financial part

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

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

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

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

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

13 March 2006

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Marek Richter
Auditor, Licence No. 1800

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

consolidated statement of income for the year ended 31 december 2005

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

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

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

consolidated balance sheet as at 31 december 2005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. introduction

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

2. summary of significant accounting policies

a) basis of presentation

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

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

b) consolidation

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

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

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

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

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

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

c) segment reporting

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

d) foreign currency translation

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

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

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

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

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

e) interest income and expense

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

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

f) fees and commissions paid and received

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

g) contribution to pension fund clients

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

h) financial assets

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

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

financial assets at fair value through profit or loss

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

loans and receivables

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

held-to-maturity

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

available-for-sale

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

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

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

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

i) fair valuation

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

j) recognition and derecognition of financial instruments

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

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

k) derivative financial instruments

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

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

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

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

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

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

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

l) securities repurchase and reverse repurchase transactions

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

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

m) leases

group company is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

group company is the lessor

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

n) impairment of financial assets

assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

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

assets carried at fair value

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

o) property and equipment

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

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

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

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

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

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

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

p) goodwill

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

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

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

q) income taxes

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

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

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

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

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

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

s) provisions

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

t) employee retirement benefits

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

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

u) offsetting

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

v) cash and cash equivalents

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

w) fiduciary activities

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

x) IFRS / IAS accounting and reporting developments

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

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

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

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

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

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

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

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

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

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

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

– decrease in Loans and leases of CZK 34,435 m and CZK 38,514 m as at 31 December 2004 and 1 January 2004, respectively,

– decrease in Other assets, including tax assets of CZK 255 m and CZK 214 m as at 31 December 2004 and 1 January 2004, respectively,

– decrease in Prepayments and accrued income of CZK 758 m and CZK 149 m as at 31 December 2004 and 1 January 2004, respectively,

– increase in Other liabilities, including tax liabilities of CZK 6 m and CZK 3 m as at 31 December 2004 and 1 January 2004, respectively,

– increase in Cumulative gains not recognised in the statement of income of CZK 597 m and CZK 550 m as at 31 December 2004 and 1 January 2004, respectively,

– increase in Retained earnings of CZK 276 m and CZK 191 m as at 31 December 2004 and 1 January 2004, respectively.

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

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

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

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

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

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

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

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

Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

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

3. net interest income

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

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

4. net fee and commission income

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

5. net trading income

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

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

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

6. other operating income

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

7. general administrative expenses

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

personnel expenses

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

management bonus scheme

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

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

retirement benefits

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

other general administrative expenses

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

8. other operating expenses

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

9. income tax expense

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

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

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

10. cash and balances with central banks

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

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

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

11. due from banks

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

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

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

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

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

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

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

13. investment securities

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

Schedule of Activity in Investment Securities

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

14. loans and leases

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

Finance lease receivables may be analysed as follows:

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

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

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

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

Slovenská inkasná (SI)

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

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

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

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

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

15. credit losses

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

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

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

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

16. property and equipment

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

17. goodwill

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

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

18. other assets, including tax assets

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

19. due to banks

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

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

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

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

21. due to customers

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

22. debt securities in issue

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

23. other liabilities, including tax liabilities

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

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

24. deferred income taxes

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

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

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

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

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

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

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

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

25. provisions

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

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

combination restructuring charges

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

staff reduction charges

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

onerous rent contract losses

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

26. share capital and treasury shares

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

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

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

27. contingent asset, liabilities and commitments

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

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

28. other contingent liabilities

a) litigation

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

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

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

b) taxation

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

c) assets under management and custody

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

d) operating lease commitments

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

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

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

e) commitments

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

29. derivatives

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

credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

trading derivatives

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

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

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

hedging derivatives

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

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

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

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

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

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

30. cash and cash equivalents

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

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

31. segment reporting

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

segment reporting information by customer segments for 2005

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

segment reporting information by customer segments for 2004 (restated)

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

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

definitions of customer segments:

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

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

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

Financial markets: Asset Liability Management segment, Dealing segment.

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

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

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

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

The geographical segment reporting for 2004 is as follows:

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

32. currency risk

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

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

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

33. interest rate risk

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

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

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

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

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

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

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

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

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

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

34. liquidity risk

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

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

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

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

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

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

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

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

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

35. fair values of financial assets and liabilities

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

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

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

due from banks

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

investment securities

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

loans and leases

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

due to banks

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

due to customers

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

debt securities in issue

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

36. related parties

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

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

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

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

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

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

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

37. dividends

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

38. ČSOB's shareholders

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

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

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

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

39. consolidated companies

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

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

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

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

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

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

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

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

40. events after the balance sheet date

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

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

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

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

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

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

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

13 March 2006

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Marek Richter
Auditor, Licence No. 1800

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

separate statement of income for the year ended 31 december 2005

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

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

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

separate balance sheet as at 31 december 2005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. introduction

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

2. summary of significant accounting policies

a) basis of presentation

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

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

b) segment reporting

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

c) foreign currency translation

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

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

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

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

d) investments in subsidiaries and jointly controlled entities

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

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

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

e) interest income and expense

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

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

f) fees and commissions paid and received

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

g) financial assets

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

financial assets at fair value through profit or loss

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

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

held-to-maturity

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

available-for-sale

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

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

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

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

h) fair valuation

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

i) recognition and derecognition of financial instruments

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

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

j) derivative financial instruments

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

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

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

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

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

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

k) securities repurchase and reverse repurchase transactions

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

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

l) leases

bank is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

m) impairment of financial assets

assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

assets carried at fair value

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

n) property and equipment

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

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

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

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

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

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

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

o) goodwill

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

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

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

p) income taxes

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

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

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

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

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

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

r) provisions

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

s) employee retirement benefits

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

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

t) offsetting

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

u) cash and cash equivalents

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

v) fiduciary activities

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

w) IFRS/IAS accounting and reporting developments

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

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

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

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

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

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

Other new standards, amendments or interpretations. The Bank has not early adopted the following other new standards, amendments or interpretations:
- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);

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

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

3. transition to IFRS

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

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

Reconciliation of equity at 1 January 2004 and 31 December 2004

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

Reconciliation of net profit for the year ended 31 December 2004

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

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

4. net interest income

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

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

5. net fee and commission income

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

6. net trading income

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

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

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

7. other operating income

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

8. general administrative expenses

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

personnel expenses

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

management bonus scheme

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

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

retirement benefits

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

other general administrative expenses

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

9. other operating expenses

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

10. income tax expense

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

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

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

11. cash and balances with central banks

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

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

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

12. due from banks

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

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

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

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

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

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

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

14. investment securities

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

Schedule of Activity in Investment Securities

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

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

15. loans and leases

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

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

Slovenská inkasná (SI)

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

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

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

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

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

16. credit losses

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

(CZKm)	2005	2004
At 1 January	5,638	8,611
Write-offs	(614)	(3,267)
Recoveries	970	1,155
Net decrease in credit loss allowance and provisions	(142)	(671)
Foreign currency translation and other adjustments	(5)	(190)
31 December	**5,847**	**5,638**

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

(CZKm)	31.12.2005	31.12.2004
Allowance for credit losses		
Loans and leases (Note: 15)	5,166	4,747
Due from banks (Note: 12)	27	109
Provisions for guarantees and undrawn credit lines (Note: 28)	654	782
	5,847	**5,638**

17. property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2004	9,754	8,142	751	18,647
Exchange adjustments	(1)	(1)	-	(2)
Transfers	307	907	(1,214)	-
Additions	-	-	763	763
Disposals	(465)	(457)	-	(922)
At 31 December 2004	9,595	8,591	300	18,486
Exchange adjustments	(22)	(26)	-	(48)
Transfers	1,043	951	(1,994)	-
Additions	-	-	1,916	1,916
Disposals	(1,952)	(903)	-	(2,855)
Transfers to assets held for sale (Note: 19)	(2,714)	-	-	(2,714)
At 31 December 2005	5,950	8,613	222	14,785
Accumulated depreciation and impairment				
At 1 January 2004	2,619	5,779	-	8,398
Exchange adjustments	-	(1)	-	(1)
Disposals	(120)	(431)	-	(551)
Impairment utilization and release	(183)	-	-	(183)
Impairment charge (Note: 9)	256	-	-	256
Charge for the year (Note: 8)	295	1,253	-	1,548
At 31 December 2004	2,867	6,600	-	9,467
Exchange adjustments	(3)	(19)	-	(22)
Disposals	(540)	(839)	-	(1,379)
Impairment utilization and release	(503)	-	-	(503)
Impairment charge (Note: 9)	278	52	-	330
Charge for the year (Note: 8)	635	983	-	1,618
Transfers to assets held for sale (Note: 19)	(1,246)	-	-	(1,246)
At 31 December 2005	1,488	6,777	-	8,265
Net book value				
At 1 January 2004	**7,135**	**2,363**	**751**	**10,249**
At 31 December 2004	**6,728**	**1,991**	**300**	**9,019**
At 31 December 2005	**4,462**	**1,836**	**222**	**6,520**

18. goodwill

(CZKm)	2005	2004
Net book value		
At 1 January	2,752	3,048
Impairment charge (Note: 9)	(63)	-
Net changes in IPB goodwill	-	(110)
Amortisation (Note: 9)	-	(186)
31 December	**2,689**	**2,752**

Goodwill has been allocated to the Retail / SME segment (CZK 2,689 m), representing a cash-generating unit. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by management covering a three-year period, and a discount rate based on the zero coupon rate adjusted by country risk factor. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. The discount rate varies from 8.60 % to 9.58 % in the ten-year period. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount. (Note: 32).

19. other assets, including tax assets

(CZKm)	31.12.2005	31.12.2004
Other debtors, net of provisions	5,650	3,566
Hedging derivative contracts (Note: 30)	3,514	2,827
Assets held for sale (Note: 17)	1,468	-
Other receivables from clients	1,400	47
Estimated receivables	417	62
Net deferred tax asset (Note: 25)	347	677
Items in the course of collection	94	275
Receivables from securities clearing entities	80	25
VAT and other tax receivables	59	-
Current income tax receivable	55	-
Other clearing accounts	-	263
Other	108	51
	13,192	**7,793**

20. due to banks

(CZKm)	31.12.2005	31.12.2004
Analysed by product and bank domicile:		
Current accounts		
domestic	129	419
foreign	2,777	2,590
Term deposits		
foreign	4,121	330
Borrowings		
domestic	2,130	6,113
foreign	1,520	2,959
Total due to banks	**10,677**	**12,411**

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

(CZKm)	31.12.2005	31.12.2004
Trading liabilities		
Securities sold, not yet purchased	61	3,744
Derivative contracts (Note: 30)	7,320	6,095
	7,381	9,839
Financial liabilities at fair value through profit or loss designated at inception		
Promissory notes	4,494	7,669
Repo transactions	19,102	3,187
Term deposits	91,747	46,152
	115,343	57,008
	122,724	**66,847**

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

22. due to customers

(CZKm)	31.12.2005	31.12.2004
Analysed by product:		
Current accounts	225,881	185,838
Term deposits	165,984	170,809
Total due to customers	**391,865**	**356,647**
Analysed by customer type:		
Individuals and households	200,365	196,971
Private companies and entrepreneurs	92,137	83,835
Foreign	53,476	41,654
Government bodies	26,683	13,181
Non-profit institutions	7,631	10,735
Other financial institutions	9,313	6,801
Insurance companies	2,260	3,470
Total due to customers	**391,865**	**356,647**

23. debt securities in issue

Issue date	**Currency**	**Maturity date**	**Effective interest rate**	**31.12.2005** (CZKm)	**31.12.2004** (CZKm)
Bonds issued:					
September 2003	SKK	September 2008	4.94 %	306	315
March 2004	CZK	December 2008	8.64 %	500	500
October 2004	SKK	October 2009	4.80 %	536	550
November 2005	CZK	November 2015	4.60 %	1,397	-
November 2005	SKK	November 2010	2.90 %	613	-
				3,352	**1,365**
Promissory notes				18,996	11,819
Certificates of deposit				6	6
Total debt securities in issue				**22,354**	**13,190**

24. other liabilities, including tax liabilities

(CZKm)	31.12.2005	31.12.2004
Items in the course of transmission	9,812	5,844
Other creditors	3,505	3,562
Other clearing accounts	2,589	2,248
Estimated payables	1,929	1,475
Payables to securities clearing entities	1,025	299
Current income tax payable	669	1,654
Provisions for guarantees and undrawn credit lines (Note: 28)	654	782
Hedging derivative contracts (Note: 30)	440	1,654
VAT and other tax payables	200	190
Current accounts from which value was collected	81	314
Liability to Česká finanční, s.r.o.	-	2,461
Other	162	279
	21,066	**20,761**

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

25. deferred income taxes

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

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

(CZKm)	2005	2004
At 1 January	677	(216)
Income statement (debit) / credit (Note: 10)	(212)	1,017
Available-for-sale securities		
Fair value remeasurement	(9)	(114)
Transfer to net profit	47	42
Cash-flow hedges		
Fair value remeasurement	(310)	(178)
Transfer to net profit	154	126
At 31 December	**347**	**677**

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

(CZKm)	31.12.2005	31.12.2004
Deferred income tax asset (Note: 19)		
Legal claim	293	318
Provisions	181	179
Impairment of occupied properties	174	233
Allowances for credit losses	159	151
Cash-flow hedges	(160)	(4)
Available-for-sale securities	(282)	(265)
Other temporary differences	(18)	65
	347	**677**

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

(CZKm)	31.12.2005	31.12.2004
Allowances for credit losses	20	361
Provisions	16	22
Legal claim	-	318
Prior years' deferred tax that will not reverse	-	148
Trading assets valuation	(30)	55
Accelerated tax depreciation	(38)	37
Impairment of occupied properties	(42)	25
Other temporary differences	(56)	65
Deferred tax expense resulting from reduction in tax rate	(82)	(14)
	(212)	**1,017**

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

26. provisions

(CZKm)	Litigation and other losses	Combination restructuring charges	Staff reduction charges	Onerous rent losses	Total
At 1 January 2005	611	19	156	221	1,007
Net provision charge	327	-	184	(5)	506
Discount amortisation (Note: 4)	-	-	-	9	9
Utilised during year	(34)	(19)	(80)	(49)	(182)
At 31 December 2005	**904**	**-**	**260**	**176**	**1,340**

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

combination restructuring charges

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

staff reduction charges

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

onerous rent contract losses

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

27. share capital and treasury shares

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

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

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

28. contingent asset, liabilities and commitments

(CZKm)	31.12.2005 Contract amount	31.12.2005 Risk weighted amount	31.12.2004 Contract amount	31.12.2004 Risk weighted amount
Contingent asset				
Slovenská inkasná loan (Note: 15)	-	-	30,788	-
Contingent liabilities				
Czech Ministry of Finance (Note: 15)	-	-	30,788	-
Guarantees issued	19,967	10,293	15,632	7,176
	19,967	10,293	46,420	7,176
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	74,014	32,203	53,376	24,036
Documentary credits	1,876	888	1,005	450
	75,890	33,091	54,381	24,486
Provisions for guarantees and undrawn credit lines (Notes: 16 and 24)	654		782	

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

29. other contingent liabilities

a) litigation

Other than the litigation for which provisions have already been raised (Note: 26), the Bank is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Bank will result from the ultimate resolution of these legal actions.

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

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

b) taxation

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

c) assets under management and custody

Assets managed by the Bank on behalf of others amounted to CZK 2,603 m as at 31 December 2005 (31 December 2004: CZK 2,123 m). Assets held by the Bank under custody arrangements amounted to CZK 182,268 m as at 31 December 2005 (31 December 2004: CZK 146,379 m).

d) operating lease commitments

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

(CZKm)	31.12.2005	31.12.2004
Not later than 1 year	95	19
Later than 1 year and not later than 5 years	174	155
Later than 5 years	141	155
	410	**329**

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

e) capital commitments

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

30. derivatives

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

credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

trading derivatives

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

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

	31.12.2005			31.12.2004		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	243,905	3,118	4,483	149,228	1,991	3,410
Forwards	67,412	45	66	106,809	104	120
Written options	13,167	-	12	7,920	1	6
Purchased options	13,557	15	-	7,920	6	-
	338,041	**3,178**	**4,561**	**271,877**	**2,102**	**3,536**
Foreign exchange contracts						
Swaps	197,161	2,434	1,831	76,234	1,808	1,883
Forwards	17,862	92	366	15,086	158	456
Written options	37,258	-	542	19,592	-	220
Purchased options	36,418	542	-	10,976	151	-
	288,699	**3,068**	**2,739**	**121,888**	**2,117**	**2,559**
Equity contracts						
Forwards	100	-	20	-	-	-
Commodity contracts						
Swaps	650	-	-	-	-	-
Total derivatives held for trading (Notes: 13, 21)	**627,490**	**6,246**	**7,320**	**393,765**	**4,219**	**6,095**

hedging derivatives

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

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

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

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

(CZKm)	31.12.2005 Contract / Notional	31.12.2005 Fair value Positive	31.12.2005 Fair value Negative	31.12.2004 Contract / Notional	31.12.2004 Fair value Positive	31.12.2004 Fair value Negative
Cash flow hedges						
Single currency interest rate swaps	42,436	799	195	31,857	528	25
Cross currency interest rate swaps	32,766	2,715	245	28,319	2,299	1,628
(Notes: 19, 24)	**75,202**	**3,514**	**440**	**60,176**	**2,827**	**1,653**

31. cash and cash equivalents

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

(CZKm)	31.12.2005	31.12.2004
Cash and balances with central banks	10,073	11,101
Trading portfolio assets	5,757	998
Investment securities	6,758	1,299
Due from banks, demand	918	1,276
Due to banks, demand	(2,906)	(3,010)
Cash and cash equivalents	**20,600**	**11,664**

32. segment reporting

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

Segment reporting information by customer segments for 2005

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	7,496	1,681	110	2,039	523	11,849
Non-interest income	5,309	1,944	3,302	953	1,242	12,750
Segment expenses	(6,382)	(688)	(481)	(381)	(5,694)	(13,626)
Segment result	6,423	2,937	2,931	2,611	(3,929)	10,973
Impairment losses and provisions	(99)	27	474	-	(817)	(415)
Operating profit before taxation	6,324	2,964	3,405	2,611	(4,746)	10,558
Income tax (expense)/benefit	(1,644)	(771)	(100)	(679)	1,040	(2,154)
Net profit	**4,680**	**2,193**	**3,305**	**1,932**	**(3,706)**	**8,404**
Assets	**47,051**	**93,360**	**795**	**437,515**	**34,450**	**613,171**

Segment reporting information by customer segments for 2004

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	6,985	1,375	122	3,059	584	12,125
Non-interest income	5,153	1,640	283	357	1,174	8,607
Segment expenses	(6,191)	(633)	(614)	(351)	(5,192)	(12,981)
Segment result	5,947	2,382	(209)	3,065	(3,434)	7,751
Impairment losses and provisions	(879)	1,001	699	-	(342)	479
Operating profit before taxation	5,068	3,383	490	3,065	(3,776)	8,230
Income tax (expense)/benefit	(1,546)	(619)	54	(813)	845	(2,079)
Net profit	**3,522**	**2,764**	**544**	**2,252**	**(2,931)**	**6,151**
Assets	**38,999**	**69,310**	**22,065**	**329,232**	**49,350**	**508,956**

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

definitions of customer segments:

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

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

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

Financial markets: Asset Liability Management segment, Dealing segment.

Other: Headquarters, unallocated expenses and eliminating and reconciling items.

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

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

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	473,356	64,926	22,310	886
Slovak Republic	139,815	9,088	2,289	974
Total	**613,171**	**74,014**	**24,599**	**1,860**

The geographical segment reporting for 2004 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	440,291	46,464	18,369	1,002
Slovak Republic	68,665	6,912	2,363	212
Total	**508,956**	**53,376**	**20,732**	**1,214**

33. currency risk

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

(CZKm)	31.12.2005	31.12.2004
EUR	2,421	726
USD	(49)	(418)
SKK	(2,993)	(1,767)

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

34. interest rate risk

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

	2005				2004			
(%)	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Due from banks	4.85	2.70	7.49	2.05	4.22	2.51	7.79	3.71
Securities	4.89	4.62	6.65	5.39	5.08	4.66	7.00	5.79
Loans	4.30	3.58	4.96	6.00	4.57	3.71	5.90	5.94
Liabilities								
Due to banks	1.41	2.03	1.04	5.63	2.07	1.99	2.28	5.49
Due to customers	0.86	0.96	1.85	2.14	1.06	1.01	2.37	0.87
Debt securities in issue	4.60	-	4.04	-	-	-	4.82	-

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

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

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(2,525)	6,640	(4,459)	(2,272)	2,616
EUR	(4,948)	7,946	(3,245)	(233)	480
USD	1,249	(1,261)	27	43	(58)
SKK	(6,167)	4,156	91	1,443	477

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

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(13,684)	(3,879)	21,481	(9,487)	5,569
EUR	(6,598)	6,337	(501)	756	6
USD	(721)	564	410	268	(521)
SKK	(8,591)	6,783	722	625	461

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

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

The above tables were extracted from the management information systems of the Bank.

35. liquidity risk

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

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	8,960	-	-	-	-	5,878	14,838
Due from banks	918	53,752	1,321	18,485	893	-	75,369
Financial assets at fair value through profit or loss	-	148,705	7,161	9,577	23,278	5,696	194,417
Investment securities	-	6,758	11,082	55,142	61,600	870	135,452
Loans and leases	4,461	35,129	19,712	29,191	11,708	39,552	139,753
Other financial assets	-	1,836	5,507	-	-	7,753	15,096
Total assets	14,339	246,180	44,783	112,395	97,479	59,749	574,925
Liabilities							
Due to banks	2,906	4,026	98	291	3,356	-	10,677
Financial liabilities at fair value through profit or loss	-	95,163	20,964	111	50	6,436	122,724
Due to customers	226,066	126,596	15,613	9,215	14,221	154	391,865
Debt securities in issue	1	18,735	263	1,956	1,397	2	22,354
Other financial liabilities	-	128	463	-	-	19,192	19,783
Total liabilities	228,973	244,648	37,401	11,573	19,024	25,784	567,403
Net liquidity gap	**(214,634)**	**1,532**	**7,382**	**100,822**	**78,455**	**33,965**	**7,522**

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

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	9,922	-	-	-	-	6,387	16,309
Due from banks	1,276	84,308	1,537	19,517	2,280	583	109,501
Financial assets at fair value through profit or loss	-	56,091	2,958	7,911	12,510	4,205	83,675
Investment securities	-	5,459	10,724	49,804	55,047	3,445	124,479
Loans and leases	4,174	48,841	14,569	36,841	8,325	26,903	139,653
Other financial assets	-	1,628	2,875	779	-	6,891	12,173
Total assets	15,372	196,327	32,663	114,852	78,162	48,414	485,790
Liabilities							
Due to banks	3,010	5,631	789	1,283	1,688	10	12,411
Financial liabilities at fair value through profit or loss	-	54,370	2,499	2,049	1,834	6,095	66,847
Due to customers	195,581	116,731	17,510	11,116	15,393	316	356,647
Debt securities in issue	-	11,563	261	1,366	-	-	13,190
Other financial liabilities	-	231	2,479	-	-	15,920	18,630
Total liabilities	198,591	188,526	23,538	15,814	18,915	22,341	467,725
Net liquidity gap	**(183,219)**	**7,801**	**9,125**	**99,038**	**59,247**	**26,073**	**18,065**

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

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

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

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

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

36. fair values of financial assets and liabilities

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

(CZKm)	31.12.2005 Carrying value	31.12.2005 Fair value	31.12.2004 Carrying value	31.12.2004 Fair value
FINANCIAL ASSETS				
Due from banks	75,369	75,408	109,501	109,674
Investment securities	79,152	82,540	70,896	74,361
Loans and leases	139,753	140,358	139,653	139,873
FINANCIAL LIABILITIES				
Due to banks	10,677	10,839	12,411	12,404
Due to customers	391,865	391,865	356,647	356,656
Debt securities in issue	22,354	22,585	13,190	13,252

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

due from banks

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

investment securities

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

loans and leases

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

due to banks

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

due to customers

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

debt securities in issue

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

37. significant subsidiary and joint venture companies

Direct ownership of the Bank (%) in the significant subsidiaries and joint ventures was as follows:

Name	Country of incorporation	31.12.2005	31.12.2004
Subsidiaries			
Auxilium, a.s.	Czech Republic	100	100
Bankovní informační technologie, s.r.o.	Czech Republic	100	100
Business Center, s.r.o.	Slovak Republic	100	100
ČSOB Asset Management, a.s.	Czech Republic	21	21
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	100
ČSOB distribution, a.s.	Slovak Republic	100	100
ČSOB d.s.s., a.s.	Slovak Republic	100	100
ČSOB Investiční společnost, a.s.	Czech Republic	73	73
ČSOB Investment Banking Services, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Slovak Republic	90	90
ČSOB Penzijní fond Progres, a. s.	Czech Republic	100	100
ČSOB Penzijní fond Stabilita, a. s.	Czech Republic	100	100
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	100
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	95	95
Hornický penzijní fond Ostrava, a.s.	Czech Republic	100	-
Hypoteční banka, a.s.	Czech Republic	100	100
MOTOKOV, a.s.	Czech Republic	1	1
Joint ventures			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	55
O.B.HELLER a.s.	Czech Republic	50	50

Based on the Agreement on the exercise of voting rights the Bank is entitled to a total of 53 % of the voting rights in the ČSOB Asset Management, a.s., therefore the company is considered as a subsidiary.

38. related parties

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

The outstanding balances from related party transactions are as follows:

	Due from banks and Loans and leases		Due to banks and customers	
(CZKm)	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Directors/Key management personnel	-	-	3	4
KBC Bank NV	4,367	4,179	4,027	1,772
Subsidiaries	9,163	10,155	2,838	2,272
Joint ventures	2,356	1,287	2	5

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

Interest income recognised on the loans to subsidiaries in 2005 amounted to CZK 228 m (2004: CZK 355 m). Interest expense incurred on the loans to subsidiaries in 2005 amounted to CZK 47 m (2004: CZK 24 m).

Interest income recognised on the loans to joint ventures in 2005 amounted to CZK 29 m (2004: CZK 27 m).

Dividend income received from subsidiaries and joint ventures in 2005 amounted to CZK 130 m (2004: CZK 420 m). Rental expenses paid to subsidiaries and joint ventures in 2005 amounted to CZK 87 m (2004: CZK 91 m).

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

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

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

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

39. dividends

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

40. ČSOB‘s shareholders

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

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

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

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

41. events after the balance sheet date

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

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