables	17	247,578	203,842
Investments in subsidiaries, associates and joint ventures	18	33,329	27,753
Derivatives used for hedging	19	5,579	5,134
Accrued interest income	20	7,589	5,816
Current tax assets		563	1,233
Deferred tax assets	12	704	192
Property and equipment	21	6,095	5,892
Goodwill and other intangible assets	22	3,494	3,289
Non-current assets held-for-sale		27	63
Other assets	23	7,326	10,585
Total assets		**788,177**	**613,177**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	16,395	14,185
Financial liabilities designated at fair value through profit or loss	24	146,289	84,663
Financial liabilities at amortised cost	25	559,830	453,774
Derivatives used for hedging	19	1,309	370
Accrued interest expenses	20	537	735
Current tax liabilities		158	-
Other liabilities	26	17,747	17,854
Provisions	27	1,099	1,493
Total liabilities		**743,364**	**573,074**
Share capital	28	5,855	5,105
Share premium		6,673	1,423
Statutory reserve		18,687	18,687
Retained earnings		15,323	13,522
Available-for-sale reserve	28	(827)	633
Cash flow hedge reserve	28	(700)	931
Foreign currency translation reserve	28	(198)	(198)
Total equity		**44,813**	**40,103**
Total liabilities and equity		**788,177**	**613,177**

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 9 April 2008 and signed on its behalf by:

Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

Separate statement of changes in equity for the year ended 31 December 2007

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

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2006	**5,105**	**1,423**	**18,687**	**16,272**	**1,419**	**42,906**
Net losses on available-for-sale securities	-	-	-	-	(472)	(472)
Net gains on cash flow hedges	-	-	-	-	424	424
Foreign currency translation	-	-	-	-	(5)	(5)
Total income and expense for the year recognised directly in equity	-	-	-	-	(53)	(53)
Profit for the year	-	-	-	7,577	-	7,577
Total income and expense for the year	-	-	-	7,577	(53)	7,524
Dividends paid (Note: 13)	-	-	-	(10,327)	-	(10,327)
At 31 December 2006	**5,105**	**1,423**	**18,687**	**13,522**	**1,366**	**40,103**
At 1 January 2007	**5,105**	**1,423**	**18,687**	**13,522**	**1,366**	**40,103**
Net losses on available-for-sale securities	-	-	-	-	(1,460)	(1,460)
Net losses on cash flow hedges	-	-	-	-	(1,631)	(1,631)
Foreign currency translation	-	-	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-	(3,091)	(3,091)
Profit for the year	-	-	-	11,343	-	11,343
Total income and expense for the year	-	-	-	11,343	(3,091)	8,252
Capital increase	750	5,250	-	-	-	6,000
Dividends paid (Note: 13)	-	-	-	(9,542)	-	(9,542)
At 31 December 2007	**5,855**	**6,673**	**18,687**	**15,323**	**(1,725)**	**44,813**

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

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

Separate statement of cash flows for the year ended 31 December 2007

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

(CZKm)	Note	2007	Reclassified 2006
OPERATING ACTIVITIES			
Profit before tax		13,337	9,680
Adjustments for:			
Change in operating assets	30	(167,241)	(29,603)
Change in operating liabilities	30	157,769	(9,532)
Non-cash items included in profit before tax	30	2,373	1,164
Net gain from investing activities		(14)	(1,115)
Income tax paid		(802)	(3,777)
Net cash flows from operating activities		**5,422**	**(33,183)**
INVESTING ACTIVITIES			
Purchase of investment securities		(14,903)	(13,733)
Acquisition of subsidiary, associate and joint venture companies		(5,575)	(167)
Maturity / disposal of securities		5,521	11,101
Purchase of property, equipment and intangible assets		(1,466)	(1,229)
Disposal of property, equipment, intangible assets and assets held-for-sale		72	2,778
Net cash flows (used in) investing activities		**(16,351)**	**(1,250)**
FINANCING ACTIVITIES			
Issue of bonds		712	674
Issue of subordinated liability		6,975	4,982
Capital increase		6,000	-
Dividends paid		(9,542)	(10,327)
Net cash flows from / (used in) financing activities		**4,145**	**(4,671)**
Net decrease in cash and cash equivalents		**(6,784)**	**(39,104)**
Cash and cash equivalents at the beginning of the year	30	23,223	62,140
Net decrease in cash and cash equivalents		(6,784)	(39,104)
Net foreign exchange differences		(25)	187
Cash and cash equivalents at the end of the year	30	**16,414**	**23,223**
Additional information			
Interest paid		(12,968)	(9,505)
Interest received		26,507	22,930
Dividends received		4,208	446

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

Notes to the separate financial statements for the year ended 31 December 2007

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

1. Corporate information

Československá obchodní banka, a.s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150 Prague 5, Czech Republic; Corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and the Slovak Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies.

2. Accounting policies

2.1 Basis of preparation

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss, and all derivative contracts that have been measured at fair value. The separate financial statements are presented in millions of Czech Crowns (CZKm). The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of ČSOB Bank in accordance with the EU IFRS.

Statement of compliance

The ČSOB's separate financial statements have been prepared in accordance with EU IFRS.

2.2 Significant accounting judgements and estimates

While applying the Bank's accounting policies, the management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The mostly used significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish the fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the management is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Doing this, the Bank takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below.

(1) 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 operated in the Czech Republic and the Slovak Republic until the 31 December 2007, it had 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, which had 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 the Foreign currency translation reserve.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which 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.

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

(3) Financial instruments – recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a 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 gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(4) Financial instruments – initial recognition and subsequent measurement

Classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains from financial instruments at fair value through profit or loss.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An 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 a 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 in the balance sheet with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in Net gains from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

– the assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

– the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net gains from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income.

(iii) Held-to-maturity investments

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.

After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank has no intention of trading the financial asset.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve 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 is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain on the balance sheet. The corresponding cash received is recognised in the balance sheet in Financial liabilities designated at fair value through profit of loss, or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the balance sheet. The corresponding cash paid is recognised in the balance sheet in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale prices is treated as Interest income and is accrued over the life of the agreement.

(6) Determination of fair value

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 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.

(7) Impairment of financial assets

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. 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 a 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 principal 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 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.

(i) Assets carried at amortised cost

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 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 are recorded in the statement of income in Impairment losses.

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.

(ii) 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.

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Hedge accounting

The Bank uses derivatives, designated as hedging on the date a contract is entered into, as cash flow hedges to manage the Bank's interest rate risk. 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 to be 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 the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve 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 the related remaining amounts in the Cash flow hedge reserve 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 the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(9) Offsetting financial instruments

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.

(10) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a 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.

(11) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate 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 amounts 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.

(ii) Fee and commission income

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 the 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 accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

(iv) Net gains from financial instruments at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(12) 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), loans and advances to credit institutions and deposits from credit institutions.

(13) Property and equipment

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

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or 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.

When it is highly probable that an asset will be sold, such an asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(14) 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 the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

(15) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Amortisation of the software and other intangible assets 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:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated under the diminishing balance method during the economic useful life. The economic useful life is the period over which the Bank receives significant cash flows from the intangible assets.

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

(16) Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. The fee is recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(17) 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 and Slovak Republic. Contributions are charged to the statement of income as they are made.

(18) 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.

(19) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts 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 in the financial statements where a right of set-off exists.

Deferred tax related to the 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 Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(20) Fiduciary activities

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

(21) 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.

2.4 Future changes in accounting policies

Certain new standards, amendments and interpretations have been published which are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted. The Bank is expecting to adopt them in accordance with the effective date of the standards:

IFRS 8, Operating Segments (effective from 1 January 2009)

This standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Bank. The Bank determined that the operating segments would be the same as the business segments currently identified under IAS 14, Segment Reporting.

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

– IAS 23, Borrowing Costs (effective for periods beginning on or after 1 January 2009).

– IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007).

– IFRIC 12, Service Concession Arrangements (effective for periods beginning on or after 1 January 2008).

– IFRIC 13, Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008).

– IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2008).

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

2.5 Comparatives

Based on the implementation of IFRS 7, Financial Instruments: Disclosures, the Bank has changed the structure of the financial statements in 2007. Since the Bank is a part of the consolidation scope of the KBC Bank NV, which prepares financial statements according to EU IFRS, the Bank has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank NV. Therefore certain items were presented in the financial statements at 31 December 2007 differently from the presentation applied in the financial statements at 31 December 2006. To conform with the changes in presentation in the current year, some balances have been reclassified.

The following reconciliation shows the changes in the structure of the statement of income for the year 2006 (CZKm):

Structure as reported	2006	Changes in the structure Explanation		2006	Structure as amended
Interest income	22,300		-	22,300	Interest income
Interest expense	(9,130)		-	(9,130)	Interest expense
Net interest income	**13,170**		**-**	**13,170**	**Net interest income**
		1	7,039	7,039	Fee and commission income
		1	(1,495)	(1,495)	Fee and commission expense
Net fee and commission income	**5,544**			**5,544**	**Net fee and commission income**
		2	446	446	Dividend income
Net trading income	2,511		-	2,511	Net gains from financial instruments at fair value through profit or loss
		3	(52)	(52)	Net realised gains on available-for-sale financial assets
Other operating income	2,146	2,3	(394)	1,752	Other net income
		4	(6,232)	(6,232)	Staff expenses
General administrative expenses	(13,530)	4,5,6	7,206	(6,324)	General administrative expenses
Other operating expenses	(213)	5	213		
		6	(1,187)	(1,187)	Depreciation and amortisation
Provisions	289		-	289	Provisions
Impairment losses on loans and advances	(237)		-	(237)	Impairment losses
Profit before income tax	**9,680**		**-**	**9,680**	**Profit before tax**
Income tax expense	(2,103)		-	(2,103)	Income tax expense
Profit for the year	**7,577**		**-**	**7,577**	**Profit for the year**

The following reconciliation shows the changes in the structure of the balance sheet as at 31 December 2006 (CZKm):

Structure as reported	2006	Changes in the structure Explanation		2006	Structure as amended
ASSETS					**ASSETS**
Cash and balances with central banks	17,850		-	17,850	Cash and balances with central banks
Due from banks	41,818	7	(41,818)		
		8,10	153,341	153,341	Financial assets held for trading
Financial assets at fair value through profit or loss	181,481	8	(152,570)	28,911	Financial assets designated at fair value through profit or loss
Investment securities	133,270	9	(133,270)		
		9	56,116	56,116	Available-for-sale financial assets
		9,10	81,234	81,234	Held-to-maturity investments
Loans	176,024	7	41,818	217,842	Loans and receivables
Pledged assets	4,863	10	(4,863)		
		11	5,585	5,585	Derivatives used for hedging
Investments in subsidiaries, associates and joint ventures	27,753		-	27,753	Investments in subsidiaries, associates and joint ventures
Property and equipment	5,892		-	5,892	Property and equipment
Goodwill and other intangible assets	3,289		-	3,289	Goodwill and other intangible assets
		12	1,233	1,233	Current tax assets
		12	192	192	Deferred tax assets
		13	63	63	Non-current assets held-for-sale
Other assets, including tax assets	16,898	11,12,13	(7,073)	9,825	Other assets
Prepayments and accrued income	4,039	10	12	4,051	Accrued interest income
Total assets	**613,177**		**-**	**613,177**	**Total assets**
LIABILITIES					**LIABILITIES**
Due to banks	13,911	14	(13,911)		
		15	14,185	14,185	Financial liabilities held for trading
Financial liabilities at fair value through profit or loss	99,380	15	(14,185)	85,195	Financial liabilities at fair value through profit or loss
Due to customers	413,353	16	(413,353)		
Debt securities in issue	16,257	17	(16,257)		
		14,16,17,18	448,503	448,503	Financial liabilities at amortised cost
		11	369	369	Derivatives used for hedging
Other liabilities, including tax liabilities	24,139	11	(369)	23,770	Other liabilities
Accruals and deferred income	247		-	247	Accrued interest expenses
Provisions	805		-	805	Provisions
Subordinated liabilities	4,982	18	(4,982)		
Total liabilities	**573,074**		**-**	**573,074**	**Total liabilities**
EQUITY					**EQUITY**
Share capital	5,105		-	5,105	Share capital
Share premium account	1,423		-	1,423	Share premium
Statutory reserve	18,687		-	18,687	Statutory reserve
Cumulative gains not recognised in the statement of income	1,366	19	(1,366)		
		19	633	633	Available-for-sale reserve
		19	931	931	Cash flow hedge reserve
		19	(198)	(198)	Foreign currency translation reserve
Retained earnings	13,522		-	13,522	Retained earnings
Total equity	**40,103**		**-**	**40,103**	**Total equity**
Total liabilities and equity	**613,177**		**-**	**613,177**	**Total liabilities and equity**

The explanation for changes in the structure of the statement of income is as follows:

1. Net fee and commission income has been allocated to Fee and commission income and Fee and commission expense
2. Dividend income has been excluded from Other operating income
3. Net realised gains on available-for-sale financial assets have been excluded from Other operating income
4. Staff expenses have been excluded from General administrative expenses
5. Other operating expenses have been classified under General administrative expenses
6. Depreciation and amortisation have been excluded from General administrative expenses

The explanation for changes in the structure of the balance sheet is as follows:

7. Due from banks have been classified under Loans and receivables
8. Financial assets held for trading have been excluded from Financial assets at fair value through profit or loss
9. Investment securities have been allocated to Available-for-sale financial assets and Held-to-maturity investments
10. Pledged assets have been added to Financial assets held for trading, Held-to-maturity investments and Accrued interest income
11. Derivatives used for hedging have been excluded from Other assets, including tax assets and Other liabilities, including tax liabilities
12. Current and deferred tax assets have been excluded from Other assets, including tax assets
13. Non-current assets held-for-sale have been excluded from Other assets, including tax assets
14. Due to banks have been classified under Financial liabilities at amortised cost
15. Financial liabilities held for trading have been excluded from Financial liabilities at fair value through profit or loss
16. Due to customers have been classified under Financial liabilities at amortised cost
17. Debt securities in issue have been classified under Financial liabilities at amortised cost
18. Subordinated liabilities have been classified under Financial liabilities at amortised cost
19. Cumulative gains not recognised in the statement of income have been allocated to Available-for-sale reserve, Cash flow hedge reserve and Foreign currency translation reserve

The following reconciliations provide a quantification of the effect of changes in the recognition of selected items in the structure of the financial statements:

A reconciliation of the selected items of the statement of income for the year ended 31 December 2006 is provided below:

(CZKm)	After changes of the 2006 structure	Reclassification 1	2	3	4	Reclassified 2006
Interest income	22,300	(21)				22,279
Interest expense	(9,130)	284				(8,846)
Net gains from financial instruments at fair value through profit or loss	2,511	(263)				2,248
Other net income	1,752		(149)			1,603
Staff expenses	(6,232)			(129)	(72)	(6,433)
General administrative expenses	(6,324)		29	129	(39)	(6,205)
Provisions	289				111	400
Impairment losses	(237)		120			(117)

The explanation for the reclassifications is as follows:

Reclassification resulting from IFRS 7 implementation:

1. Interest income and interest expense accrued on interest rate swaps, which are used to hedge interest rate risk from an economical point of view, but which do not fulfill the requirements of IFRS to apply the hedge accounting were reclassified from Interest income and expenses to Net gains from financial instruments at fair value through profit or loss

Reclassifications resulting from changes in the structure of the financial statements consistent with the parent company:

2. Amounts of charge and reversal of impairment on property and equipment were reclassified from General administrative expenses and Other net income to Impairment losses
3. Expenses on employees training and education were reclassified from General administrative expenses to Staff expenses
4. Provisions utilised to cover the respective expenses were reclassified from Staff and General administrative expenses to Provisions

A reconciliation of the selected items of the balance sheet as at 31 December 2006 is provided below:

(CZKm)	2006 As reported	Reclassification 1	2	3	4	5	2006 Reclassified
Cash and balances with central banks	17,850		14,000				31,850
Financial assets held for trading	153,341			(513)			152,828
Financial assets designated at fair value through profit or loss	28,911			(429)			28,482
Available-for-sale financial assets	56,116			(1,132)			54,984
Loans and receivables	217,842		(14,000)				203,842
Derivatives used for hedging	5,585			(451)			5,134
Accrued interest income	4,051			2,525	(760)		5,816
Other assets	9,825				760		10,585
Financial liabilities at fair value through profit or loss	85,195			(532)			84,663
Financial liabilities at amortised cost	448,503	5,271					453,774
Derivatives used for hedging	369			1			370
Accrued interest expenses	247			531	(43)		735
Other liabilities	23,770	(5,271)			43	(688)	17,854
Provisions	805					688	1,493

The explanation for the adjustments is as follows:

Reclassification resulting from IFRS 7 implementation:

1. Other deposits received from clients previously reported within Other liabilities were reclassified to Financial liabilities at amortised cost due to the financial character of the liabilities

Reclassifications resulting from changes in the structure of the financial statements consistent with the parent company:

2. The loan advanced to the central bank in a reverse repo operation was reclassified from Loans and receivables to Cash and balances with central banks
3. Interest income and interest expense accrued on financial assets and financial liabilities reported at fair value were reclassified to separate balance sheet captions Accrued interest income and expenses
4. Prepaid charges and non-interest accrued income were reclassified from Accrued interest income to Other assets and, at the same time, deferred income and non-interest accrued charges were reclassified from Accrued interest expenses to Other liabilities
5. Provisions for loan commitments and guarantees were reclassified from Other liabilities to Provisions

A reconciliation of cash and cash equivalents as at 31 December 2006 is as follows:

(CZKm)	2006	2005
Cash and cash equivalents – as reported	27,391	20,600
Inclusion of the reverse repo operation with central bank	14,000	47,316
Exclusion of trading portfolio assets	(19,154)	(5,757)
Exclusion of investment securities	(2,990)	(6,758)
Inclusion of loans and advances to credit institutions	9,444	11,432
Inclusion of deposits from credit institutions	(5,468)	(4,693)
Cash and cash equivalents – reclassified	23,223	62,140

3. Segment information

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

Segment reporting information by customer segments for 2007

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	10,417	2,381	2,024	688	15,510
Net fee and commission income	4,394	1,112	(139)	532	5,899
Dividend income	-	-	40	4,168	4,208
Net gains from financial instruments at fair value through profit or loss	1,411	1,112	358	(1,027)	1,854
Net realised gains on available-for-sale financial assets	-	-	(133)	-	(133)
Other operating income	60	16	(15)	556	617
Operating income	**16,282**	**4,621**	**2,135**	**4,917**	**27,955**
Depreciation and amortisation	(187)	(2)	(1)	(841)	(1,031)
Other operating expenses	(6,970)	(837)	(491)	(4,170)	(12,468)
Operating expenses	**(7,157)**	**(839)**	**(492)**	**(5,011)**	**(13,499)**
Impairment losses	(1,384)	167	-	98	(1,119)
Profit before tax	**7,741**	**3,949**	**1,643**	**4**	**13,337**
Income tax (expense)/benefit	(1,858)	(948)	(194)	1,006	(1,994)
Segment profit	**5,883**	**3,001**	**1,449**	**1,010**	**11,343**
Assets and liabilities					
Total assets	**77,678**	**111,371**	**462,571**	**136,557**	**788,177**
Total liabilities	**360,054**	**105,457**	**228,317**	**49,536**	**743,364**

Segment reporting information by customer segments for 2006

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	8,537	1,998	1,943	955	13,433
Net fee and commission income	3,844	1,072	(62)	690	5,544
Dividend income	-	-	49	397	446
Net gains from financial instruments at fair value through profit or loss	1,269	1,021	1,115	(1,157)	2,248
Net realised gains on available-for-sale financial assets	-	-	6	(58)	(52)
Other operating income	61	4	(21)	1,559	1,603
Operating income	**13,711**	**4,095**	**3,030**	**2,386**	**23,222**
Depreciation and amortisation	(211)	(6)	(1)	(969)	(1,187)
Other operating expenses	(6,557)	(731)	(405)	(4,545)	(12,238)
Operating expenses	**(6,768)**	**(737)**	**(406)**	**(5,514)**	**(13,425)**
Impairment losses	(541)	(147)	(7)	578	(117)
Profit before tax	**6,402**	**3,211**	**2,617**	**(2,550)**	**9,680**
Income tax (expense)/benefit	(1,536)	(771)	(497)	701	(2,103)
Segment profit	**4,866**	**2,440**	**2,120**	**(1,849)**	**7,577**
Assets and liabilities					
Total assets	**61,680**	**112,477**	**306,949**	**132,071**	**613,177**
Total liabilities	**329,543**	**101,871**	**85,488**	**56,172**	**573,074**

Definitions of customer segments:
Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m.
Corporate: Companies with a turnover of greater than CZK 300 m and non-banking institutions in the financial sector.
Financial markets and ALM: 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 118 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 operated in the Czech Republic and the Slovak Republic. The Bank's secondary segment reporting by geographical segment for 2007 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	653,986	102,891	24,723	1,391
Slovak Republic	134,191	21,502	3,232	75
Total	**788,177**	**124,393**	**27,955**	**1,466**

The geographical segment reporting for 2006 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	506,843	82,222	20,445	1,151
Slovak Republic	106,334	25,627	2,777	78
Total	**613,177**	**107,849**	**23,222**	**1,229**

Balances in the segment reporting are net of inter-segment transactions.

4. Interest income

(CZKm)	2007	2006
Cash balances with central banks	1,002	161
Loans and receivables		
Credit institutions	1,069	2,135
Other than credit institutions	10,994	8,471
Available-for-sale financial assets	2,468	2,045
Held-to-maturity investments	3,971	3,706
Financial assets held for trading	7,482	4,886
Financial assets designated at fair value through profit or loss	1,294	875
	28,280	**22,279**

Included within interest income is accrued interest income of CZK 369 m (2006: CZK 223 m) related to impaired financial assets.

5. Interest expense

(CZKm)	2007	2006
Financial liabilities at amortised cost		
Credit institutions	378	304
Other than credit institutions	5,974	4,374
Debt instruments in issue	661	510
Subordinated liabilities	352	39
Discount amortisation on other provisions (Note: 27)	6	8
Financial liabilities designated at fair value through profit or loss	5,399	3,611
	12,770	**8,846**

6. Net fee and commission income

(CZKm)	2007	2006
Fee and commission income		
Payment services	5,073	4,886
Credit commitments	686	724
Collective investments	628	492
Securities	211	192
Custody	150	133
Asset management	36	37
Other	875	575
	7,659	**7,039**
Fee and commission expense		
Payment services	649	662
Contribution to Deposit Insurance Fund	415	343
Commissions to agents	73	45
Other	623	445
	1,760	**1,495**
Net fee and commission income	**5,899**	**5,544**

7. Net gains from financial instrument at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Bank:

(CZKm)	2007	2006
Net gains from financial instruments at fair value through profit or loss - as reported	1,854	2,248
Net interest income (Notes: 4, 5)	3,377	2,150
	5,231	**4,398**
Financial instruments held for trading		
Interest rate contracts	7,642	4,944
Foreign exchange	219	(701)
Commodity contracts	(14)	13
	7,847	4,256
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(242)	551
Financial liabilities designated at fair value through profit or loss	(5,421)	(3,608)
	(5,663)	(3,057)
Exchange differences revaluations	3,047	3,199
Financial instruments at fair value through profit or loss	**5,231**	**4,398**

8. Other net income

(CZKm)	2007	2006
Operating leasing and rental income	70	67
Net gain on disposal of associates, joint ventures and subsidiaries	49	-
Net gain on disposal of loans and receivables	28	119
Net gain on disposal of non-current assets held-for-sale	22	1,103
Other	448	314
	617	**1,603**

9. Staff expenses

(CZKm)	2007	2006
Wages and salaries	4,195	4,171
Wages and other short-term benefits of senior management	99	338
Social security charges	1,311	1,503
Pension and similar expense	129	123
Other	342	298
	6,076	**6,433**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board.

In 2006, wages and other short-term benefits of senior management included also a compensation of CZK 269 m as an equivalent to a cancelled Share Purchase Programme.

Only the Chairman is remunerated for his membership in the Supervisory Board.

Retirement benefits

The Bank provides its Czech Republic employees (including senior 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.

10. General administrative expense

(CZKm)	2007	2006
Retail service fees	953	1,009
Marketing	924	923
Rental expenses	822	712
Communication	804	752
Information technology	709	690
Other building expenses	506	575
Administration	403	338
Professional fees	336	218
Travel and transportation	164	141
Car expenses	82	86
Insurance	44	52
Other	874	709
	6,621	**6,205**

11. Impairment losses

(CZKm)	2007	2006
Impairment on loans and receivables (Note: 17)	(1,259)	(170)
Provisions for loan commitments and guarantees (Note: 27)	140	(67)
Impairment on property and equipment (Note: 21)	-	120
	(1,119)	**(117)**

12. Taxation

The components of income tax expense for the years ended 31 December 2007 and 2006 are as follows:

(CZKm)	2007	2006
Current tax expense	1,653	1,644
Previous year (over) / under accrual	(23)	288
Deferred tax expense relating to the origination and reversal of temporary differences	250	171
Deferred tax expense resulting from reduction in tax rate	114	-
	1,994	**2,103**

A reconcilliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2007 and 2006 is as follows:

(CZKm)	2007	2006
Profit before taxation	13,337	9,680
Applicable tax rates	24%	24%
Taxation at applicable tax rates	3,201	2,323
Previous year (over) / under accrual	(23)	288
Tax effect of non-taxable income	(1,775)	(1,189)
Tax effect of non-deductible expenses	455	671
Effect on opening deferred taxes due to reduction in tax rate	114	–
Other	22	10
	1,994	**2,103**

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2007 was 24% (2006: 24%) and for future periods it will be 21% for 2008, 20% for 2009 and 19% for 2010 onwards.

Deferred income tax is calculated on all temporary differences under the liability method using the income tax rate of 20% enacted for 2009 as the management expects that the majority of temporary differences will be reversed in 2009.

The movement on the deferred tax account is as follows:

(CZKm)	2007	2006
At 1 January	192	347
Statement of income charge	(364)	(171)
Available-for-sale securities		
Fair value remeasurement (Note: 28)	433	162
Transfer to net profit	(26)	(12)
Cash-flow hedges		
Fair value remeasurement (Note: 28)	398	(272)
Transfer to net profit	71	138
At 31 December	**704**	**192**

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

(CZKm)	2007	2006
Deferred income tax asset		
Available-for-sale securities	258	(120)
Cash-flow hedges	175	(294)
Provisions	164	253
Legal claim	97	293
Accelerated tax depreciation	22	28
Impairment of occupied properties	1	13
Other temporary differences	(13)	19
	704	**192**

The deferred tax charge in the statement of income comprises the following temporary differences:

(CZKm)	2007	2006
Allowances for credit losses	-	(159)
Accelerated tax depreciation	(1)	28
Impairment of occupied properties	(10)	(161)
Available-for-sale securities	(16)	12
Provisions	(48)	72
Deferred tax expense resulting from reduction in tax rate	(114)	-
Legal claim	(147)	-
Other temporary differences	(28)	37
	(364)	**(171)**

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.

13. Dividends paid

Final dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. Based on the decision from 14 November 2007, a dividend of CZK 1,869 per share was approved for 2006, representing a total dividend of CZK 9,542 m.

At the Annual General Meeting on 21 April 2006, a dividend of CZK 2,023 m per share was approved in respect of 2005 net profit, representing a total dividend of CZK 10,327 m.

14. Cash and balances with central banks

(CZKm)	2007	2006
Cash	9,366	9,290
Mandatory minimum reserves	3,200	7,487
Other balances with central banks	19,343	15,073
	31,909	**31,850**

Mandatory minimum reserves are not available for use in the Bank's day-to-day operations.

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5% in both 2007 and 2006.

15. Financials assets at fair value through profit or loss

(CZKm)	2007	2006
Financial assets held for trading		
Loans and advances		
Reverse repo transactions	47,138	66,853
Money market placements	110,241	37,236
Debt instruments	56,521	36,837
Debt securities pledged as collateral	3,923	766
Derivative contracts (Note: 19)	14,459	11,136
	232,282	**152,828**
Financial assets designated at fair value through profit or loss		
Debt instruments	27,714	28,482
Debt securities pledged as collateral	1,364	-
	29,078	**28,482**
Financial assets at fair value through profit or loss	**261,360**	**181,310**

16. Financial investments

(CZKm)	2007	2006
Available-for-sale financial assets		
Debt securities	91,901	54,640
Equity securities	588	383
Provisions for impairment	(39)	(39)
	92,450	**54,984**
Held-to-maturity investments		
Debt securities	90,174	81,234
Financial investments	**182,624**	**136,218**

Included within Financial investments are debt securities of CZK 55,080 m (2006: CZK 4,081 m) pledged as collateral in repo transactions.

17. Loans and receivables

(CZKm)	2007	2006
Analysed by category of borrower		
Central government	11,298	11,486
Non credit institutions	3,170	3,398
Credit institutions	20,727	27,132
Corporate	186,925	140,082
Retail	31,409	27,175
Gross loans	253,529	209,273
Allowance for impairment losses	(5,951)	(5,431)
	247,578	**203,842**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and receivables for 2006 and 2007:

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2006	**4,725**	**469**	**5,194**
Net increase / (decrease) in allowances for credit losses	193	(23)	170
Write-offs	(352)	-	(352)
Recoveries	434	-	434
Foreign currency translation	(13)	(2)	(15)
At 31 December 2006	**4,987**	**444**	**5,431**
Net increase / (decrease) in allowances for credit losses	1,354	(95)	1,259
Write-offs	(650)	-	(650)
Foreign currency translation	(84)	(5)	(89)
At 31 December 2007	**5,607**	**344**	**5,951**

The gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2007, amounts to CZK 7,004 m (31 December 2006: CZK 6,847 m).

The fair value of collateral held by the Bank relating to loans individually determined to be impaired at 31 December 2007 amounts to CZK 1,432 m (31 December 2006: CZK 1,612 m). The collateral consists of cash, securities, guarantees received and properties.

18. Investments in subsidiaries, associates and join ventures

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

Name	Country of incorporation	2007 (%)	2007 Carrying amount	2006 (%)	2006 Carrying amount
Subsidiaries					
Auxilium, a. s.	Czech Republic	100	5,375	100	5,375
Bankovní informační technologie, s.r.o.	Czech Republic	100	30	100	30
Business Center, s.r.o.	Slovak Republic	100	234	100	234
Centrum Radlická a.s.	Czech Republic	100	969	-	-
ČSOB Asset Management, a.s.	Czech Republic	21	85	21	85
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	52	100	52
ČSOB distribution, a.s.	Slovak Republic	100	35	100	35
ČSOB d.s.s., a.s.	Slovak Republic	100	560	100	560
ČSOB Factoring, a.s.	Czech Republic	100	1,175	100	375
ČSOB Investiční společnost, a.s.	Czech Republic	73	344	73	344
ČSOB Investment Banking Services, a.s.	Czech Republic	100	5,263	100	5,246
ČSOB Leasing, a.s. CZ	Czech Republic	100	4,700	100	2,900
ČSOB Leasing, a.s. SK	Slovak Republic	90	931	90	931
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100	518	100	288
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100	1,007	100	1,007
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	593	100	593
ČSOB korporátní fond, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	100	1,300	-	-
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	-	-	100	2,015
Hypoteční banka, a.s.	Czech Republic	100	8,017	100	5,382
Zemský penzijní fond, a.s.	Czech Republic	-	-	100	160
Joint venture					
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	1,540	55	1,540
Associates					
ČSOB Pojišťovna, a. s., a member of the ČSOB Holding	Czech Republic	25	601	25	601
			33,329		**27,753**

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 to be a subsidiary.

Based on the Shareholders Agreement, the Bank controls Českomoravská stavební spořitelna, a.s. jointly with the other owner of remaining 45%. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

In March 2007, ČSOB purchased Centrum Radlická, a.s. The entity was established for the purpose of the construction and operation of the new ČSOB headquarters building and has no other activities.

In 2007, IPB Leasing, a.s. merged with ČSOB Investment Banking Services, a.s.

In 2007, Zemský penzijní fond, a.s. merged with ČSOB Penzijní fond Progres, a.s.

The activities of ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond were terminated in 2007. The Bank as a sole participant of the mutual fund called for a buy-out of all its collective investment units. This buy-out, including the settlement of all liabilities to the sole participant, was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB Investiční společnost, a.s. decided to terminate the activities of the mutual fund. The CNB decision on the withdrawal of the permission came into effect on 21 March 2007.

19. Derivative financial instruments

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. Furthermore, 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 also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book and which do not meet the criteria of hedge accounting. The Bank used single currency interest rate 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 2007 and 2006 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.

(CZKm)	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative	2006 Notional amount	2006 Fair value Positive	2006 Fair value Negative
Interest rate related contracts						
Swaps	887,408	7,390	7,770	528,424	4,295	4,772
Forwards	143,834	89	71	113,088	65	68
Options	21,668	83	42	12,129	25	-
	1,052,910	**7,562**	**7,883**	**653,641**	**4,385**	**4,840**
Foreign exchange contracts						
Swaps/Forwards	215,063	1,907	3,374	188,590	3,439	3,997
Cross currency interest rate swaps	114,569	3,504	1,622	79,947	2,227	2,404
Options	129,211	1,071	1,071	115,153	1,037	1,037
	458,843	**6,482**	**6,067**	**383,690**	**6,703**	**7,438**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	3,368	415	436	1,521	48	42
Total derivatives held for trading (Notes: 15, 24)	**1,515,221**	**14,459**	**14,406**	**1,038,952**	**11,136**	**12,340**

Hedging derivatives

The Bank's ALM function 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 the 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 2007 and 2006.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding hedging derivatives as at 31 December 2007 and 2006 are set out as follows:

(CZKm)	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative	2006 Notional amount	2006 Fair value Positive	2006 Fair value Negative
Cash flow hedges						
Single currency interest rate swaps	51,734	1	825	34,830	142	190
Cross currency interest rate swaps	43,259	5,578	484	33,906	4,992	180
Total hedging derivatives	**94,993**	**5,579**	**1,309**	**68,736**	**5,134**	**370**

Net gains on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2007	2006
Interest income	298	574
Taxation	(72)	(138)
Net gains (Note: 28)	**226**	**436**

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from reverse repo operations with the CNB earning 14-days interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is highly effective due to the strong correlation between 14-days interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and float interest income earning securities are included in Available-for-sale financial assets and Held-to-maturity investments of the Bank's balance sheet.

Since the cash-flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notionals instead of expected future cash-flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notionals remaining maturity is more relevant.

The following table shows an analysis of notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2007	2006
Less than 3 months	3,208	900
More than 3 months but not more than 6 months	2,352	2,262
More than 6 months but not more than 1 year	1,200	6,397
More than 1 year but not more than 2 years	5,429	1,746
More than 2 years but not more than 5 years	46,415	31,144
More than 5 years	36,389	26,287
	94,993	**68,736**

20. Accrued interest income and expenses

(CZKm)	2007	2006
Accrued interest income		
Cash balances with central banks	49	-
Financial assets held for trading	1,317	513
Financial assets designated at fair value through profit or loss	522	429
Available-for-sale financial assets	1,500	1,132
Loans and receivables	1,355	1,137
Held-to-maturity investments	2,490	2,153
Derivatives used for hedging	356	452
	7,589	**5,816**
Accrued interest expenses		
Financial liabilities designated at fair value through profit or loss	401	538
Financial liabilities at amortised cost	274	198
Derivatives used for hedging	(138)	(1)
	537	**735**

21. Property and equipment

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2006	6,172	2,464	801	2,553	11,990
Depreciation and impairment at 1 January 2006	(1,489)	(2,116)	(629)	(1,781)	(6,015)
Net book value at 1 January 2006	**4,683**	**348**	**172**	**772**	**5,975**
Additions	211	220	26	214	671
Disposals	(85)	-	(3)	(10)	(98)
Net transfers from assets held-for-sale	65	-	-	-	65
Depreciation and amortisation	(276)	(243)	(38)	(351)	(908)
Impairment charge (Note: 11)	(7)	-	-	(21)	(28)
Impairment release (Note: 11)	113	-	-	35	148
Foreign exchange adjustments	58	2	2	5	67
Net book value at 31 December 2006	**4,762**	**327**	**159**	**644**	**5,892**

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2007	6,473	2,466	651	2,661	12,251
Depreciation and impairment at 1 January 2007	(1,711)	(2,139)	(492)	(2,017)	(6,359)
Net book value at 1 January 2007	**4,762**	**327**	**159**	**644**	**5,892**
Additions	448	257	107	187	999
Disposals	(3)	(1)	(2)	(8)	(14)
Depreciation and amortisation	(283)	(189)	(38)	(259)	(769)
Foreign exchange adjustments	(13)	-	-	-	(13)
Net book value at 31 December 2007	**4,911**	**394**	**226**	**564**	**6,095**
of which					
Cost at 31 December 2007	6,896	2,361	687	2,395	12,339
Depreciation and impairment at 31 December 2007	(1,985)	(1,967)	(461)	(1,831)	(6,244)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 460 m at 31 December 2007 (31 December 2006: CZK 274 m).

22. Goodwill and other intangible assets

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2006	2,752	2,253	542	5,547
Amortisation and impairment at 1 January 2006	(63)	(1,942)	(308)	(2,313)
Net book value at 1 January 2006	**2,689**	**311**	**234**	**3,234**
Additions	-	192	366	558
Disposals	-	(7)	(217)	(224)
Amortisation and impairment	-	(247)	(32)	(279)
Net book value at 31 December 2006	**2,689**	**249**	**351**	**3,289**

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2007	2,752	2,422	691	5,865
Amortisation and impairment at 1 January 2007	(63)	(2,173)	(340)	(2,576)
Net book value at 1 January 2007	**2,689**	**249**	**351**	**3,289**
Additions	-	329	138	467
Disposals	-	-	-	-
Amortisation and impairment	-	(218)	(44)	(262)
Net book value at 31 December 2007	**2,689**	**360**	**445**	**3,494**
of which				
Cost at 31 December 2007	2,752	2,744	828	6,324
Depreciation and impairment at 31 December 2007	(63)	(2,384)	(383)	(2,830)

Goodwill has been allocated to the Retail / SME segment, representing a cash-generating unit (Note: 3). 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 the management covering a period 2008 - 2010. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. Cash flows are represented by net profit generated by the cash-generating unit above the required capital calculated as 8% of its risk weighted assets and a terminal value of the business. The first ten-year period future cash flows were discounted using a risk free rate of 4.5% adjusted by a market risk premium of 6.5%. For the calculation of the terminal value a sustainable discount rate of 9.5% was used. The management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

23. Other assets

(CZKm)	2007	2006
Other debtors, net of provisions (Note: 36.2)	6,357	5,867
Prepaid charges	467	684
Accrued income (Note: 36.2)	382	190
Receivables from securities clearing entities (Note: 36.2)	68	2,727
VAT and other tax receivables	36	71
Other receivables from clients (Note: 36.2)	-	566
Other	16	480
	7,326	**10,585**

Included within Other debtors, net of provisions is a receivable from the Czech Ministry of Finance (MF CZ) in the amount of CZK 1,687 m at 31 December 2007 (31 December 2006: CZK 1,789 m) related to the ex-IPB assets originally transferred to the Czech Consolidation Agency. The Bank believes that the amount is fully covered by guarantee agreements issued by the institutions of the Czech state (Note: 32).

24. Financial liabilities at fair value through profit or loss

(CZKm)	2007	2006
Financial liabilities held for trading		
Short positions	1,989	1,845
Derivative contracts (Note: 19)	14,406	12,340
	16,395	**14,185**
Financial liabilities designated at fair value through profit or loss		
Term deposits	117,293	69,135
Repo transactions	21,937	9,810
Promissory notes	5,299	3,870
Bonds issued	1,760	1,848
	146,289	**84,663**
Financial liabilities at fair value through profit or loss	**162,684**	**98,848**

The amount that the Bank would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 2 m more than the carrying amount at 31 December 2007 (31 December 2006: CZK 30 m).

25. Financial liabilities at amortised cost

(CZKm)	2007	2006
Deposits received from credit institutions		
Current accounts	16,859	11,818
Term deposits	28,208	13,111
Repo transactions	12,723	3,931
	57,790	**28,860**
Deposits received from other than credit institutions		
Current accounts	291,139	250,293
Term deposits with agreed maturity	137,935	110,384
Term deposits at notice	36,583	37,727
Other deposits	5,432	5,271
	471,089	**403,675**
Debt securities in issue		
Bonds issued	4,257	3,580
Promissory notes	14,728	12,672
Certificates of deposit	5	5
	18,990	**16,257**
Subordinated liabilities		
Subordinated debt	**11,961**	**4,982**
Financial liabilities at amortised cost	**559,830**	**453,774**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amounts of CZK 5,000 m and CZK 7,000 m to KBC Bank NV. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

26. Other liabilities

(CZKm)	2007	2006
Other clearing accounts	9,933	9,878
Other creditors	3,818	3,703
Accrued charges	1,509	988
Payables to employees including social security charges	1,424	1,731
Payables to securities clearing entities	684	690
VAT and other tax payables	186	220
Income received in advance	87	43
Other debts to clients	54	77
Other	52	524
	17,747	**17,854**

27. Provisions

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees	Total
At 1 January 2007	458	188	159	688	1,493
Additions	52	-	-	266	318
Amounts utilised	(152)	(57)	(24)	-	(233)
Unused amounts reversed	(48)	-	-	(406)	(454)
Discount amortisation (Note: 5)	-	-	6	-	6
Foreign currency translation	(7)	-	-	(24)	(31)
At 31 December 2007	**303**	**131**	**141**	**524**	**1,099**

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Restructuring

In 2004 and 2005, the Bank announced programs to reduce the total number of personnel by approximately 850. Total charges of CZK 343 m were recorded in 2004 and 2005 to cover the related costs. In accordance with these programs, the number of personnel had been reduced by 337 by the end of 2006 and by a further 251 by the end of 2007. The Bank expects to use the remaining provision of CZK 131 m to cover the costs related to further reductions in the number of personnel by approximately 280 in 2008.

Contractual engagements

ČSOB assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise.

28. Share capital and other reserves

As at 31 December 2007, the total authorised share capital was CZK 5,855 m (31 December 2006: CZK 5,105 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

In December 2007, KBC Bank NV increased the regulatory capital of ČSOB by CZK 6,000 m in order to maintain the capital structure of the Bank to reflect changes in economic conditions and the risk characteristics of its activities. This increase was effected through share capital by CZK 750 m and share premium by CZK 5,250 m.

No Treasury shares were held by the Bank at 31 December 2007 and 2006.

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

(%)	2007	2006
KBC Bank NV	100.00	97.44
Others	-	2.56
Total	**100.00**	**100.00**

In 2006, KBC Bank NV exercised its call option and purchased the 7.47% share of ČSOB, which was previously owned by the European Bank for Reconstruction and Development. This purchase enabled KBC Bank NV, in compliance with Czech legislation, to perform a buy-out of minority shareholders of the Bank. Based on the formal consent to the proposed consideration given by the CNB on 8 March 2007, a proposal for the buy-out of the minority shareholders submitted by KBC Bank NV was approved by the Annual General Meeting, which took place on 20 April 2007. In June 2007, KBC Bank NV became the sole shareholder of the Bank after the remaining shares held by the minority shareholders of ČSOB had been transferred to KBC Bank NV.

On 31 December 2007, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 100% (31 December 2006: 97.44%). On the same date, KBC Bank NV was controlled by KBC Group NV and, therefore, KBC Group NV was the company indirectly exercising ultimate control over ČSOB.

Other reserves

The following table shows movements of Other reserves in 2007 and 2006:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2006	**1,105**	**507**	**(193)**	**1,419**
Net unrealised gains on available-for-sale financial investments	(672)	-	-	(672)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	38	-	-	38
Tax effect of net gains on available-for-sale financial investments (Note: 12)	162	-	-	162
Net unrealised gains on cash flow hedges	-	1,132	-	1,132
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	(436)	-	(436)
Tax effect of net gain on cash flow hedges (Note: 12)	-	(272)	-	(272)
Foreign currency translation	-	-	(5)	(5)
At 31 December 2006	**633**	**931**	**(198)**	**1,366**
Net unrealised gains on available-for-sale financial investments	(2,000)	-	-	(2,000)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	107	-	-	107
Tax effect of net gains on available-for-sale financial investments (Note: 12)	433	-	-	433
Net unrealised gains on cash flow hedges	-	(1,803)	-	(1,803)
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	(226)	-	(226)
Tax effect of net gain on cash flow hedges (Note: 12)	-	398	-	398
Foreign currency translation	-	-	-	-
At 31 December 2007	**(827)**	**(700)**	**(198)**	**(1,725)**

29. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

(CZKm)	2007 Carrying value	2007 Fair value	2006 Carrying value	2006 Fair value
Financial assets				
Cash and balances with central banks	31,909	31,909	31,850	31,850
Financial assets held for trading	232,282	232,282	152,828	152,828
Financial assets designated at fair value through profit or loss	29,078	29,078	28,482	28,482
Available-for-sale financial assets	92,450	92,450	54,984	54,984
Loans and receivables	247,578	247,573	203,842	203,801
Held-to-maturity investments	90,174	88,868	81,234	82,715
Derivatives used for hedging	5,579	5,579	5,134	5,134
Financial liabilities				
Financial liabilities held for trading	16,395	16,395	14,185	14,185
Financial liabilities designated at fair value through profit or loss	146,289	146,289	84,663	84,663
Financial liabilities at amortised cost	559,830	559,905	453,774	453,802
Derivatives used for hedging	1,309	1,309	370	370

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Held-to-maturity investments

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 receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; 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.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to credit institutions 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 credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and 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.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices and those involving valuation techniques:

(CZKm)	2007 Quoted market price	2007 Valuation techniques based on market observable inputs	2007 Total
Financial assets			
Financial assets held for trading	17,854	214,428	232,282
Financial assets designated at fair value through profit or loss	18,163	10,915	29,078
Available-for-sale financial assets	24,215	68,235	92,450
Derivatives used for hedging	-	5,579	5,579
Financial liabilities			
Financial liabilities held for trading	1,989	14,406	16,395
Financial liabilities designated at fair value through profit or loss	-	146,289	146,289
Derivatives used for hedging	-	1,309	1,309

(CZKm)	2006 Quoted market price	2006 Valuation techniques based on market observable inputs	2006 Total
Financial assets			
Financial assets held for trading	9,354	143,474	152,828
Financial assets designated at fair value through profit or loss	17,927	10,555	28,482
Available-for-sale financial assets	27,974	27,010	54,984
Derivatives used for hedging	-	5,134	5,134
Financial liabilities			
Financial liabilities held for trading	1,845	12,340	14,185
Financial liabilities designated at fair value through profit or loss	-	84,663	84,663
Derivatives used for hedging	-	370	370

30. Additional Cash flow information

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

(CZKm)	2007	2006
Cash and balances with central banks	28,709	24,363
Loans and advances to credit institutions	4,604	10,693
Deposits from credit institutions	(16,899)	(11,833)
Cash and cash equivalents	**16,414**	**23,223**

Change in operating assets

(CZKm)	2007	2006
Net change in financial assets held for trading	(79,454)	23,398
Net change in financial assets designated at fair value through profit or loss	(596)	(9,040)
Net change in available-for-sale financial assets	(39,334)	(1,130)
Net change in loans and receivables	(46,797)	(40,588)
Net change in derivatives used for hedging	(2,546)	(908)
Net change in accrued interest income	(1,773)	650
Net change in other assets	3,259	(1,985)
	(167,241)	**(29,603)**

Change in operating liabilities

(CZKm)	2007	2006
Net change in financial liabilities held for trading	2,210	4,778
Net change in financial liabilities designated at fair value through profit or loss	61,626	(30,389)
Net change in financial liabilities at amortised cost	93,299	18,992
Net change in derivatives used for hedging	939	(762)
Net change in accrued interest expenses	(198)	(658)
Net change in other liabilities	(107)	(1,493)
	(157,769)	**(9,532)**

Non-cash items included in profit before tax

(CZKm)	2007	2006
Allowances and provisions for credit losses	1,119	237
Depreciation and amortisation	1,031	1,187
Amortisation of discounts and premiums	438	551
Net property impairment (release)	-	(120)
Provisions	(229)	(400)
Other	14	(291)
	2,373	**1,164**

31. Maturity analysis of assets and liabilities

The following table sets out the financial assets and liabilities of the Bank by remaining expected maturity as at 31 December 2007.

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	191,692	12,307	13,823	14,460	**232,282**
Financial assets designated at fair value through profit or loss	399	5,228	23,451	-	**29,078**
Available-for-sale financial assets	4,438	32,127	55,336	549	**92,450**
Loans and receivables	132,481	68,733	41,413	4,951	**247,578**
Held-to-maturity investments	5,521	33,826	50,827	-	**90,174**
Total carrying value	**334,531**	**152,221**	**184,850**	**19,960**	**691,562**
LIABILITIES					
Financial liabilities held for trading	1,458	506	25	14,406	**16,395**
Financial liabilities designated at fair value through profit or loss	141,586	4,630	50	23	**146,289**
Financial liabilities at amortised cost	230,255	102,130	227,417	28	**559,830**
Total carrying value	**373,299**	**107,266**	**227,492**	**14,457**	**722,514**

The following table sets out the financial assets and liabilities of the Bank by remaining expected maturity as at 31 December 2006.

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	128,436	6,243	6,967	11,182	**152,828**
Financial assets designated at fair value through profit or loss	1,618	6,232	20,632	-	**28,482**
Available-for-sale financial assets	6,713	26,817	21,110	344	**54,984**
Loans and receivables	79,126	47,032	18,921	58,763	**203,842**
Held-to-maturity investments	5,750	34,604	40,880	-	**81,234**
Total carrying value	**221,643**	**120,928**	**108,510**	**70,289**	**521,370**
LIABILITIES					
Financial liabilities held for trading	22	841	1,004	12,318	**14,185**
Financial liabilities designated at fair value through profit or loss	83,011	1,393	50	209	**84,663**
Financial liabilities at amortised cost	175,984	128,273	149,187	330	**453,774**
Total carrying value	**259,017**	**130,507**	**150,241**	**12,857**	**552,622**

32. Contingent assets, liabilities and commitments

Contingent assets

Based on a court ruling, the Bank has recovered a written-off loan amounting to CZK 485 m. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Bank will not recognise this amount in the statement of income until the final court ruling regarding the Bank's claim is known.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2007	2006
Loan commitments	131,528	107,849
Financial guarantees	30,316	22,479
Other commitments	2,423	2,641
	164,267	**132,969**
Provisions for loan commitments and guarantees (Note: 27)	524	688

The above contractual amounts represent the maximum credit risk that 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.

Litigation

Other than the litigation for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of 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 the Bank is not able to reliably estimate the total effective amount, since the claims are interdependent. The Bank believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by the institutions of the Czech state and thus they have no risk of material impact on the financial position of the Bank.

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 23). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by the opinions of external lawyers.

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

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 that 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.

Operating lease commitments

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2007	2006
Not later than 1 year	28	84
Later than 1 year and not later than 5 years	407	181
Later than 5 years	93	123
	528	**388**

These 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.

33. Repurchase agreements and collateral

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2007	2006
Financial assets		
Cash and balances with central banks	18,000	14,000
Financial assets held for trading	47,138	66,853
Loans and receivables	-	6,074
	65,138	**86,927**

Under reverse repurchase agreements, 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.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2007 was CZK 108,602 m, of which CZK 14,737 m has been either sold or repledged (31 December 2006: CZK 87,036 m and CZK 8,388 m, respectively).

The following table shows an analysis of the loans the Bank has received from counterparties in repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2007	2006
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	21,937	9,810
Financial liabilities at amortised cost	13,010	4,324
	34,947	**14,134**

34. Related party disclosures

A number of banking transactions are executed with related parties in the normal course of business. In the opinion of the 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 of assets from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Accrued interest income	Other assets
KBC Bank NV	16,116	-	-	96	-	-	3
Entities under common control	489	9,156	-	408	-	131	-
Subsidiaries							
ČSOB Asset Management, a.s.	4	-	-	10	-	-	-
ČSOB Factoring, a.s. CZ	15	-	-	2,372	-	-	-
ČSOB Factoring a.s. SK	-	-	131	-	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	-	99
ČSOB Investment Banking Services, a.s.	1	-	-	35	-	-	-
ČSOB Leasing, a.s. CZ	949	-	9,798	18,072	-	13	-
ČSOB Leasing, a.s. SK	255	-	-	5,430	-	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	-	872	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	-	167	-	-	-
Centrum Radlická a.s.	-	-	-	300	-	-	-
Hypoteční banka, a.s.	6,668	6,388	34,432	3,899	-	960	-
Other	3	-	-	-	-	-	-
Associates							
ČSOB Pojišťovna, a.s.	22	-	-	-	-	-	-
Joint ventures							
Českomoravská stavební spořitelna, a.s.	-	-	-	950	-	7	-

The outstanding balances of liabilities from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Accrued interest expenses	Other liabilities
Directors / Senior management personnel	-	-	95	-	-	-
KBC Bank NV	4,541	77,048	31,490	-	6	-
Entities under common control	66	2,470	636	-	-	19
Subsidiaries						
ČSOB Asset Management, a.s.	13	-	204	-	-	-
ČSOB Investiční společnost, a.s.	-	-	269	-	-	-
ČSOB Investment Banking Services, a.s.	5	-	664	-	1	-
ČSOB Leasing, a.s. CZ	199	-	10,139	53	17	-
ČSOB Leasing, a.s. SK	42	-	350	-	-	-
ČSOB Penzijní fond Stabilita, a.s.	24	445	-	-	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	43	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	399	-	3	-
Centrum Radlická a.s.	-	-	79	-	-	-
Bankovni Informacni Technologie, s.r.o.	-	-	203	-	-	-
Hypoteční banka, a.s.	-	-	5	-	-	-
Other	5	55	514	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	48	51	584	-	14	-
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	2,521	-	8	-

The outstanding balances of assets from related party transactions as at 31 December 2006 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Derivatives used for hedging	Accrued interest income	Other assets
KBC Bank NV	9,457	-	-	2,706	-	-	-	1
Entities under common control	221	10,653	-	596	-	-	110	57
Subsidiaries								
ČSOB Asset Management, a.s.	-	-	-	-	-	-	-	13
ČSOB Factoring, a.s. CZ	-	-	-	2,360	-	-	-	-
ČSOB Factoring a.s. SK	-	-	-	166	-	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	-	-	5
ČSOB Investment Banking Services, a.s.	3	-	-	39	-	-	-	-
ČSOB Leasing, a.s. CZ	814	-	-	2,595	-	10	5	-
ČSOB Leasing, a.s. SK	31	-	-	5,145	-	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	-	168	-	-	-	-
Hypoteční banka, a.s.	2,386	4,781	14,448	1,569	60	-	347	2,635
Other	-	-	-	76	-	-	-	1
Joint ventures								
Českomoravská stavební spořitelna, a.s.	-	-	-	950	-	-	5	-

The outstanding balances of liabilities from related party transactions as at 31 December 2006 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Accrued interest expenses	Other liabilities
Directors / Senior management personnel	-	-	3	-	-	-
KBC Bank NV	3,817	35,155	5,642	-	1	-
Entities under common control	7	80	372	-	-	-
Subsidiaries						
ČSOB Asset Management, a.s.	-	-	178	-	-	-
ČSOB Investiční společnost, a.s.	-	-	287	-	-	-
ČSOB Investment Banking Services, a.s.	-	-	689	-	-	-
ČSOB Leasing, a.s. CZ	-	-	21	28	3	-
ČSOB Leasing, a.s. SK	56	-	310	-	-	-
ČSOB Penzijní fond Stabilita, a.s.	17	445	-	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	417	-	2	-
Bankovni Informacni Technologie, s.r.o.	-	-	125	-	-	-
Hypoteční banka, a.s.	-	-	2	-	-	-
Other	1	55	467	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	4	-	607	-	-	-
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	10	-	-	-

The outstanding balances of interest income and expense from related party transactions at 31 December are as follows:

(CZKm)	2007 Interest income	2007 Interest expense	2006 Interest income	2006 Interest expense
KBC Bank NV	142	2,505	206	1,506
Entities under common control	23	196	29	14
Subsidiaries				
ČSOB Asset Management, a.s.	-	6	-	4
ČSOB Factoring, a.s. CZ	85	-	48	-
ČSOB Factoring a.s. SK	7	-	7	-
ČSOB Investiční společnost, a.s.	-	9	-	4
ČSOB Investment Banking Services, a.s.	2	43	-	2
ČSOB Leasing, a.s. CZ	282	3	123	1
ČSOB Leasing, a.s. SK	266	4	191	1
ČSOB Penzijní fond Stabilita, a.s.	-	-	-	38
ČSOB stavebná sporiteľňa, a.s.	10	20	3	17
Centrum Radlická a.s.	6	-	-	-
Bankovni Informacni Technologie, s.r.o.	-	3	-	2
Hypoteční banka, a.s.	1,099	7	618	2
Other	1	11	-	14
Associates				
ČSOB Pojišťovna, a.s.	-	14	-	12
Joint ventures				
Českomoravská stavební spořitelna, a.s.	40	8	24	-

The outstanding balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2007 Guarantees received	2007 Guarantees given	2006 Guarantees received	2006 Guarantees given
KBC Bank NV	432	73	-	224
Entities under common control	-	20	-	20
Subsidiaries				
ČSOB Leasing, a.s. CZ	-	532	-	-

Dividend income received from subsidiaries, associates and joint ventures in 2007 amounted to CZK 4,190 m (2006: CZK 430 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2007 amounted to CZK 140 m (2006: CZK 12 m).

35. Events after the balance sheet date

MF CZ receivable

As described in Notes 23 and 32, ČSOB has initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable in the amount of CZK 1,656 m plus related accrued interest in the amount of CZK 122 m from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency.

On 21 March 2008, the CNB has instructed the Bank to derecognize the receivable. Although the Bank's management believe, on the basis of legal opinions received, that the receivable is fully recoverable, in order to comply with the requirements of the regulator the intention of the Bank's management is to derecognize this receivable in 2008.

Transformation of business in Slovakia

In 2007, KBC Bank NV, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic for group strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) reporting directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders of ČSOB SK is as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank NV	39.80	8,000
ČSOB Leasing CZ	2.02	407
ČSOB Factoring CZ	1.44	289
Total	100.00	20,104

The share of ČSOB is represented by non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and an additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic.

The KBC Bank NV share is represented by a cash deposit.

The ČSOB Leasing CZ and ČSOB Factoring CZ shares are represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights, signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank NV. Therefore, from 1 January 2008, ČSOB SK has been controlled by KBC Bank NV.

The transaction is held between entities under common control and is treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the Bank's subsidiaries in the Slovak Republic are excluded from the Bank's financial statements as well as the deposited assets and liabilities, and are replaced by the share in ČSOB SK.

The net assets contributed by the Bank to ČSOB SK represent CZK 4,192 m. The main effects on the Bank's financial statements are shown below.

The following table shows the statement of income of the ČSOB Bank for the year ended 31 December 2007, excluding the results of the operations in the Slovak Republic:

(CZKm)	2007
Interest income	22,928
Interest expense	(9,248)
Net interest income	**13,680**
Fee and commission income	6,889
Fee and commission expense	(1,578)
Net fee and commission income	**5,311**
Dividend income	4,207
Net gains from financial instruments at fair value through profit or loss	1,109
Net realised gains on available-for-sale financial assets	(133)
Other net income	549
Operating income	**24,723**
Staff expenses	(5,176)
General administrative expenses	(5,774)
Depreciation and amortisation	(854)
Provisions	229
Operating expenses	**(11,575)**
Impairment losses	(785)
Profit before tax	**12,363**
Income tax expense	(1,773)
Profit for the year	**10,590**

The following table shows the balance sheet of the ČSOB Bank as at 31 December 2007, excluding balances in the Slovak Republic:

(CZKm)	2007
ASSETS	
Cash and balances with central banks	28,655
Financial assets held for trading	155,200
Financial assets designated at fair value through profit or loss	29,078
Available-for-sale financial assets	91,753
Loans and receivables	201,957
Held-to-maturity investments	86,974
Investments in subsidiaries, associates and joint ventures	33,329
Derivatives used for hedging	5,579
Accrued interest income	7,271
Current tax assets	563
Deferred tax assets	664
Property and equipment	4,574
Goodwill and other intangible assets	3,477
Non-current assets held-for-sale	27
Other assets	7,161
Total assets	**656,262**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	12,974
Financial liabilities designated at fair value through profit or loss	76,378
Financial liabilities at amortised cost	503,253
Derivatives used for hedging	1,309
Accrued interest expenses	365
Other liabilities	17,112
Provisions	986
Total liabilities	**612,377**
Share capital	5,855
Share premium	6,673
Statutory reserve	18,687
Retained earnings	14,389
Available-for-sale reserve	(821)
Cash flow hedge reserve	(700)
Foreign currency translation reserve	(198)
Total equity	**43,885**
Total liabilities and equity	**656,262**

36. Risk management

36.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal capital adequacy assessment process (ICAAP).

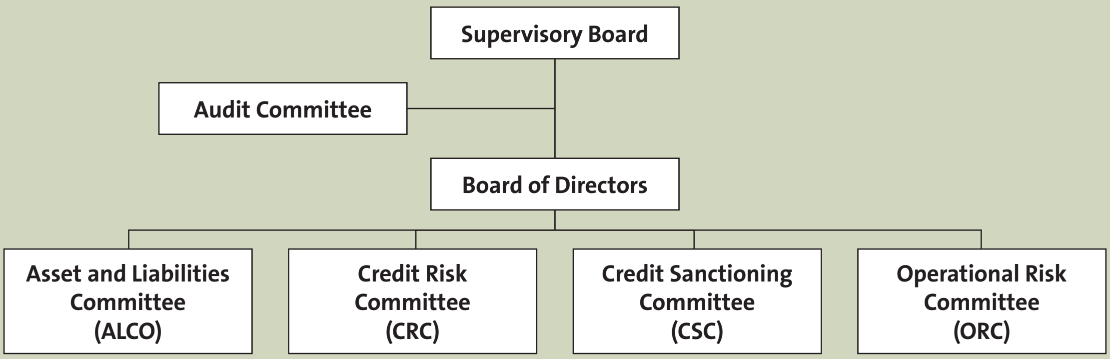
Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Bank's top bodies in the process of value and risk management;
- The activities of specialized committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and the
- Primary risk management within departments and organizational units of individual companies.



Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Bank.

Risk committees

Asset and liability committee

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Bank's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk committee

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk sanctioning committee

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the Bank.

Operational risk committee

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

ecutive Officers (SEO) responsible for Financial Markets and Risk Management

These two SEOs have overall responsibility for the development of the market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the Bank. They are responsible for fundamental risk issues and manage and monitor relevant risk decisions.

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Bank.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Bank's ALM unit is responsible for managing assets and liabilities of the Bank's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Bank.

Financial Markets unit (FM)

The Bank's FM unit is responsible for managing assets and liabilities of the Bank's trading portfolio.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is given to the senior management and all other relevant members of the Bank on the use of market limits and analysis of VaR in trading book. A weekly report is given to the senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, that are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the Unit quarterly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

Basel II

The new rules according the Basel Committee on Banking Supervision (Basel II) came into force in the Czech Republic in the middle of 2007. The new banking law significantly changed the requirements for risk management and added other options for the calculation of capital requirements. Among others the Bank implemented the Internal Rating Based Foundation (IRBF) approach during 2007. From that moment on the Bank calculates its regulatory capital requirements for credit risk using this approach. Credit risk regulatory capital requirements for the previous year (2006) are reported according to Basel I (Standard method). As a consequence, the figures for the credit risk requirements are not fully comparable for the years 2007 and 2006.

36.2 Credit risk

Credit risk is a potential shortfall relative to the value expected as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction, or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as 'country risk'.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical or industry concentrations. The Bank monitors exposures in relation to these limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating Probability of Default (PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Corporate and large SME credits

ČSOB has developed and implemented internal rating models / tools within the credit process for Corporates, SMEs, municipalities, housing cooperatives and other clients. The models were built in compliance with the Basel II regulations, that allow the Bank to use their output (PD) for capital adequacy calculations. The non-retail models produce rating grades on a unified KBC "PD master scale". Rating grades 1-9 are used for non-default/normal clients while rating grades 10-12 are used for clients in default. Each rating grade is associated with a predefined range of probability of default (e.g. a client carrying PD rating 3 has a probability of default between 0.20% - 0.40%). Clients with PD rating 8, 9 are considered as "weak normal" and the management of such files is monitored by the Bad Debts unit.

Validation of the model is performed by an independent unit from the Value and Risk Management unit and finally approved by KBC Group Model Committee. The whole "model lifecycle" is defined in the KBC Model Management Framework unified for the KBC Group.

The Bank expects to further improve predictive power of the models in line with increasing number of available data.

ČSOB applies using models developed by the KBC Group to assess the quality of sovereign and banking counterparties. These models are validated in KBC as well.

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In a second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only limited expected loss can be approved by a Head of a Corporate Branch. 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 newly created rating models that assign a specific probability of default to each client determine the level of potential risk and the acceptance process is adapted accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases of lower risk, adjust price policy, set more precise monitoring rules, implement advanced risk control based on the portfolio system, etc. New rating models were integrated into specialized rating tools, which can be used also for pricing purposes.

Retail and small SME credits

The Bank has implemented the Internal Rating Based (IRB) approach to calculate a capital requirement. This includes the development of scorecards for retail portfolios within the Bank, estimates of key parameters such as PD, Exposure at Default (EAD) and Loss Given Default (LGD) within defined homogenous sets of exposures (so called pools) and a process of regular recalculation, validation and monitoring. Basel II scorecards are used in the application process so that they influence the incoming population. All models have to follow the standards maintained within the KBC Group via the Model management framework and have to be approved by the local Credit Risk committee and the Group Model committee.

Acceptance process

The retail acceptance process is based on a number of internally developed scorecards and uses access to external data sources (Credit Bureaus) that bring additional information about a client's risk profile. 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. The acceptance process also covers pre-approved limits for existing clients.

Portfolio risk management

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risk

The Bank grants its customers guarantees that may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of a letter of credit. They expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	**2007**	**2006**
Cash and balances with central banks	14	22,543	22,560
Financial assets held for trading	15	232,282	152,828
Financial assets designated at fair value through profit or loss	15	29,078	28,482
Available-for-sale financial assets	16	92,450	54,984
Loans and receivables	17	247,578	203,842
Held-to-maturity investments	16	90,174	81,234
Derivatives used for hedging	19	5,579	5,134
Accrued interest income	20	7,589	5,816
Other assets	23	6,807	9,350
Total		734,080	564,230
Contingent liabilities	32	32,739	25,120
Commitments	32	131,528	107,849
Total		164,267	132,969
Total credit risk exposure		**898,347**	**697,199**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2007 was CZK 59,160 m (2006: CZK 13,745 m) before taking account of collateral or other credit enhancements and CZK 59,160 m (2006: CZK 13,745 m) net of such protection.

The Bank's financial assets, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

(CZKm)	2007	2006
Czech Republic	555,008	434,611
Slovak Republic	160,667	135,012
Other Europe	167,942	109,798
Other	14,730	17,778
Total	**898,347**	**697,199**

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2007	2006
Central government	227,118	153,695
Non-credit institutions	7,890	7,325
Credit institutions	266,968	225,469
Insurance companies	1,063	923
Financial services	52,244	17,326
Other non-financial companies	303,400	258,364
Retail customers	39,664	34,097
Total	**898,347**	**697,199**

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from its parent company for loans to its subsidiaries.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of master netting agreements with counterparties.

Quality of credit portfolio

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system at 31 December:

(CZKm)	2007			
	Unimpaired assets PD rating 1-7	Impaired assets Collectively PD rating 8-9	Impaired assets Individually PD rating 10-12	Total
Financial assets designated at fair value through profit or loss	29,078	-	-	29,078
Available-for-sale financial assets	91,901	-	-	91,901
Loans and receivables				
Central government	11,298	-	-	11,298
Noncredit institutions	3,170	-	-	3,170
Credit institutions	20,234	485	8	20,727
Corporate	181,176	994	4,755	186,925
Retail	28,9111	257	2,241	31,409
	244,789	1,736	7,004	253,529
Held-to-maturity investments	90,174	-	-	90,174
Total	**455,942**	**1,736**	**7,004**	**464,682**

(CZKm)	2006			
Financial assets designated at fair value through profit or loss	28,482	-	-	28,482
Available-for-sale financial assets	54,640	-	-	54,640
Loans and receivables				
Central government	11,486	-	-	11,486
Noncredit institutions	3,398	-	-	3,398
Credit institutions	27,106	-	26	27,132
Corporate	129,500	5,375	5,207	140,082
Retail	25,109	452	1,614	27,175
	196,599	5,827	6,847	209,273
Held-to-maturity investments	81,234	-	-	81,234
Total	**360,955**	**5,827**	**6,847**	**373,629**

The table below shows an ageing analysis of gross past due but not impaired loans and receivables of the Bank:

(CZKm)	2007 Less than 30 days	2007 More than 30 days but less than 90 days	2006 Less than 30 days	2006 More than 30 days but less than 90 days
Corporates	743	191	134	8
Retail	983	303	2,047	390
Total	**1,726**	**494**	**2,181**	**398**

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2007 Gross amount	2007 Impairment	2006 Gross amount	2006 Impairment
Available-for-sale financial assets				
Equity securities	39	(39)	39	(39)
Loans and receivables				
Credit institutions	8	(5)	26	(24)
Corporates	4,755	(3,806)	5,207	(3,579)
Retail	2,241	(1,796)	1,614	(1,384)
	7,004	(5,607)	6,847	(4,987)
Total	**7,043**	**(5,646)**	**6,886**	**(5,026)**

The carrying amount of the financial assets whose terms have been renegotiated was CZK 835 m at 31 December 2007 (31 December 2006: CZK 631 m) (Note: 2.3 (7) (iii)).

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each reporting date with each portfolio subject to separate review.

The collective assessment takes account of impairments that are likely to be present in the portfolio even though there is no objective evidence of the impairments in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period that can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

36.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral that could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a statutory deposit with the CNB equal to 2% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the Stock liquidity ratio (SLR). This is the ratio of a Bank's liquid assets (cash, short term Bank's deposits and securities available for immediate sale) and its short-term liabilities (cash outflow within 7 days, above CZK 10 m term deposits due to mature within 7 days, 5% of non-term deposits and term deposits due to mature within 7 days, 10% of credit commitments).

The ratio during the year was as follows:

(%)	2007	2006
31 December	166	241
Average during the period	185	354
Highest	368	804
Lowest	132	217

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	1,458	506	25	14,406	**16,395**
Financial liabilities designated at fair value through profit or loss	141,586	4,630	50	23	**146,289**
Financial liabilities at amortised cost	509,324	11,417	27,250	11,839	**559,830**
Total carrying value	**652,368**	**16,553**	**27,325**	**26,268**	**722,514**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2006:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	22	841	1,004	12,318	**14,185**
Financial liabilities designated at fair value through profit or loss	83,011	1,393	50	209	**84,663**
Financial liabilities at amortised cost	413,308	11,879	23,185	5,402	**453,774**
Total carrying value	**496,341**	**14,113**	**24,239**	**17,929**	**552,622**

36.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR (hVaR) methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – Trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The Board has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full linear VaR model for interest rate and foreign exchange rates risk. These calculations are based on historic scenarios derived from a two-year history. The Bank has neither any position in equity, nor FX options. A small nominal technical limit is set for interest rate options; the position in this product, however is not material.

Standard VaR calculations are supplemented with a sophisticated system of stress tests. They consist of examples of extreme, but plausible 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 enhance the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Bank applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for ten days. The use of a 99% confidence level means that, within a 10 day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

The Bank received a regulatory approval to use an internal VaR model for calculating of capital requirements for interest rate and foreign exchange risks in June 2007.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2007	176.2	23.6	(26.9)	172.9
Average during the period	158.8	10.0	(10.0)	158.8
Highest	228.1	35.5	(36.0)	227.6
Lowest	67.6	1.3	(0.3)	68.6

Daily losses were never greater than the 1 day VaR in 2007.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2006	77.7	5.3	(3.0)	80.0
Average during the period	77.1	7.3	(5.8)	78.6
Highest	141.1	33.5	(35.7)	138.9
Lowest	50.2	1.7	(0.3)	51.6

Daily losses were never greater than the 1 day VaR in 2006.

Market risk – Non-trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BoD has established limits on the BPV sensitivity. The board has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2007 and 31 December 2006, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The table below shows the sensitivity of the statement of income and equity as at 31 December 2007:

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(6)	(1)	(2)	(104)	(165)	(278)
EUR	+ 10	(1)	(1)	-	13	9	20
SKK	+ 10	(4)	-	-	(1)	(1)	(6)
USD	+ 10	-	-	-	1	-	1

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	6	1	2	105	166	280
EUR	- 10	1	1	-	(13)	(10)	(21)
SKK	- 10	4	-	-	1	1	6
USD	- 10	-	-	-	(1)	-	(1)

The table below shows the sensitivity of the statement of income and equity as at 31 December 2006:

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(2)	4	(6)	(118)	(214)	(336)
EUR	+ 10	(1)	(1)	1	21	69	89
SKK	+ 10	(1)	-	-	(1)	(1)	(3)
USD	+ 10	(1)	-	-	-	4	3

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	2	(4)	6	118	215	337
EUR	- 10	1	1	(1)	(21)	(69)	(89)
SKK	- 10	1	-	-	1	1	3
USD	- 10	1	-	-	-	(4)	(3)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy that within the banking book there are open positions in foreign currency. Therefore, the Bank has not set any limit for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are closed. Technical minimum open positions in foreign currencies are allowed; the Bank set a technical maximum position for each currency.

Equity price risk

The Bank has no equity risk in investment (non-trading) portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored.

36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors, or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

37. Capital

The Bank actively manages capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("Basel II") and adopted by the CNB in the Regulation No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 June 2007).

During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2007	2006
Tier 1 capital	31,477	27,869
Tier 2 capital	12,618	4,983
Deductible items of Tier 1 and Tier 2	(855)	(815)
Total capital	**43,240**	**32,037**
Risk weighted assets	**388,996**	**344,999**
Capital adequacy ratio	11.1 %	9.3 %

In order to keep a long-term target for the capital adequacy ratio and to cover its new business activities the Bank received a subordinated loan provided by KBC Bank NV. This subordinated debt is part of Tier 2 capital.

In December 2007, the Bank's Tier 1 capital was increased by CZK 6,000 m (Note: 28).

LEED, the US Green Building Rating System, certifies that the new ČSOB headquarters is one of the most environmentally friendly banking houses in Europe.


G
The internal weather-reporting centre is able to forecast weather 30 minutes in advance and modify accordingly the operation and management of the building.

Related Parties Report

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Parties

according to the provision of Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as the "ComC").

1. Controlled Entity

Československá obchodní banka, a. s.
Praha 5, Radlická 333/150, Postcode 150 57
Company ID No.: 00001350
Incorporated in the Commercial Register, Section B XXXVI, File 46, maintained at the Municipal Court in Prague (hereinafter referred to as "ČSOB" or the "Bank")

2. Ultimate Controlling Entity

KBC Group NV
Belgium, 1080 Brussels, (Sint-Jans Molenbeek), Havenlaan 2

3. Accounting Period

This report describes relations between related parties in accordance with Section 66a of the Commercial Code for the accounting period from 1 January 2007 to 31 December 2007 (hereinafter referred to as the "accounting period").

4. Relations between Related Parties

In the accounting period, ČSOB maintained relations with related parties in the following areas:

4.1 Basic Banking Transactions

Note: The balances of these transaction arrangements are indicated in the Separate Financial Statements (Note: 34 Related party disclosures).

a. Accounts, Deposit Products, Cash Payments, Domestic and International Cash Management

In the accounting period, ČSOB concluded contracts with some of the related entities for the provision of services relating to the maintenance of various types of accounts, current and term accounts, interbank deposits, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the following products: Cash Management

NightLine, Fictive Cash Pooling and Real One-Way Cash Pooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Payment Cards

In the accounting period, ČSOB concluded contracts with some of the related entities for the issue of payment cards, or they were issued in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Electronic Banking

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following electronic banking products: ČSOB Linka 24, ČSOB Internetbanking, ČSOB Businessbanking, ČSOB MultiCash 24 and ČSOB Edifact 24, or these products were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Cheques and Bills of Exchange

In the accounting period, ČSOB concluded contracts with some of the related entities for the procurement of bills of exchange and their custody and contracts for securing the bill-of-exchange program, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual fees and commissions for placing the bills of exchange. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

e. Credit Products and Guarantees

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans and current account overdrafts, and accepted and issued guarantees, provided suretyship, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual fees, remuneration and interest for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Investment Services

In the accounting period, ČSOB concluded contracts with some of the related entities for the purchase and sale of investment instruments, ISDA contracts, custody contracts, contracts for the settlement of transactions with investment instruments, contracts for the administration of securities, agreements on the authorization of fax instructions regarding settlement and administration of securities, or these services were provided in the accounting period on the basis of contracts and agreements concluded in previous accounting periods. The consideration provided by the related entities consisted of commissions and contractual fees. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

g. Mortgage Bonds and Bonds

In the accounting period, ČSOB concluded mandate contracts with some of the related entities for the procurement of an issue of mortgage bonds issued in the domestic market within the framework of a bond programme, and mandate contracts for the procurement of an issue of debentures, contracts for subscription and purchase of mortgage bonds/bonds, contracts for the administration of the issue and arrangement of payments, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual commissions for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2 Other Relations

4.2.1 Contracts

a. Leasing Contracts

In the accounting period, ČSOB concluded leasing contracts with some of the related entities and, in certain cases, related entities provided performance in the accounting period on the basis of leasing contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of financial leasing. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Insurance Contracts

In the accounting period, ČSOB concluded insurance contracts with some of the related entities and, in certain cases, related entities performed activities in the accounting period on the basis of insurance contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of insurance and insurance compensation. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Lease and Rent Contracts

In the accounting period, ČSOB concluded contracts with some of the related entities for the rent of non-residential areas, parking places and movable assets and, in certain cases, related entities performed activities in the accounting period on the basis of rent contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the lease of certain items. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Co-operation Agreements – Employee Benefits

In the accounting period, ČSOB concluded co-operation agreements - employee benefits with some of the related entities and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of employee benefits. Agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

e. Co-operation Agreements – Selling Products and Services

In the accounting period, ČSOB concluded cooperation agreements with some of the related entities whose subject was, in particular, cooperation in the areas of product sales, products sales agency, sales support, consultancy, opportunity-seeking and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

Additionally, in the accounting period ČSOB concluded with some of the related entities agreements on personal data processing, confidentiality agreements, agreements on the transmission of information, agreements on mutual rights and duties in connection with the co-operation agreements, and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Agreements on Providing Services – IT

In the accounting period, ČSOB concluded agreements with some of the related entities for providing services in the area of information systems and technologies, involving, in particular, leasing or borrowing hardware or software, assignment of rights to software, provision of software licences and software maintenance, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the provision of hardware, software or licences, or the assignment of rights to software or software maintenance. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

g. Agreements on Providing Services – Call Centre

In the accounting period, ČSOB concluded agreements with some of the related entities for providing Call Centre services, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

h. Agreements on Providing Services – Back Office

In the accounting period, ČSOB concluded agreements with some of the related entities for providing services in the area of back-office, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

i. Other Contracts and Agreements

Consideration received on the basis of contracts and agreements concluded in previous accounting periods:

Name of contract	Consideration	Party of the contract	Damage incurred
Mandate contract	Acquisition services	BANIT	None
Agreement on co-operation	Activities relating to ATM	BANIT	None
Mandate contracts	Appreciation of assets	BANIT	None
Agreement on co-operation in the construction of the new ČSOB headquarters and future purchase contracts (including amendments)	Contractual price	Centrum Radlická	None
Contract for the provision of a cable route	Contractual fee	ČMSS	None
Agreement on co-operation and guarantor’s declaration	Co-operation	ČSOB AM CZ	None
Agreements on the provision of HR services and processing of personal data	Contractual fee	ČSOB AM CZ	None
Agreement on co-operation in the area of public relations	Contractual price	ČSOB AM CZ	None
Agreement on the exercise of voting rights	Exercise of voting rights of ČSOB IS	ČSOB AM CZ	None
Agreement on providing services	Contractual price	ČSOB d.s.s.	None
Agreement on co-operation – marketing	Contractual price	ČSOB d.s.s.	None
Agreement on providing services	Contractual price	ČSOB distribution	None
Agreements on the provision of HR services (including amendments)	Services	ČSOB IS	None
Agreement on accession to liability	Contractual fee	ČSOB IS	None
Agreement on co-operation in the area of public relations	Contractual price	ČSOB IS	None
Framework agreement on purchasing of (used) cars	Contractual commission	ČSOB Leasing CZ	None
Agreement on outsourcing – car fleet services	Contractual price	ČSOB Leasing CZ	None
Agreement on co-operation – telemarketing actions	Contractual price	ČSOB Leasing CZ	None
Agreement on the transfer of advertising time	Contractual price	ČSOB Leasing SK	None
Agreement on re-invoicing price for energy (including amendment)	Re-invoicing	ČSOB Pojišťovna	None

Name of contract	Consideration	Party of the contract	Damage incurred
Contract for depositing an asset (including amendments)	Contractual fee	Hypoteční banka	None
Framework agreement	Contractual price	Hypoteční banka	None
Subordinated loan agreement	Loan	KBC Bank NV, Dublin branch	None
Agreement on the exercise of voting rights	Authorisation to exercise voting rights of ČSOB AM CZ	Patria Finance	None
Agreement on providing consulting services	Contractual fee	Patria Finance CF	None

Contracts and agreements concluded in the accounting period:

Name of contract	Consideration	Party of the contract	Damage incurred
Mandate contract	Appreciation of assets	BANIT	None
Agreement on co-operation	Contractual price	Business Center	None
Agreement on procurement of an issue of a common deed to substitute shares	Technical processing and issue of the common deed	Centrum Radlická	None
Contract for providing financial and tax services	Contractual price	Centrum Radlická	None
Contract for subscription of shares	New shares	Centrum Radlická	None
Agreement on execution of group audit and confidentiality	Co-operation	ČMSS	None
Agreement on providing services	Contractual price	ČSOB AM SK	None
Purchase contracts	Purchase of a movable thing	ČSOB distribution	None
Contract for subscription of shares	New shares	ČSOB Factoring CZ	None
Agreement on mutual cooperation in performance (including amendments)	Contractual price	ČSOB IBS	None
Contracts for consulting and other related activities		ČSOB IBS	None
Agreements on co-operation – trade fair	Contractual price	ČSOB Leasing CZ	None
Contract for subscription of shares	New shares	ČSOB Leasing CZ	None
Contract for subscription of shares	New shares	ČSOB PF Progres	None
Agreement on co-operation	Co-operation	ČSOB Property fund	None
Memorandum of association founding Československá obchodná banka, a. s. (SK)	Shares	KBC Bank, ČSOB Leasing CZ, ČSOB Factoring CZ	None
Agreement on the exercise of voting rights in Československá obchodná banka, a. s. (SK)		KBC Bank, ČSOB Leasing CZ, ČSOB Factoring CZ	None
Subordinated loan agreement	Loan	KBC Bank NV, Dublin branch	None
Agreement on cooperation and creation of an export bridge	Creation of an export bridge	Patria Online	None

4.2.2 Other Legal Acts

In the accounting period, ČSOB adopted a Resolution of the sole shareholder/partner on behalf of some related entities (subsidiaries where the Bank is the sole shareholder/partner) on the following:
– Approval of year end financial statements,
– Settlement of profit and dividends pay-out,
– Election of board members and their remuneration,
– Amendment to the Articles of Association,
– Change of the place of residence,
– Increase of registered capital,
– Merger,
– Approval of the status and pension plan,
– Share in newly incorporated Československá obchodná banka, a. s. (SK) through a non-monetary deposit.

On behalf of ČSOB, KBC Bank in exercising the powers of the company's general meeting adopted a resolution on the increase of the ČSOB's registered capital and on the dividend pay-out, and expressed its assent to the Memorandum of Association founding Československá obchodná banka, a. s. (SK).

The following table contains legal acts other than contracts/agreements which were performed in the accounting period in the interest of related entities.

Name of legal act	Related entity performing the act	Related entity in the interest of which the act was performed
Approval to the registration of a trade mark	ČSOB	ČSOB Leasing CZ
Approval to the registration of a trade mark	ČSOB	ČSOB Leasing pojišťovací makléř
Approval to the registration of a trade mark	ČSOB	ČSOB Pojišťovna

4.2.3 Other Measures

Name of legal act	Related entity in the interest of which the measures were performed	Related entity on whose initiative the measures were performed
Dividend paid out by ČSOB	KBC Bank	KBC Bank

The following related entities paid dividends to ČSOB in the accounting period: Auxilium, ČMSS, ČSOB Factoring CZ, ČSOB PF Stabilita, ČSOB IS, ČSOB IBS, ČSOB AM CZ, ČSOB Pojišťovna, Zemský PF.

5. Relations between Related Parties

The Board of Directors of ČSOB states that it has exercised due professional care in determining the range of related parties for the purposes of this report. In particular, entities controlling ČSOB were asked about the range of parties controlled by these entities.

The Board of Directors of ČSOB believes that the monetary benefits and, where applicable, the considerations within the framework of relations between the related parties described in this report were carried out at prices determined on an arm's length basis, similar to relations with other nonrelated entities, and that ČSOB incurred no damage from relations described above.

In Prague on 26 March 2008

Československá obchodní banka, a. s.

On behalf of the Board of Directors

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

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

The building boasts a precision system of ventilation, air conditioning and roof blinders to minimize heating costs. The roof and most terraces are wooded with full-grown trees that make the work environment pleasant but also enhance the heat insulation features of the building.

Additional Information

Information on ČSOB Securities

Shares

Shares and share capital of ČSOB
(as at 31 December 2007)

ISIN	CZ0008000288
Class	ordinary shares
Type	registered shares with limited transferability
Edition	book-entered
Number of shares	5,855,000
Nominal value	CZK 1,000
Total issue volume	CZK 5,855,000,000
Amount of share capital	CZK 5,855,000,000
Paid up	100%

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 160 of the Commercial Code. In 2007, ČSOB neither held any own shares, nor issued stock certificates.

ČSOB shares are not listed securities, i.e. they have not been admitted to trading on any official regulated market in either an EU member state, or an EEC member state.

Rights attached to ČSOB shares

Shareholder rights and liabilities attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.

b) The right to ask the Board of Directors to convene an Extraordinary Meeting of Shareholders to discuss proposed matters. This right only pertains to a shareholder or shareholders who hold shares with a total nominal value exceeding 3% of the share capital.

c) The right to attend the General Meeting of Shareholders.
At a General Meeting, shareholders have the right to:
1. Vote;
2. Request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
3. Put forward proposals and counter-proposals.

d) The right to obtain a share in the liquidation balance when the company is dissolved through liquidation.

Limits to negotiability of securities

Any transfer of shares requires consent from the ČSOB's Supervisory Board.

Owners of securities with specific controlling rights, including description of such rights

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, is the sole shareholder of ČSOB.

Means of control of the employee shares system, should the rights attached to such shares be not claimed directly by employees

The Company has no employee shares issued.

Limits to voting rights

Voting rights attached to ČSOB shares are unlimited.

Agreements among owners of securities that have been disclosed and may result in limiting the negotiability of securities and limiting the voting rights

The Company is unaware of any agreements among owners of ČSOB shares that may result in limiting the negotiability of ČSOB shares and limiting the voting rights attached thereto.

Bonds

(*outstanding*)

Bonds Issued in the Czech Republic

All the bonds and mortgage bonds described herein were issued under the ČSOB's bond issuance programme. The programme was approved by the Securities Commission in November 2003 (including joint issue terms for a previously non-determined number of bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenure.

By 31 December 2007, ČSOB had issued the following bond issues under the bond issuance programme in the Czech Republic:

Issue name	ISIN	Issue date
Bond ČSOB VAR1/2008	CZ0003700775	17 March 2004
Mortgage bond ČSOB 4.60%/2015	CZ0002000706	15 November 2005
Bond ČSOB ZERO/2007	CZ0003701104	22 February 2006
Bond ČSOB ZERO/2008	CZ0003701179	1 September 2006
Bond ČSOB ZERO II/2008	CZ0003701229	20 December 2006
Bond ČSOB ZERO/2009	CZ0003701310	13 June 2007
Bond ČSOB ZERO II/2009	CZ0003701336	8 August 2007
Bond ČSOB ZERO III/2009	CZ0003701369	5 September 2007
Bond ČSOB ZERO IV/2009	CZ0003701393	10 October 2007
Bond ČSOB ZERO V/2009	CZ0003701419	5 December 2007

Note: Mortgage bond = Hypoteční zástavní list; Bond = Dluhopis

In the first two months of 2008, ČSOB issued the following bond issues under the bond issuance programme in the Czech Republic:

Issue name	ISIN	Issue date
Bond ČSOB ZERO CZK/2010	CZ0003701450	23 January 2008
Bond ČSOB ZERO EUR/2010	CZ0003701468	23 January 2008
Bond ČSOB USD/2010	CZ0003701476	23 January 2008
Bond ČSOB ZERO CZK II/2010	CZ0003701484	13 February 2008
Bond ČSOB ZERO CZK III/2010	CZ0003701492	27 February 2008

Note: Mortgage bond = Hypoteční zástavní list; Bond = Dluhopis

The bond issuance programme's prospectus, amendments thereto and pricing supplements as well as the prospectus of the VAR1/2008 bond are available at ČSOB's website: www.csob.cz .

The VAR1/2008 bond is listed at the Official free market of the Prague Stock Exchange (trading started on 2 August 2004). The remaining bonds and mortgage bonds are unlisted.

An overview of bonds and mortgage bonds issued in the Czech Republic is available in Annex No. 1 to this part of the Annual Report.

Bonds Issued in the Slovak Republic

Based on the respective decisions of the ČSOB's Board of Directors, two issues of mortgage bonds were issued in the Slovak Republic in 2003 and 2004 through a private placement to pre-selected investors. Both issues were admitted to trading on the parallel market of the Bratislava Stock Exchange.
Between 2005 and 2007, a total of four mortgage bond issues were issued in the Slovak Republic. These issues have not been admitted to trading on any organized market.

By 31 December 2007, ČSOB had issued the following issues of mortgage bonds:

Issue name	ISIN	Issue date
Mortgage bond ČSOB I.	SK4120004086 series 01	22 September 2003
Mortgage bond ČSOB II.	SK4120004441 series 01	14 October 2004
Mortgage bond ČSOB III.	SK4120004771 series 01	15 November 2005
Mortgage bond ČSOB IV.	SK4120005232 series 01	19 December 2006
Mortgage bond ČSOB V.	SK4120005463 series 01	25 June 2007
Mortgage bond ČSOB VI.	SK4120005752 series 01	20 December 2007

Note: Mortgage bond = Hypotekárny záložný list

Printed copies of the prospectuses of Mortgage bond ČSOB I. and Mortgage bond ČSOB II. are available free of charge at the issuer's registered office (Československá obchodná banka, a. s., Investment Banking SR department, Nám. SNP 29, 815 63 Bratislava, Slovak Republic).

An overview of data on mortgage bonds issued in the Slovak Republic is available in Annex No. 2 to this part of the Annual Report.

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic. Until 31 December 2007, the Bank had also been active in the Slovak Republic through its organizational unit, registered in the Register of Companies administered by the District Court in Bratislava I under the business name Československá obchodní banka, a.s., a branch of a foreign bank in the Slovak Republic.

Legislation Governing ČSOB

As a legal entity subject to the Czech law, ČSOB **follows the applicable legislation in force in the territory of the Czech Republic**. Its activities are regulated primarily under the Banking Act, the Act on Business Activities on the Capital Market (also known as the Act on Undertakings on the Capital Market) and the Commercial Code.

A single banking licence granted to ČSOB in accordance with the Banking Act by the decision of the CNB of 28 July 2003, reference number 2003/3350/520, is of fundamental importance for ČSOB's business activities. In addition, ČSOB holds a certificate of registration in the register of insurance brokers and independent loss adjusters of insured accidents confirming that it was entered in the register as a **tied insurance broker** under number 038614VPZ on 20 March 2006. Pursuant to the aforesaid certificate ČSOB also acted as an insurance broker in the Slovak Republic in 2007.

In 2007, **ČSOB in the Slovak Republic** followed the applicable **laws then in force in the territory of the Slovak Republic**, especially the Banking Act, the Securities Act and the Commercial Code.

The following permissions were the most important for ČSOB to perform its activities **in the Slovak Republic** through its foreign branch in 2007:

Decisions of the National Bank of Slovakia
- No. UBD-400/2005 of 14 March 2005 on the change of banking permits to carry out banking activities in order to achieve conformity with legislative terms,
- No. UBD-657/2006-PLP of 15 June 2006 on the change (cancellation of the restriction to provide investment services) of permit No. GRUFT-002/2002/OCP of 19 September 2002 (permission to provide investment services),

Decisions of the Financial Market Office (SK)
- No. GRUFT-002/2002/OCP of 19 September 2002 granting permission to provide investment services,
- No. GRUFT-029/2004/SOCP of 20 February 2004 granting preliminary consent to carry out activities of a member of the central depository of Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository SK).

Main Areas of Activities

ČSOB's Scope of Business
– is defined in the ČSOB Articles of Association (in the part "Corporate Activities and Organisation of the Company – III. Scope of Business").

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, **it accepts deposits from the public and provides loans.**

In addition to these basic services, ČSOB is authorized to carry out the following activities according to applicable Czech legal regulations:

– Investment in securities on the Bank's own account
– Financial leasing
– Payments and clearance
– Issuance and administration of payment instruments
– Provision of guarantees
– Issuance of letters of credit
– Provision of collection services
– Provision of all investment services according to a special law

– Issuance of mortgage bonds
– Financial brokerage
– Provision of depository services
– Exchange office services (purchase of foreign exchange)
– Provision of banking information
– Trading in foreign exchange values and gold on the Bank's own account or on a client's account
– Rental of safe-deposit boxes
– Activities directly related to the activities mentioned above, and
– Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

In the **Slovak Republic**, ČSOB was by 31 December 2007 authorized to carry out all banking activities through its foreign branch pursuant to Act No. 483/2001 Coll., Banking Act.

Information on Investments

For information on investments please refer to Notes 3, 21 and 22 of the Notes to the Separate Financial Statements for 2007 according to EU IFRS.

In 2007, investment costs were utilized as follows:

In the ***Buildings*** category, ČSOB's priority was to invest in the expansion and upgrade of the existing branch network so that the points of sale meet as much as possible high standards of client servicing. In 2007, 21 new points of sales were opened and 33 were renovated. The Bank used part of the investment to complete its new headquarters in Prague where some 2,600 employees of the Bank moved during May 2007.

In the ***Information Technology*** category, ČSOB invested in new projects, especially payment card systems, electronic banking and payment systems. The Bank used part of the investment to renew and further develop the existing banking systems and to complete its new headquarters in Prague.

In the ***Other*** category, ČSOB continued developing its ATM network in the Czech Republic and renewing its car fleet. The branch network expansion and upgrade induced investments in the purchase and upgrade of technical equipment and technology in branches.

All investments were financed from the Bank's own resources.

Main Future Investments
(excluding financial investments)

The volume of ČSOB's investments in 2008 should reach about CZK 2 bn. It is the Bank's intent to invest the largest part of this amount in the development of its business activities. The rest will be used to improve and optimize existing processes and technologies.

In the ***Buildings*** category, ČSOB will continue extending and upgrading its branch network, mainly through opening small branches and optimizing the current locations of points of sale. A significant part of these investments will be directed to renovation and upgrade of the existing points of sale.

In the ***Information Technology*** category, ČSOB will focus on new projects, including electronic banking, payment systems, client service systems and development of management reporting systems. A considerable part of these investments will be used to replace the current IT equipment and software applications.

In the ***Other*** category, the Bank plans to go on purchasing and upgrading technical equipment and technologies throughout the branch network as well as renewing the car fleet and security systems. Part of the investment will be devoted to further optimize ČSOB's internal processes.

Significant Contracts

Outside the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any Group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

ČSOB is unaware of any agreements in which it is a contracting party and that come into effect, are amended, or the efficiency of which terminates in consequence of any changes in the control circumstances implied by an offer for takeover.

Governmental, Legal or Arbitration Proceedings in 2007

which may have, or have had in the recent past, significant effects on ČSOB's and/or the ČSOB Group's financial position or profitability

Information on court disputes

– is available in Notes 32 and 35 of the Notes to the Separate Financial Statements for 2007 according to EU IFRS and in Notes 34 and 37 of the Notes to the Consolidated Financial Statements for 2007 according to EU IFRS.

In this respect, ČSOB emphasizes the existence of the Agreement and State Guarantee concluded with the Ministry of Finance of the Czech Republic and the Agreement and Indemnity concluded with the Czech National Bank in 2000. These guarantee agreements fully cover the risks of the Bank related to the take-over of the ex-IPB enterprise. The possibility for the Ministry of Finance of the Czech Republic and the Czech National Bank to perform their obligations under these guarantee agreements was confirmed by the European Commission in 2004. Based on the above, the Bank is of the opinion that the disputes related to ex-IPB assets do not represent a significant negative impact on its financial position.

Court disputes (as at 31 December 2007) where the value of receivables / liabilities exceeds 5% of net business assets, or 5% of ČSOB shareholders' equity, respectively, are shown in the following tables.

I. Litigation initiated by ČSOB (the plaintiff)

	Counterparty of the dispute		Receivable
1.	České pivo, a.s., Nomura International PLC and others	CZK m	24,008
2.	Aladár Blaas, Libor Procházka	CZK m	3,630
3.	Nomura Principal Investment PLC	CZK m	2,000

II. Litigation against ČSOB (the defendant)

	Counterparty of the dispute		Liability
1.	IP banka, a.s., action to render the enterprise	CZK m	40,000
2.	Nomura Principal Investment PLC	CZK m	31,500
3.	Česká republika	CZK m	26,700
4.	imAge Alpha, a.s.	CZK m	17,647
5.	ICEC-HOLDING,a.s. – action for damages	CZK m	11,893
6.	Svit Zlín	CZK m	5,707
7.	HERTZ spol.s r.o.* – action for damages caused in consequence of forged IPB bills of exchange	CZK m	2,040

* Legal successor of the company barra.cz, s.r.o. (formerly Autotrans,s.r.o.)

In the case of legal disputes indicated in list I and those with numbers 1, 2, 5 and 7 in list II, the risk of any potential defeat in these cases is covered by a guarantee of the Ministry of Finance and by the CNB's indemnity in connection with the sale of the IPB enterprise. According to the Bank, dispute numbers 3, 4 and 6 in list II do not appear to constitute any risk, given their absolute unreasonableness.

The total effective claim cannot be reliably estimated, since the claims are interdependent.

Information published within this Annual Report

Information	Reference[1]
Analysis and quantification of risks and the method of risk management	Note No. 36 Risk Management
Risk management	Notes No. 2, 19 and 36 Notes No. 2, 20 and 38[2]
Collateral provided by ČSOB	Notes No. 19 and 33
Analysis of accepted deposits and provided loans	
– deposits	Notes No. 24 and 25
– loans	Notes No. 4, 15, 17, 29, 32 and 36
– allowance for credit and losses and the provisions for guarantees	Notes No. 12, 17, 30 and 36
– list of financial assets and liabilities received by the Bank, listed by maturity, as at 31 December 2007	Note No. 31
Information on entities included into the ČSOB consolidated financial statements as at 31 December 2007	Companies of the ČSOB Group Note No. 3[2]
Qualified ownership interests of ČSOB as at 31 December 2007	Companies of the ČSOB Group
Information on prudential rules for banks, credit unions and investment firms (under the Decree No. 123/2007 Coll., Appendix 30)	Annex No. 3 hereto
Important Events and Significant Changes in 2007	Report of the Board of Directors Company Profile Managing and Supervisory Bodies of ČSOB Corporate Governance Policy Notes No. 25 and 28 Note No. 3[2]
Subsequent Events in First Quarter 2008	ČSOB SK in 2008 Managing and Supervisory Bodies of ČSOB Note No. 35
New Products and Services Introduced in 2007	Report of the Board of Directors
Description of Markets where ČSOB Competes	Report of the Board of Directors
Activities Undertaken in the Area of Environmental Protection[3]	Sustainability

Research and development costs – ČSOB neither incurs nor reports.

Profit distribution – According to the decision of the ČSOB General Meeting held on 20 April 2007, the profit stated in the separate financial statements as at 31 December 2006 in the line profit for the year in the amount of CZK 7, 577 m stayed retained. On 14 November 2007, KBC Bank, as the sole shareholder of ČSOB, approved the distribution of a part of retained earnings from previous years in the amount of CZK 9,542 m into the dividend payment in the amount of CZK 1,869 per share. (See also the Note No. 13.)

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for 2007 according to EU IFRS (unless stated otherwise)
2) The content refers to a note in Notes to the Consolidated Financial Statements for 2007 according to EU IFRS
3) Together with this Annual Report, ČSOB also publishes the ČSOB Group Business Sustainability Report

Remuneration Paid to Auditors for 2007

Services provided		ČSOB	Consolidated ČSOB unit
Auditor services	CZK m	15	33
Advisory	CZK m	-	1
Total	CZK m	15	34

Expected Economic and Financial Situation of ČSOB in 2008

Regarding its business goals, ČSOB will focus on maintaining and, in specific areas, increasing its market shares. The Bank is going to achieve this objective by maintaining current and acquiring new clients by offering them high quality services. Financial results of ČSOB in 2008 will be affected by the separation of the Slovak branch to a new legal entity as of 1 January 2008. The ČSOB Group's financial goals for 2008 count on a growth in operating profit on a comparable basis, continuing reductions of the C/I ratio and stable development in the area of provisions for loans.

Information on the Publication of the ČSOB Annual Report 2007

ČSOB will publish its Annual Report 2007 on its Internet website at www.csob.cz (and ČSOB SK at ww.csob.sk).

The Czech National Bank will add the ČSOB Annual Report 2007 to the collection of deeds of the Register of Companies pursuant to Section 21a of the Accounting Act.

In the Slovak Republic, printed copies of the ČSOB Annual Report 2007 are available free of charge at the registered office of Československá obchodná banka, a. s., Michalská 18, Bratislava 815 63 from the Communications department.

Annex No. 1 to Additional Information

An Overview of Bonds and Mortgage Bonds Issued in the Czech Republic

Name of security	Dluhopis ČSOB VAR1/2008 (Bond ČSOB VAR1/2008)	Hypoteční zástavní list ČSOB 4,60%/2015 (Mortgage bond ČSOB 4.60%/2015)	Dluhopis ČSOB ZERO/2007 (Bond ČSOB ZERO/2007)
Class, type and form	Bond, bearer, book-entered	Mortgage bond, bearer, book-entered	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003700775	CZ0002000706	CZ0003701104
Denomination of the bonds	CZK	CZK	CZK
Nominal value per bond	CZK 10,000	CZK 1,000,000	CZK 100,000
Number of bonds	50,000	1,300	20,000
Total issue amount	CZK 500,000,000	CZK 1,300,000,000	CZK 2,000,000,000
Issue date	17 March 2004	15 November 2005	22 February 2006
Maturity date	30 December 2008	15 November 2015	22 August 2007
Date of interest payment	30 December 2004, 30 December 2005, 29 December 2006, 28 December 2007 and 30 December 2008.	15 November each year	–
Determination of the yield	Floating interest rate is calculated on the basis of development of the value of a stock indices basket. Act/Act basis for calculation of the yield.	Fixed interest rate 4.6 % p.a. 30E/360 basis for calculation of the yield.	Difference between the issue price and the nominal value of the bond.
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Radlická 333/150, 150 57 Praha 5. Dates of interest payments and maturity date: see above.		
Regulated markets to which the securities have been admitted	Prague Stock Exchange, Official free market	Unlisted security.	Unlisted security.
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

Name of security	Dluhopis ČSOB ZERO/2008 (Bond ČSOB ZERO/2008)	Dluhopis ČSOB ZERO II/2008 (Bond ČSOB ZERO II/2008)	Dluhopis ČSOB ZERO/2009 (Bond ČSOB ZERO/2009)
Class, type and form	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003701179	CZ0003701229	CZ0003701310
Denomination of the bonds	CZK	CZK	CZK
Nominal value per bond	CZK 100,000	CZK 100,000	CZK 100,000
Number of bonds	14,000	14,000	10,000
Total issue amount	CZK 1,400,000,000	CZK 1,400,000,000	CZK 1,000,000,000
Issue date	1 September 2006	20 December 2006	13 June 2007
Maturity date	1 March 2008	20 December 2008	13 June 2009
Date of interest payment	–	–	–
Determination of the yield	Difference between the issue price and the nominal value of the bond.		
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Radlická 333/150, 150 57 Praha 5. Dates of interest payments and maturity date: see above.		
Regulated markets to which the securities have been admitted	Unlisted security.		
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

Name of security	Dluhopis ČSOB ZERO II/2009 (Bond ČSOB ZERO II/2009)	Dluhopis ČSOB ZERO III/2009 (Bond ČSOB ZERO III/2009)	Dluhopis ČSOB ZERO IV/2009 (Bond ČSOB ZERO IV/2009)
Class, type and form	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003701336	CZ0003701369	CZ0003701393
Denomination of the bonds	CZK	CZK	CZK
Nominal value per bond	CZK 100,000	CZK 100,000	CZK 100,000
Number of bonds	10,000	10,000	10,000
Total issue amount	CZK 1,000,000,000	CZK 1,000,000,000	CZK 1,000,000,000
Issue date	8 August 2007	5 September 2007	10 October 2007
Maturity date	8 August 2009	5 September 2009	10 October 2009
Date of interest payment	–	–	–
Determination of the yield	Difference between the issue price and the nominal value of the bond.		
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Radlická 333/150, 150 57 Praha 5. Dates of interest payments and maturity date: see above.		
Regulated markets to which the securities have been admitted	Unlisted security.		
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

Name of security	Dluhopis ČSOB ZERO V/2009 (Bond ČSOB ZERO V/2009)	Dluhopis ČSOB ZERO CZK/2010 (Bond ČSOB ZERO CZK/2010)	Dluhopis ČSOB ZERO EUR/2010 (Bond ČSOB ZERO EUR/2010)
Class, type and form	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003701419	CZ0003701450	CZ0003701468
Denomination of the bonds	CZK	CZK	EUR
Nominal value per bond	CZK 100,000	CZK 100,000	EUR 1,000
Number of bonds	10,000	10,000	30,000
Total issue amount	CZK 1,000,000,000	CZK 1,000,000,000	EUR 30,000,000
Issue date	5 December 2007	23 January 2008	23 January 2008
Maturity date	5 December 2009	23 January 2010	23 January 2010
Date of interest payment	–	–	–
Determination of the yield	Difference between the issue price and the nominal value of the bond.		
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Radlická 333/150, 150 57 Praha 5. Dates of interest payments and maturity date: see above.		
Regulated markets to which the securities have been admitted	Unlisted security. No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Guarantees for interest payments and redemption of the securities			
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

Name of security	Dluhopis ČSOB ZERO USD/2010 (Bond ČSOB ZERO USD/2010)	Dluhopis ČSOB ZERO CZK II/2010 (Bond ČSOB ZERO CZK II/2010)	Dluhopis ČSOB ZERO CZK III/2010 (Bond ČSOB ZERO CZK III/2010)
Class, type and form	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003701476	CZ0003701484	CZ0003701492
Denomination of the bonds	USD	CZK	CZK
Nominal value per bond	USD 1,000	CZK 100,000	CZK 100, 000
Number of bonds	30,000	10,000	10,000
Total issue amount	USD 30,000,000	CZK 1,000,000,000	CZK 1,000,000,000
Issue date	23 January 2008	13 February 2008	27 February 2008
Maturity date	23 January 2010	13 February 2010	27 February 2010
Date of interest payment	–	–	--
Determination of the yield	Difference between the issue price and the nominal value of the bond.		
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Radlická 333/150, 150 57 Praha 5. Dates of interest payments and maturity date: see above.		
Regulated markets to which the securities have been admitted	Unlisted security.		
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

Annex No. 2 to Additional Information

An Overview of Mortgage Bonds Issued in the Slovak Republic

Name of security	Hypotekárny záložný list ČSOB I. (Mortgage bond ČSOB I.)	Hypotekárny záložný list ČSPB II. (Mortgage bond ČSOB II.)	Hypotekárny záložný list ČSOB III. (Mortgage bond ČSOB III.)
Class, type and form	Bond specified as mortgage bond, bearer, book-entered		
ISIN	SK4120004086 series 01	SK4120004441 series 01	SK4120004771 series 01
Denomination of the bonds	SKK	SKK	SKK
Nominal value per bond	SKK 100,000	SKK 100,000	SKK 1,000,000
Number of bonds	4 000	7 000	800
Total issue amount	SKK 400,000,000	SKK 700,000,000	SKK 800,000,000
Issue date	22 September 2003	14 October 2004	15 November 2005
Maturity date	22 September 2008	14 October 2009	15 November 2010
Date of interest payment	22 September each year	14 October each year	15 November each year
Determination of the yield	Fixed interest rate 4.8 % p.a. 30E/360 basis for calculation of the yield.	Fixed interest rate 4.9 % p.a. 30E/360 basis for calculation of the yield.	Fixed interest rate 2.9 % p.a. 30E/360 basis for calculation of the yield.
Place for redemption of the nominal value and interest	Československá obchodní banka, a.s., branch of the foreign bank in the SR (since 1 January 2008, Československá obchodná banka, a. s.), Michalská 18, 815 63 Bratislava.		
Trading on the secondary market	Listed parallel market of the Bratislava Stock Exchange; admitted to trading on 7 July 2004.	Listed parallel market of the Bratislava Stock Exchange; admitted to trading on 8 April 2005.	Unlisted security.
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The rights pursuant to the terms and conditions of the bonds are in accordance with Slovak law. No priority or convertible rights are attached to the bonds.		

Name of security	Hypotekárny záložný list ČSOB IV. (Mortgage bond ČSOB IV.)	Hypotekárny záložný list ČSOB V. (Mortgage bond ČSOB V.)	Hypotekárny záložný list ČSOB VI. (Mortgage bond ČSOB VI.)
Class, type and form	Bond specified as mortgage bond, bearer, book-entered		
ISIN	SK4120005232 series 01	SK4120005463 series 01	SK4120005752 series 01
Denomination of the bonds	SKK	SKK	SKK
Nominal value per bond	SKK 1,000,000	SKK 1,000,000	SKK 1,000,000
Number of bonds	800	500	400
Total issue amount	SKK 800,000,000	SKK 500,000,000	SKK 400,000,000
Issue date	19 December 2006	25 June 2007	20 December 2007
Maturity date	19 December 2011	25 June 2012	20 December 2012
Date of interest payment	19 December each year	25 June each year	20 December each year
Determination of the yield	Floating interest rate 12M BRIBOR + 1.25 % p.a. 30/360 basis for calculation of the yield.	Fixed interest rate 4.6 % p.a. Act/Act basis for calculation of the yield.	Fixed interest rate 4.4 % p.a. Act/Act basis for calculation of the yield.
Place for redemption of the nominal value and interest	Československá obchodní banka, a.s., branch of the foreign bank in the SR (since 1 January 2008, Československá obchodná banka, a. s.), Michalská 18, 815 63 Bratislava.		
Trading on the secondary market	Unlisted security.		
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The rights pursuant to the terms and conditions of the bonds are in accordance with Slovak law. No priority or convertible rights are attached to the bonds.		

Annex No. 3 to Additional Information

Information according to Annex No. 30 of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms

1. Information on the Capital of the Regulated Consolidated Unit

Summary of conditions and main features of the capital and its constituents

The rules for capital adequacy calculation of the Regulated consolidated unit are stipulated by the Czech National Bank's Regulation No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective from 1 June 2007); the Regulation also contains rules for definition of the regulated consolidated unit.

In December 2007, KBC Bank NV increased paid-up basic capital registered in the Commercial Register by CZK 750 m and share premium by CZK 5,250 m. Share capital is fully subscribed and paid up. The total authorized share capital as at 31 December 2007 equals CZK 5,855 m and is composed of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each. Share premium is CZK 7,509 m.

To support the capital structure of the Group, ČSOB received subordinated debt in nominal amount of CZK 12 bn in two tranches: CZK 5 bn in September 2006 with the maturity date falling on 29 September 2016 and CZK 7 bn in February 2007 with the maturity date falling on 28 March 2017. Hypoteční banka issued subordinated bonds with a total nominal amount of CZK 200 m and maturity on 2 June 2008. These issues are included in the Tier 2 supplementary capital.

Information on Capital of the Regulated consolidated unit

(CZK ths)		31. 12. 2007
1.	**Original capital (Tier 1)**	**37,751,349**
	Paid-up basic capital registered in the Commercial Register	5,855,000
	Own shares	-
	Share premium	7,508,552
	Mandatory reserve funds	18,686,645
	Retained profit from previous periods	10,344,807
	Minority interests	300,293
	Goodwill from consolidation	(887,403)
	Resulting exch. rate differences from consolidation	(223,039)
	Goodwill other than from consolidation	(2,688,910)
	Intangible assets other than goodwill	(1,133,744)
	Negative valuation difference from real value changes in AFS shares	(10,852)
2.	**Total supplementary capital (Tier 2)**	**12,006,897**
3.	**Total capital to cover market risk (Tier 3)**	**-**
4.	**Items deductible from original and supplementary capital (from Tier 1 + Tier 2)**	**(1,126,772)**
	in which: IRB Provision shortfall and IRB equity expected loss amount	(271,997)
Total regulatory capital		**48,631,475**

Summary information on the approach of the Regulated consolidated unit to the assessment of internally established capital adequacy in relation to the current and future activities (capital adequacy internally determined and maintained)

The adequacy of the internal capital (ICAAP) is calculated based on the KBC Group's approach and methodology. The method is based on economic capital calculation and includes all significant risks to which the ČSOB Group is exposed. A corresponding value of capital is allocated to each of these risks. Other risks are covered by qualitative measures in the area of risk management, processes organization, audit etc.

Amount of the regulatory capital requirements of the Regulated consolidated unit

(CZK ths)	31. 12. 2007
Capital requirements	
1. Credit risk total	**31,520,368**
1.1 Total capital requirements for credit risks with standardized approach (STA)	**5,023,602**
Exposures to central governments and central banks	-
Exposures to regional governments and local authorities	-
Exposures to public-sector entities and others	1,782
Exposures to international development banks	-
Exposures to international organizations	-
Exposures to institutions	56,314
Exposures to enterprises	3,336,055
Retail exposures	711,610
Exposures secured by real estate	-
Overdue exposures	35,297
Regulatory high-risk exposures	-
Exposures in covered bonds	-
Short-term exposures to institutions and exposures to enterprises	-
Exposures to collective investment unit trusts	57,448
Other exposures	491,543
Capital requirement with STA subject to IRB approach to share exposures	106,517
Capital requirement to credit risk with STA to securitized exposures	227,036
1.2 Total capital requirement to credit risk subject to IRB approach	**26,496,766**
Exposures to central governments and central banks	56,762
Exposures to institutions	2,464,332
Exposures to enterprises	16,836,864
Retail exposures	5,044,957
Share exposures	-
Securitized exposures	144,647
Other exposures	1,949,204
2. Capital requirement to settlement risk	**20,036**
3. Capital requirement to position currency and commodity risk	**1,150,623**
4. Capital requirement to operational risk	**3,593,000**
5. Capital requirement to trading portfolio exposure risk	**-**
6. Other and transitional capital requirement resulting from transition to IRB or AMA approach	**-**
Total capital requirement	**36,284,027**

3. ČSOB's Ratios (uncosolidated)

(as at 31 December 2007)

Ratio		
Capital adequacy	%	11.12
Return on average assets (ROAA)	%	1.55
Return on average equity (ROAE)	%	35.51
Assets per employee	CZK ths	93,829
Administrative expenses per employee*	CZK ths	1,346
Profit after income tax per employee*	CZK ths	1,340

* annualized

The building's interior contains various kinds of plants, palms, rubber plants, dracaenas, ivies and many more. The most precious include olive tree, laurel, magnolia grandiflora, lemon tree or Phoenix palm which can be found in the main atrium.

Sworn Statement

Sworn Statement

Persons responsible for the ČSOB Annual Report 2007

hereby declare that:

all the information contained in the ČSOB Annual Report 2007 is in accordance with reality; no significant facts that are likely to influence an accurate and correct assessment of ČSOB and its securities in issue were omitted or misrepresented; and the ČSOB Annual Report 2007 contains true account of all significant events occurred in 2007 and their potential impact on financial statements, including a description of potential major risks and uncertainties in 2007.

In Prague, 23. April 2008

Československá obchodní banka, a. s.

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

Jan Lamser
Member of the Board of Directors
and Senior Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s. ("the Company") as at 31 December 2007, which are presented in the annual report of the Company on pages 73–132, on which we have issued an auditor's report, dated 9 April 2008, which is presented in the annual report of the Company on page 72. We have also audited the separate financial statements of the Company as at 31 December 2007, which are presented in the annual report of the Company on pages 137–193, on which we have issued an auditor's report, dated 9 April 2008, which is presented in the annual report of the Company on page 136 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Československá obchodní banka, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report which describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–70 and 208–233 is consistent with that contained in the audited financial statements as at 31 December 2007. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information included in the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2007 presented in the annual report of the Company on pages 198–204. The management of Československá obchodní banka, a. s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of Company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2007 is materially misstated.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
Licence No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

23 April 2008
Prague, Czech Republic

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Plants growing on the terraces and on the roof of the building are watered by an automated watering system distributing water to each of them. Recycled water and rainwater is used for watering.

Abbreviations

Business company	Abbreviation
Československá obchodní banka, a. s.	ČSOB the Bank
Československá obchodní banka, a.s., pobočka zahraničnej banky v SR (foreign branch, until 31 December 2007)	ČSOB SK
Československá obchodná banka, a. s. (separate legal entity, since 1 January 2008)	ČSOB SK
Poštovní spořitelna	PSB

Auxilium, a.s.	Auxilium
Bankovní informační technologie, s.r.o.	BANIT
Business Center, s.r.o.	Business Center
Centrum Radlická a.s.	Centrum Radlická
Czech National Bank	CNB
Českomoravská stavební spořitelna, a.s.	ČMSS
ČSOB stavebná sporiteľňa, a.s.	ČSOB SP
ČSOB Asset Management, a.s., a member of the ČSOB Group	ČSOB AM CZ
ČSOB Asset Management, správ.spol., a.s.	ČSOB AM SK
ČSOB d.s.s., a.s.	ČSOB d.s.s.
ČSOB distribution, a.s.	ČSOB distribution
ČSOB Factoring, a.s.	ČSOB Factoring CZ
ČSOB Factoring a.s. (Slovak Republic)	ČSOB Factoring SK
ČSOB Investiční společnost, a.s., a member of the ČSOB Group	ČSOB IS
ČSOB Investment Banking Services, a.s., a member of the ČSOB Group	ČSOB IBS
ČSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	ČSOB korporátní
ČSOB Leasing, a.s.	ČSOB Leasing CZ
ČSOB Leasing, a.s. (Slovak Republic)	ČSOB Leasing SK
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř
ČSOB Leasing poisťovací maklér, s.r.o.	ČSOB Leasing poisťovací maklér
ČSOB Penzijní fond Progres, a. s., a member of the ČSOB Group	ČSOB PF Progres
ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB Group	ČSOB PF Stabilita
ČSOB Pojišťovna, a. s., a member of the ČSOB Holding	ČSOB Pojišťovna
ČSOB Poisťovňa, a.s.	ČSOB Poisťovňa
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB Group	ČSOB Property fund
ČSOB růstový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	ČSOB růstový
ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended equity fund	ČSOB výnosový
European Bank for Reconstruction and Development	EBRD
Hyporeal Praha, a.s.	Hyporeal Praha
Hypoteční banka, a.s.	Hypoteční banka
IPB Group Holding, a.s. in liquidation	IPB Group Holding
IPB Leasing, a.s.	IPB Leasing
KBC Bank NV	KBC Bank
KBC Group NV	KBC Group
KBC Insurance NV	KBC Insurance
Ministry of Finance of the Czech Republic	MF CZ
Ministry of Finance of the Slovak Republic	MF SK
Motokov a.s.	Motokov
National Bank of Slovakia	NBS
Patria Finance, a.s.	Patria Finance
Patria Finance CF, a.s.	Patria Finance CF
Zemský penzijní fond, a. s.	Zemský PF

Contact details

Investor relations

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External communication

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150 57 Praha 5

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Fax: +420 224 119 608

Financial calendar for 2008

ČSOB Group financial results releases (EU IFRS, consolidated)

Period	Date	Event
FY 2007	14 February 2008, 2 PM	Presentation on the Internet and press conference
1Q 2008	15 May 2008, 2 PM	Presentation on the Internet
1H 2008	8 August 2008, 11 AM	Presentation on the Internet and press conference
3Q 2008	6 November 2008, 2 PM	Presentation on the Internet
FY 2008	12 February 2009, 2 PM	Presentation on the Internet and press conference

Note: This schedule is for information only; dates might be subject to change during the year.

Notes:

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